



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Whatcom Transportation Authority

For the period January 1, 2018 through December 31, 2019

Published May 18, 2020

Report No. 1026218





**Office of the Washington State Auditor
Pat McCarthy**

May 18, 2020

Board of Directors
Whatcom Transportation Authority
Bellingham, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Whatcom Transportation Authority's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Authority's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Whatcom Transportation Authority January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Whatcom Transportation Authority are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Authority.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Authority's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit Cluster – Federal Transit Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Authority did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Whatcom Transportation Authority **January 1, 2018 through December 31, 2019**

Board of Directors
Whatcom Transportation Authority
Bellingham, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Whatcom Transportation Authority, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 8, 2020.

As discussed in Note 9 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Management's plans in response to this matter are also described in Note 9.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

May 8, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Whatcom Transportation Authority
January 1, 2019 through December 31, 2019**

Board of Directors
Whatcom Transportation Authority
Bellingham, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Whatcom Transportation Authority, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2019. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE


Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

May 8, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom Transportation Authority January 1, 2018 through December 31, 2019

Board of Directors
Whatcom Transportation Authority
Bellingham, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Whatcom Transportation Authority, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Whatcom Transportation Authority, as of December 31, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 9 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Management's plans in response to this matter are also described in Note 9. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

May 8, 2020

FINANCIAL SECTION

Whatcom Transportation Authority January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019 and 2018

Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019
and 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019 and 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

Overview

The management of Whatcom Transportation Authority (WTA) provides the readers of WTA's Financial Statements this narrative as an overview and analysis of the financial activities for the year ended December 31, 2019.

Management is responsible for the completeness, reliability, and objectivity of these financial statements. Estimates and judgments used in the financial statements have been made on a prudent and reasonable basis.

Whatcom Transportation Authority was established in 1983 to provide public transit services within the Public Benefit Transportation Area. Current services include:

- Fixed Route – Provides standard bus service on fixed, regularly scheduled routes.
- Paratransit Service – Provides scheduled transportation service to passengers unable to utilize fixed route service.
- Vanpool - A program that makes a vehicle available to groups of 5-15 people for commuting to work.

Agency Accomplishments

WTA implemented service changes in June 2019 adding 5,000 additional hours to address on-time performance, service to “food deserts” in the community and adding requested service to the Bellingham International Airport terminal. In areas where service was eliminated, new service was implemented nearby or more frequently. The agency is monitoring how these changes are received by riders and incorporating them into the next major change cycle in June 2021. These added hours and modified routes changes responded to our strategic goal of addressing the continual growing and changing transportation needs of our community.

The agency launched the TouchPass fare collection system to our riders including reloadable smart cards and a mobile application. We worked with our retail vendors and agency partners to provide access to an online portal for pass sales.

WTA introduced free Wi-Fi on all fixed route buses to enhance our rider experience. The Smart Bus project, including real time stop announcements and a robust mobile application, completed factory acceptance testing and began in house training. This technology will be available to our riders in 2020.

We completed community outreach and the public process regarding increases to pass rates for the first time in ten (10) years and will be rolling out new fares and free fares for youth in June 2020.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

WTA implemented initiatives to improve sustainability including refurbishing two (2) diesel buses to allow for a longer useful life and completing the construction on the Midway Lot to allow for charging of up to twelve (12) electric buses.

Overall, 2019 was a successful year for WTA by enhancing the services we offer, providing additional amenities for our riders, protecting our environment and setting a sustainable platform for future operations.

Financial Highlights

WTA's cash and cash equivalents declined \$3.0 million in 2019 from 2018 primarily due to investments in capital assets to keep our fleet in a State of Good Repair and prepare for the receipt of three (3) electric buses in 2020. WTA replaced seven (7) 40-foot diesel buses during 2019 and completed improvements to the Midway Lot including twelve (12) stations to charge electric buses. Cash and cash equivalents increased \$746 thousand, or 2.3%, in 2018 over 2017 primarily due to a variety of capital projects not completing in 2018 and sales tax revenue greater than budget.

Fixed route ridership continued to decline during 2019, approximately 2.0%, and slightly higher than in 2018. WTA is working to identify the reasons for the decline and at amenities that may increase ridership. During 2018, fixed route ridership declined 1.3%, a smaller reduction than WTA would have experienced had service not increased in 2018 and 2017. Similarly, many transit agencies throughout the country are experiencing declining ridership.

During 2019, paratransit ridership increased less than 1%, driven by WTA's continued efforts to train riders to use Fixed Route through a fully developed travel training program, in addition to enforcing several condition types for riders with Conditional Eligibility status. Paratransit ridership in 2018 decreased 2.9%, driven by the closure of the Adult Day Health program, activating conditional eligibility factors, and shifting some riders to fixed route after participating in travel training.

Vanpool ridership continues to fall due to a robust economy and relatively low gas prices reducing the need for vanpooling. WTA received three (3) high-back seat vans with increased safety features during 2019 and deployed them in 2020 to our longest commute riders. The response to the new vans was mixed, some groups found them less comfortable and with less room than our older vans; while some groups appreciated the enhanced safety features. WTA continues to monitor vanpool participation, look for ideas to increase ridership and research the type of vans to order to replace our vans that have surpassed their useful life.

Sales tax revenues ended the year strongly at \$1.6 million, or 5.6% above 2018 actual receipts. This growth was driven by continued robust retail sales, accommodation and food services, and construction. Sales tax revenues in 2018 were over budget at \$2.1 million, or 8.1%, above 2017 figures attributable to high retail sales and large construction projects.

Fare revenue continued to decline in 2019, more than doubling the amount of decline from 2018 (-3.7% from -1.7%). Fare rates remained unchanged during both years. The Board of

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

Directors has approved increased pass prices effective June 2020 along with youth rides free. WTA will evaluate the effect of increased prices and free youth riders on ridership. WTA's 2018 fare revenue was relatively flat compared to the prior year while slightly higher in 2017 versus 2016 due to a new partnership with Whatcom Community College to encode a transit pass on each student's identification card when they meet certain enrollment criteria.

2019 was a strong year for capital grant revenue at WTA. The agency received and put into service seven (7) diesel buses, eight (8) paratransit vehicles, and launched the TouchPass fare collection system. These activities and the associated reimbursement from the Federal Transportation Administration (FTA) increased capital grant revenue \$4.0 million over 2018. During 2018, capital grant revenue declined \$631 thousand, or 102.3% from 2017 due to an order of Paratransit buses that were received but not yet reimbursed at year end and the return of \$145 thousand of grant funds to the Federal Transit Administration (FTA) for recovery of damages relating to the farebox system replacement project.

2019 saw an increase in most operating expenses as the agency expanded service in June and continues to provide competitive wages and benefits to our employees. As the agency plans for growth, operating expenses increased as new employees were added to prepare for the 2018 and June 2019 service expansion along with escalations in insurance premiums and costs to maintain and service facilities, vehicles and other equipment.

Capital expenditures for 2019 increased \$4.9 million dollars or 155.6% over 2018 due to the receipt of seven (7) diesel buses, the completion of the Midway Lot, the rollout of the TouchPass system and work performed on the Smart Bus project. Capital expenditures were significantly under budget for projects that were deferred or not completed during 2018 including a property purchase, the development of the Midway Lot and the Bellingham Transit Station remodel.

Financial Statements

The financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). Under GAAP, revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Most capital assets are depreciated over their useful lives. The notes to the financial statements provide a summary of WTA's significant accounting policies.

The Statement of Net Position presents information on WTA's assets and liabilities, with the difference between the two reported as Net Position. Over time, changes in assets and liabilities may serve as a useful indicator of whether WTA's financial position is improving or deteriorating.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents information showing WTA's net asset changes during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The Statement of Cash Flows presents actual cash activity during the fiscal period related to operating activities, noncapital financing activities, capital activities and investing activities. Additionally, a reconciliation of net cash provided (used) by operating activities to operating income (loss) is included. Over time, increases or decreases in cash balances serve as a useful indicator of the financial stability of WTA.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information essential to fully understand the data provided in WTA's financial statements and are located following the Statement of Cash Flows and should be read in conjunction with the Financial Statements.

Statement of Net Position

The Condensed Statement of Net Position represents the financial condition of WTA at the end of the last three calendar years and reports all assets, deferred outflows or resources, liabilities, deferred inflows of resources and net position.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

A summarized comparison as of December 31, 2019, 2018 and 2017, follows:

Condensed Statement of Net Position

	2019	2018	2017
Current Assets	\$ 37,506,822	\$ 40,033,033	\$ 39,534,054
Capital Assets	41,267,687	39,310,230	41,163,871
Total Assets	\$ 78,774,509	\$ 79,343,263	\$ 80,697,925
 Total Deferred Outflows of Resources	 \$ 2,095,589	 \$ 1,859,708	 \$ 1,791,908
 Current Liabilities	 \$ 3,799,348	 \$ 4,465,116	 \$ 2,894,110
Noncurrent Liabilities	6,396,918	8,211,405	10,770,586
Total Liabilities	\$ 10,196,266	\$ 12,676,521	\$ 13,664,696
 Total Deferred Inflows of Resources	 \$ 3,520,430	 \$ 3,065,742	 \$ 1,763,454
 Invested in capital assets (net of debt)	 \$ 41,267,687	 \$ 39,310,230	 \$ 41,163,871
Unrestricted	25,885,715	26,150,478	25,897,812
Total Net Position	\$ 67,153,402	\$ 65,460,708	\$ 67,061,683

Assets

Current assets decreased \$2.5 million, or -6.3% compared to 2018 primarily due to the decrease in cash and cash equivalents. Although WTA had robust sales tax revenue, significant cash was spent on investment in projects such as SmartBus and the Midway Lot improvements. During 2018, current assets increased \$499 thousand, or 1.3%, due to strong sales tax receipts and gains in investment income compared to a \$454 thousand, or 1.2%, increase in 2017 resulting from increases in sales tax receipts and grant funds owed to WTA at December 31st.

Capital assets increased \$1.9 million or 5.0% over 2018 due to the completion of the Midway Lot improvements and the receipt of seven (7) diesel buses and eight (8) paratransit vehicles. During 2018, capital assets decreased \$1.9 million, or 4.5%, due to increased depreciation expense and a delay in completing various capital asset projects during 2018.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

Deferred Outflows of Resources

Total deferred outflows of resources related to pensions increased \$236 thousand, or 12.7% over 2018 due to actual investment earnings outpacing projected earnings in the state pension program. In 2018, the account increased \$68 thousand, or 3.8% over 2017 primarily due to the difference between the plans' projected and actual investment earnings.

Liabilities

During 2019, current liabilities decreased \$666 thousand, or 14.9%, primarily from the decline in accounts payable related to the low number of outstanding invoices at year end partially offset by an increase in accrued absences related to floating holiday pay. In 2018, current liabilities increased \$1.6 million, or 54.3%, driven by recording the cost of eight (8) paratransit vehicles received but not paid for at year end. These vehicles were accepted and paid for in 2019.

Noncurrent liabilities declined by \$1.8 million, or 22.1% in 2019 and by \$2.6 million, or 23.8%, in 2018 due to the decrease in long term pension obligations resulting from the adjustments required by GASB 68.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions increased \$455 thousand, or 14.8%, over 2018 and \$1.3 million, or 73.8%, over 2017 due to the difference between the plans' projected and actual investment earnings.

Net Position

The difference between total assets, deferred outflows and inflows, and total liabilities is net position. The change in net position measures whether the overall financial condition of the agency has improved or diminished during the year.

During 2019, WTA's net position increased \$1.7 million, or 2.6%, from 2018 due to the increase in capital assets and the deferred outflows related to pensions offset by the decrease in accounts payable. Net position in 2018 decreased \$1.6 million, or 2.4%, from 2017 due to a net loss and the increase in accounts payable related to the paratransit buses.

Net position is reported in the following two categories:

Net Investment in Capital Assets: WTA's total investments in land, buildings, buses, equipment, technology, and other infrastructure net of accumulated depreciation. WTA uses these capital assets to provide public transportation services to the citizens and visitors of the Whatcom County Public Transportation Benefit District.

Unrestricted: WTA funds available to the agency to meet obligations to its citizens and creditors.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

Statement of Revenues, Expenses and Changes in Fund Net Position

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents WTA's results of operating and non-operating items that result in the changes in net position for the year. In accordance with GASB reporting principles, revenues and expenses are classified as operating or non-operating.

A summarized comparison of WTA's revenues, expenses, and changes in net position for the years ended December 31, 2019, 2018 and 2017, follows:

**Condensed Statement of
Revenues, Expenses and Changes in Fund Net Position**
(including depreciation)

	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Operating Revenues	\$ 2,684,705	\$ 2,786,494	\$ 2,833,874
Operating Expenses	<u>36,648,256</u>	<u>34,240,755</u>	<u>32,779,231</u>
Operating (Loss)	(33,963,551)	(31,454,261)	(29,945,357)
Non-operating revenue	35,646,509	29,947,886	27,944,446
(Loss) / Gain on Disposal of Assets	<u>9,736</u>	<u>(94,600)</u>	<u>(83,939)</u>
(Decrease) / Increase in Net Position	1,692,694	(1,600,975)	(2,084,850)
Net Position - Beginning of Period	<u>65,460,708</u>	<u>67,061,683</u>	<u>69,146,533</u>
Net Position - End of Period	<u><u>\$ 67,153,402</u></u>	<u><u>\$ 65,460,708</u></u>	<u><u>\$ 67,061,683</u></u>

Revenues

WTA's operations are primarily funded with local sales tax revenue, passenger fares, and partnerships with other local agencies. Capital expenditures, primarily for procuring or improving fleet and facilities, are largely reimbursed with federal and state grant funds. Local funds, such as sales tax revenue and passenger fares, are required to supplement the capital project budget in order to meet grant-match requirements or fund projects that do not have grant funding.

Operating revenues consist primarily of transit and transit related services such as passenger fares, special transit agreements, and vanpool charges. Operating revenues for 2019 were \$102 thousand, or 3.7% lower than in 2018 primarily due to the decline in vanpool groups and decreased monthly pass sales.

In 2018, operating revenues declined \$47 thousand, or 1.7%, from 2017. The major contributors to this decrease were flat passenger fares and the end of the contract for service with the Nooksack Tribe.

Non-operating revenues consist primarily of sales tax revenue, operating grants, interest income, advertising revenue, and tenant lease income. WTA currently receives six-tenths

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

of one percent of Whatcom County sales and use tax. WTA received sales tax revenue equal to \$1.6 million, or 5.6% over 2018 driven by retail sales, accommodation and food services and construction. The agency also experienced sales tax revenue growth in 2018 increasing \$2.1 million, or 8.1% over the prior year.

Operating grants for 2019 were \$29 thousand, or 2.7% lower than 2018 due to the cancellation of Route 65 which was underperforming and the forfeit of the associated grant revenue.

During 2018, operating grants were \$290 thousand, or 36.5%, greater than 2017 due to new revenue for Route 65 serving rural Whatcom County and an increase in paratransit operating assistance.

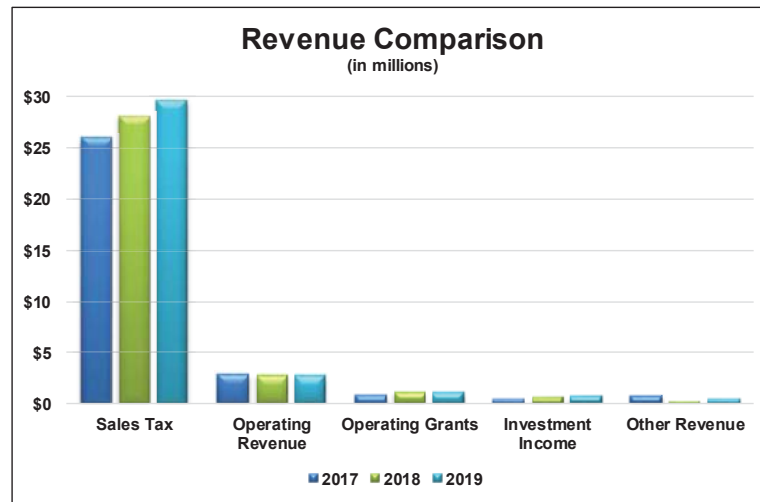
Additionally, WTA received a Risk Management Grant award for \$2,500 from the Washington State Transit Insurance Pool (WSTIP) in 2019 2018, and 2017. These funds were allocated to the enhancement of WTA's Emergency Operations and Safety Program. WTA received reimbursement for cybersecurity activities, including educating our staff on email security, from the Washington State Transit Insurance Pool (WSTIP) in both 2019 and 2018.

Investment income was \$114 and \$148 thousand, or 21.2% and 38.1%, greater for 2019 and 2018 respectively, increasing from \$388 thousand in 2017. This revenue source continues to grow with favorable interest rates applied to WTA's healthy cash reserves.

Revenue Analysis

Revenues	2019	2018	2017	2019 % of Total	2019 vs. Prev Yr
Operating	\$ 2,684,705	\$ 2,786,494	\$ 2,833,874	7.00%	\$ (101,789)
Invest. Income	650,122	536,466	388,413	1.70%	113,656
Sales Tax	29,611,528	28,038,850	25,946,586	77.23%	1,572,678
Operating Grants	1,054,875	1,083,661	794,065	2.75%	(28,786)
Capital Grants	3,981,364	(14,338)	616,805	10.38%	3,995,702
Other Revenue	348,620	303,247	198,577	0.91%	45,373
Gain/(Loss)	9,736	(94,600)	(83,939)	0.03%	104,336
Total Revenue	\$ 38,340,950	\$ 32,639,780	\$ 30,694,381	100.00%	\$ 5,701,170

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

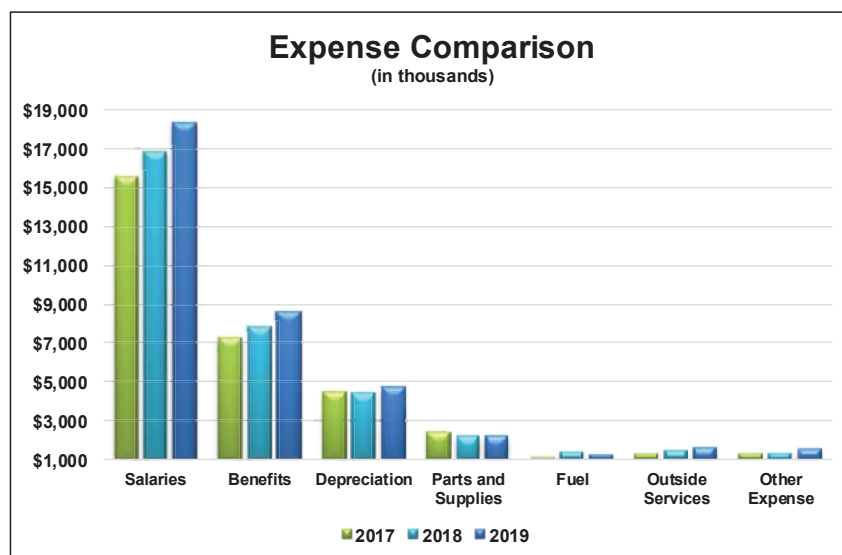


Expenses

Operating expenses consist of expenses related to transit operations, maintenance, administration, customer service, marketing and depreciation.

During 2019, operating expenses (less depreciation) grew \$2.1 million, or 7.1%, over 2018 as WTA offered our employees a 3.0% cost of living increase, hired staff to support expanded service, and began to approach parity in wages between our fixed route and paratransit operators and continued to offer a competitive benefit package.

Operating expenses during 2018 (less depreciation) grew \$1.5 million, or 5.4%, over 2017 as WTA hired new employees to prepare for the June 2019 service expansion along with a 3% cost of living increase for all employees in January coupled with 5% step increases for newer employees.



**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2019**

The national COVID-19 pandemic emerged subsequent to the end of WTA's 2019 fiscal year. Management expects a material financial impact in 2020.

Response to COVID-19 Pandemic as of the report date:

WTA continues to respond to the COVID-19 pandemic as an essential service to our community. We have taken the following actions as part of our response:

- Reduced service to 70% of current service effective March 29, 2020
- Encouraged riders to make only essential trips on the bus
- Encouraged riders to practice safe social distancing on the bus and at all WTA facilities
- Suspended the collection of fares
- Engaged many staff to work remotely when possible

Potential future actions / consequences subsequent to the report date:

- Put many employees on Administrative Leave and Stand-By Status
- Face a dramatic decrease in sales tax revenue commencing with May 2020 receipts
- Suspension of pass agreements with the local college and university
- Utilize federal stimulus funds for operations

WTA is making these changes and taking these actions to maintain service at sustainable levels to our community, uphold our mission and values, and position ourselves to stand up strong after the pandemic.

Requests for Information

This financial report is designed to provide a general overview of Whatcom Transportation Authority's financial position. Questions regarding this report or requests for additional information should be directed to:

Shonda L. Shipman, CPA, CGMA
Finance Director
Whatcom Transportation Authority
4011 Bakerview Spur
Bellingham, WA 98226-8056
(360) 788-9331

WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION

December 31, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and Cash Equivalents	\$ 30,305,608	\$ 33,285,231
Taxes Receivable	5,306,912	4,908,256
Grants Receivable	324,631	370,866
Interest Receivable	59,264	57,839
Accounts Receivable	28,123	39,971
Inventories	1,202,054	1,102,891
Prepayments	280,230	267,979
Total Current Assets	<u>37,506,822</u>	<u>40,033,033</u>
Noncurrent assets:		
Capital Assets not Being Depreciated:		
Land	6,130,578	6,130,578
Work in Progress	1,379,575	1,850,455
Capital Assets Being Depreciated:		
Buildings	23,880,804	23,880,804
Improvements	6,422,997	4,522,251
Transportation Equipment	37,643,997	33,954,334
Other Equipment	4,046,772	5,605,603
Maintenance/Shop Equipment	1,870,063	1,880,641
Communications Equipment	2,753,641	2,797,558
Less: Accumulated Depreciation	<u>(42,860,740)</u>	<u>(41,311,994)</u>
Total Noncurrent Assets	41,267,687	39,310,230
 TOTAL ASSETS	 <u>\$ 78,774,509</u>	 <u>\$ 79,343,263</u>
 DEFERRED OUTFLOWS of RESOURCES		
Deferred Outflows Related to Pensions	\$ 2,095,589	\$ 1,859,708
 TOTAL DEFERRED OUTFLOWS of RESOURCES	 <u>\$ 2,095,589</u>	 <u>\$ 1,859,708</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION**

December 31, 2019 and 2018

LIABILITIES	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts Payable	\$ 742,292	\$ 1,802,665
Accrued Compensated Absences	1,930,557	1,660,632
Accrued Wages	675,683	612,380
Other Accrued Liabilities	442,483	381,106
Unearned Revenue	<u>8,333</u>	<u>8,333</u>
Total Current Liabilities	<u>3,799,348</u>	<u>4,465,116</u>
Noncurrent Liabilities:		
Pension Obligations (Net)	6,272,368	8,086,002
Accrued Long-Term Compensated Absences	119,124	119,977
Other Noncurrent Liabilities	<u>5,426</u>	<u>5,426</u>
Total Noncurrent Liabilities	<u>6,396,918</u>	<u>8,211,405</u>
 TOTAL LIABILITIES	 <u>\$ 10,196,266</u>	 <u>\$ 12,676,521</u>
 DEFERRED INFLOWS of RESOURCES		
Deferred Inflows Related to Pensions	\$ 3,520,430	\$ 3,065,742
 TOTAL DEFERRED INFLOWS of RESOURCES	 <u>\$ 3,520,430</u>	 <u>\$ 3,065,742</u>
 NET POSITION		
Net Investment in Capital Assets	41,267,687	39,310,230
Unrestricted	<u>25,885,715</u>	<u>26,150,478</u>
TOTAL NET POSITION	<u>\$ 67,153,402</u>	<u>\$ 65,460,708</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES:		
Passenger Fares	\$ 2,684,705	\$ 2,786,494
Total Operating Revenues	<u>2,684,705</u>	<u>2,786,494</u>
OPERATING EXPENSES:		
Salaries	18,342,919	16,891,327
Benefits	7,057,357	6,627,072
Supplies	2,892,276	2,990,477
Services	3,674,814	3,336,660
Depreciation	<u>4,680,890</u>	<u>4,395,219</u>
Total Operating Expenses	<u>36,648,256</u>	<u>34,240,755</u>
Operating Loss	<u>(33,963,551)</u>	<u>(31,454,261)</u>
NONOPERATING REVENUES:		
Sales Tax	29,611,528	28,038,850
External Subsidies - Grant Revenue	5,036,239	1,069,323
Investment Income	650,122	536,466
Other Nonoperating Revenues	<u>348,620</u>	<u>303,247</u>
Total Nonoperating Revenues	<u>35,646,509</u>	<u>29,947,886</u>
Gain / (Loss) before Contributions, Gains and Losses	1,682,958	(1,506,375)
Gain / (Loss) on asset disposal	<u>9,736</u>	<u>(94,600)</u>
Increase / (Decrease) in net position	1,692,694	(1,600,975)
Net Position - Beginning of Period	<u>65,460,708</u>	<u>67,061,683</u>
Net Position - End of Period	<u>\$ 67,153,402</u>	<u>\$ 65,460,708</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from customers	\$ 2,696,553	\$ 2,870,818
Payments to suppliers	(7,694,707)	(5,008,959)
Payments to employees	(26,595,485)	(24,597,690)
Other receipts	(353,846)	291,308
Other payments	(50,037)	(121,388)
Net cash used by operating activities	(31,997,522)	(26,565,911)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Sales Tax receipts	29,611,528	28,038,850
Operating contributions - grants	1,054,876	1,083,661
Other noncapital financing activities	348,620	303,247
Net cash provided by noncapital financing activities	31,015,024	29,425,758
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Capital contributions - grants	3,981,364	(14,338)
Purchases of capital assets	(6,638,347)	(2,541,579)
Other receipts / (payments)	9,736	(94,600)
Net cash used by capital and related financial activities	(2,647,247)	(2,650,517)
CASH FLOWS from INVESTING ACTIVITIES		
Interest and dividends	650,122	536,466
Net cash provided by investing activities	650,122	536,466
Net (decrease) / increase in cash and cash equivalents	(2,979,623)	745,796
Balances - beginning of the year	33,285,231	32,539,435
Balances - end of the year	<u>\$ 30,305,608</u>	<u>\$ 33,285,231</u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating loss	\$ (33,963,551)	\$ (31,454,261)
Adjustments to reconcile operating loss to net cash used:		
Depreciation expense	4,680,890	4,395,219
Change in assets and liabilities:		
Receivables	(341,998)	436,147
Inventories and other current assets	(111,414)	(189,330)
Accounts and other payables	(665,769)	1,571,006
Accrued expenses	(1,595,680)	(1,324,692)
Net cash used by operating activities	<u>\$ (31,997,522)</u>	<u>\$ (26,565,911)</u>

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

(These notes are an integral part of these financial statements)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Whatcom Transportation Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Whatcom Transportation Authority was incorporated in August 1983 and operates under the laws of the state of Washington applicable to a municipality.

The Authority is a special purpose government and provides transportation services to the general public within Whatcom County and is supported primarily through local sales tax collections and user charges. It is governed by an appointed nine-member board of elected officials that are representative of the districts served by WTA. As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity and has determined that the Authority has no component units.

B. Measurement Focus, Basis of Accounting

Statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority come from fare box collections and bus pass media sales. The Authority also recognizes vanpool income and special transit fare agreements with other governmental agencies as operating revenue. Operating expenses for the Authority include, but are not limited to, wages and benefits, vehicle maintenance and operations costs, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the Authority's policy to invest all temporary cash surpluses. At December 31, 2019, Whatcom Transportation Authority was holding \$30,305,608, in short-term residual investments of surplus cash, of which \$29,952,685 was held in the Whatcom County

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

(These notes are an integral part of these financial statements)

Investment Pool. This amount is classified on the balance sheet as cash and cash equivalents. The 2018 year-end balance was \$33,285,231.

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables

Taxes receivable at December 31, 2019 consist of \$5,284,000 in state sales tax receivable for the months of November 2019 and December 2019, and \$22,912 due from the Washington State Department of Licensing representing the State gas and diesel taxes paid on fuel purchases to be refunded. WTA is required to pay this fuel tax on purchases of fuel from its vendor and then applies for a refund based upon monthly revenue vehicle usage. Taxes receivable at December 31, 2018 were \$4,883,899 and \$24,357 respectively.

Grants receivable at December 31, 2019 consist of \$259,028 due from the Washington State Department of Transportation and \$65,603 due from the Federal Transit Administration. Grants receivable at December 31, 2018 were \$272,547 due from the Washington State Department of Transportation and \$98,319 due from the Federal Transit Administration.

Interest receivable at December 31, 2019 totaled \$59,264. This is interest earned on investments and tax revenues through the end of the year but not received by year end. Interest receivable at December 31, 2018 was \$57,839.

Accounts receivable at December 31, 2019 of \$28,123 consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared, offset by credit balances due to some customers for passes returned at year-end as a result of WTA's transition to its TouchPass system.. This amount is considered fully collectible/owed by WTA. Customer accounts receivable at December 31, 2018 was \$39,971.

3. Inventories are valued by the weighted average method. Inventories were valued at \$1,202,054 at December 31, 2019 and \$1,102,891 at December 31, 2018.

4. Capital Assets See Note 2, *Capital Assets*.

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

The Authority has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

(These notes are an integral part of these financial statements)

government could retain an equity interest in these assets. However, the Authority has enough legal interest to include these assets in WTA's records.

Property, plant, and equipment of the Authority is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Computer Software	3-7
Equipment	5-10
Vehicles	4-15
Bus Shelters	15
Buildings	30

5. Deferred Outflows/Inflows of Resources See Note 6, *Pensions*

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Employees represented by the Amalgamated Transit Union #843 contract accrue vacation benefits at rates of 112-216 hours per year, based upon years of service, and sick leave benefits at the rate of 96 hours per year. Exempt employees accrue vacation benefits at rates of 144-248 hours per year, based upon years of service, and sick leave benefits at the rate of 96 hours per year. The maximum amount of vacation accrual is 24 months and sick leave is 1,000 hours.

At separation, an employee in good standing can cash out 60% of sick leave balances of 500 hours or greater. Accrued sick leave balances of 300 to 499 hours can be cashed out at 30% of that balance. All vacation pay is payable upon separation. As of December 31, 2019, a liability of \$2,049,681 has been accrued for vacation, sick leave and related benefits liability. The liability at year end 2018 was \$1,780,609.

7. Pensions See Note 6, *Pension Plans*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

8. Accrued Wages and Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

(These notes are an integral part of these financial statements)

9. Unearned Revenues

This account includes amounts recognized as receivables but not revenues because the revenue recognition criteria have not been met. \$8,333 was recognized for both 2020 and 2019 advertising revenue received but not earned at each year end.

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
Capital assets, not being depreciated:				
Land	\$ 6,130,578	\$ -	\$ -	\$ 6,130,578
Work in progress	1,850,455	752,584	1,223,464	1,379,575
Total Capital Assets, Not being Depreciated	7,981,033	752,584	1,223,464	7,510,153
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements other than buildings	4,522,251	1,900,746	-	6,422,997
Transportation equipment	33,954,334	5,226,367	1,536,704	37,643,997
Communications equipment	2,797,558	128,778	172,695	2,753,641
Maintenance/shop equipment	1,880,641	6,706	17,284	1,870,063
Other equipment	5,605,604	-	1,558,832	4,046,772
Total Capital Assets being Depreciated	72,641,192	7,262,597	3,285,515	76,618,274
Less accumulated depreciation for:				
Buildings	13,012,570	814,462	-	13,827,032
Improvements other than buildings	2,424,243	282,311	-	2,706,554
Transportation equipment	18,449,575	2,987,822	1,388,450	20,048,947
Communications equipment	1,651,805	359,543	172,695	1,838,653
Maintenance/shop equipment	1,254,986	76,961	17,285	1,314,662
Other equipment	4,518,816	159,792	1,553,716	3,124,892
Total Accumulated Depreciation	41,311,995	4,680,891	3,132,146	42,860,740
Total Capital Assets, Net	\$ 39,310,230	\$ 3,334,290	\$ 1,376,833	\$ 41,267,687

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

(These notes are an integral part of these financial statements)

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance 1/1/2018	Increases	Decreases	Ending Balance 12/31/2018
Capital assets, not being depreciated:				
Land	\$ 6,130,578	\$ -	\$ -	\$ 6,130,578
Work in progress	590,811	1,710,351	450,707	1,850,455
Total capital assets, not being depreciated	6,721,389	1,710,351	450,707	7,981,033
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements other than buildings	3,535,905	986,346	-	4,522,251
Transportation equipment	34,932,375	-	978,041	33,954,334
Communications equipment	2,770,904	191,885	165,231	2,797,558
Maintenance/shop equipment	1,892,988	9,020	21,367	1,880,641
Other equipment	5,367,559	238,045	-	5,605,604
Total capital assets being depreciated	72,380,535	1,425,296	1,164,639	72,641,192
Less accumulated depreciation for:				
Buildings	12,196,819	815,751	-	13,012,570
Improvements other than buildings	2,212,885	211,358	-	2,424,243
Transportation equipment	16,511,964	2,772,290	834,679	18,449,575
Communications equipment	1,452,536	364,500	165,231	1,651,805
Maintenance/shop equipment	1,198,544	77,809	21,367	1,254,986
Other equipment	4,365,305	153,511	-	4,518,816
Total accumulated depreciation	37,938,053	4,395,219	1,021,277	41,311,995
Total capital assets, net	\$41,163,871	\$(1,259,572)	\$ 594,069	\$39,310,230

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

(These notes are an integral part of these financial statements)

NOTE 3 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Pension obligations	\$8,086,002		\$1,813,634	\$6,272,368	-
Compensated absences	119,977	(853)	-	119,124	-
Other noncurrent liabilities	5,426	-	-	5,426	-
Total Long-Term Liabilities	\$8,211,405	(\$853)	\$1,813,634	\$6,396,918	-

NOTE 4 - CONTINGENCIES AND LITIGATIONS

The Authority has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on the available information, management believes it is probable that the Authority will have to make payment. In the opinion of management, the Authority's insurance policies are adequate to pay all known or pending claims.

The Authority participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Authority management believes that any such disallowances, if any, will be immaterial.

NOTE 5 – DEPOSITS AND INVESTMENTS

Cash on hand at December 31, 2019 was \$30,305,608.

The Authority is a participant in the Whatcom County Investment Pool, an external investment pool. The Authority reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The Whatcom County investment policy is established by the Administrative Finance Committee consisting of the Treasurer, Auditor and the Chair of the County Council. The county external investment pool does not have a credit rating and had a weighted average maturity of 395 days (1.08 years) as of December 31, 2019.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

(These notes are an integral part of these financial statements)

NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ (6,272,368.14)
Deferred outflows of resources	\$ 2,095,589.01
Deferred inflows of resources	\$ (3,520,430.04)
Pension expense/expenditures	\$ 693,122.11

State Sponsored Pension Plans

Substantially all Whatcom Transportation Authority's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty

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and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July - December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

**WHATCOM TRANSPORTATION AUTHORITY
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PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

WHATCOM TRANSPORTATION AUTHORITY
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The Authority's actual PERS plan contributions were \$898,146 to PERS Plan 1 and \$1,389,803 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime. There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term

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expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

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(These notes are an integral part of these financial statements)

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$5,936,490	\$4,740,400	\$3,702,634
PERS 2/3	11,749,588	1,531,968	(6,852,264)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Authority reported a total pension liability of \$6,272,368 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$4,740,400
PERS 2/3	\$1,531,968

At June 30, the Authority's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.121820%	0.123276%	0.001456%
PERS 2/3	0.154941%	0.157717%	0.002776%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2018, with updated procedures used to roll forward the total pension liability to the measurement date.

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

(These notes are an integral part of these financial statements)

Pension Expense

For the year ended December 31, 2019, the Authority recognized pension expense as follows:

	Pension Expense
PERS 1	\$285,596
PERS 2/3	\$407,526
TOTAL	\$693,122

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(316,699)
Contributions subsequent to the measurement date	\$449,259	\$0
TOTAL	\$449,259	\$(316,699)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$438,913	\$(329,365)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(2,229,922)
Changes of assumptions	\$39,229	\$(642,763)
Changes in proportion and differences between contributions and proportionate share of contributions	\$430,506	\$(1,682)
Contributions subsequent to the measurement date	\$737,683	\$0
TOTAL	\$1,646,330	\$(3,203,731)

Total of All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$438,913	\$(329,365)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(2,546,620)
Changes of assumptions	\$39,229	\$(642,763)
Changes in proportion and differences between contributions and proportionate share of contributions	\$430,506	\$(1,682)
Contributions subsequent to the measurement date	\$1,186,942	\$0
TOTAL	\$2,095,589	\$(3,520,430)

**WHATCOM TRANSPORTATION AUTHORITY
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For the Year Ended December 31, 2019**

(These notes are an integral part of these financial statements)

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2020	\$(69,913)
2021	\$(165,604)
2022	\$(59,097)
2023	\$(22,085)
2024	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2020	\$(599,421)
2021	\$(1,058,285)
2022	\$(421,372)
2023	\$(185,454)
2024	\$(63,143)
Thereafter	\$32,591

NOTE 7 – RISK MANAGEMENT

Whatcom Transportation Authority is a member of the Washington State Transit Insurance Pool (WSTIP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed on January 1, 1989. To date, 25 transit agencies are members of the Pool.

WSTIP provides member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Government Entities Mutual, Munich Reinsurance America, Lloyds of London, and Hallmark Specialty Insurance Company for the liability lines; Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley Cyber Services for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

(These notes are an integral part of these financial statements)

WTA joined WSTIP in December 1995, for coverage effective January 1, 1996. WTA has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Current coverage includes:

Risk	Coverage		Deductible
Bodily Injury & Property Damage	\$25 million	Per occurrence	\$0
Personal Injury & Advertising Injury	\$25 million	Per offense	\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage	\$60,000	Per occurrence	\$0
Public Officials Liability	\$25 million	Per occurrence	\$5,000
Property Coverage	\$500 million	Per occurrence	\$5,000
Auto Physical Damage (< \$250,000 in value)	Fair market value	Limited to \$1,350,000	\$5,000
Auto Physical Damage (> \$250,000 in value)	Replacement Cost	Limited to \$1,350,000	\$5,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000
Cyber Liability	\$50,000 - \$2 million	Limit of Liability	\$100,000

NOTE 8 – HEALTH & WELFARE

Whatcom Transportation Authority is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

(These notes are an integral part of these financial statements)

As of December 31, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

(These notes are an integral part of these financial statements)

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 9 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

The Authority continues to respond to the COVID-19 pandemic as an essential service to the community. Management has taken the following actions as part of its response:

- Reduced service to 70% of current service effective March 29, 2020
- Suspended the collection of fares

Potential future actions / financial impacts subsequent to the report date include:

- Material decrease in sales tax revenue commencing with May 2020 receipts
- Utilize federal stimulus funds for operations

The length of time these measures will be in place, and the full extent of the financial impact on the Authority is unknown at this time.

**WHATCOM TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2019**

**Whatcom Transportation Authority
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30:**

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.123276%	0.121820%	0.116134%	0.113245%	0.114870%	0.114069%
Employer's proportionate share of the net pension liability	\$ 4,740,400	\$ 5,440,523	\$ 5,510,649	\$ 6,081,790	\$ 6,008,769	\$ 5,746,279
Covered payroll	\$17,220,954	\$16,170,727	\$14,633,946	\$13,433,571	\$12,931,070	\$12,365,861
Employer's proportionate share of the net pension liability as a percentage of covered payroll	27.53%	33.64%	37.66%	45.27%	46.47%	46.47%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

**Whatcom Transportation Authority
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30:**

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.157717%	0.154941%	0.147940%	0.142251%	0.143104%	0.141492%
Employer's proportionate share of the net pension liability	1,531,968	2,645,480	5,140,208	7,162,225	5,113,187	2,860,064
Covered payroll	17,158,336	16,109,190	14,561,826	13,317,631	12,728,953	12,158,934
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.93%	16.42%	35.30%	53.78%	40.17%	23.52%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

**WHATCOM TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2019**

**Whatcom Transportation Authority
Schedule of Employer Contributions
PERS 1
For the year ended December 31:**

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	898,146	856,033	759,821	672,192	577,964	523,496
Contributions in relation to the statutorily or contractually required contributions	(898,146)	(856,033)	(759,821)	(672,192)	(577,964)	(523,496)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered payroll	18,068,461	16,812,665	15,413,674	13,976,438	13,029,862	12,666,334
Contributions as a percentage of covered payroll	4.97%	5.09%	4.93%	4.81%	4.44%	4.13%

**Whatcom Transportation Authority
Schedule of Employer Contributions
PERS 2/3
For the year ended December 31:**

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	1,389,803	1,256,296	1,055,358	865,216	727,640	620,275
Contributions in relation to the statutorily or contractually required contributions	(1,389,803)	(1,256,296)	(1,055,358)	(865,216)	(727,640)	(620,275)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered payroll	18,004,064	16,750,321	15,353,706	13,874,771	12,917,257	12,418,906
Contributions as a percentage of covered payroll	7.72%	7.50%	6.87%	6.24%	5.63%	4.99%

WHATCOM TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2019

Federal Agency (Pass Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Foot-note Reference
				From Pass- Through Awards	From Direct Awards	Total	
Federal Transit Cluster							
Federal Transit Administration, Department of Transportation	Federal Transit Formula Grants	20.507	WA-90-X548	-	303,892	303,892	1, 2, 3, 4
Federal Transit Administration, Department of Transportation	Federal Transit Formula Grants	20.507	WA-2018-010	-	2,843,622	2,843,622	1, 2, 3
Federal Transit Administration, Department of Transportation	Federal Transit Formula Grants	20.507	WA-2019-032	-	391,324	391,324	1, 2, 3
Total CFDA 20.507:				-	3,538,838	3,538,838	
Federal Transit Administration, Department of Transportation (via Washington State Department of Transportation)	Buses and Bus Facilities Formula, Competitive, and Low or No	20.526	WA-2019-032	442,526	-	442,526	1, 2, 3
Total Federal Transit Cluster:				442,526	3,538,838	3,981,364	
Transit Services Programs Cluster							
Federal Transit Administration, Department of Transportation (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	PTD0071	28,881	-	28,881	1, 2, 3
Total Transit Services Programs Cluster:				28,881	-	28,881	
Total Federal Awards Expended:				471,407	3,538,838	4,010,245	

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Authority's financial statements. The Authority uses the full-accrual basis of accounting.

NOTE 2 – TOTAL PROGRAM COSTS

The amounts shown as current year expenses represent only the federal portion of the program costs. Entire program costs, including the Authority's portion, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The authority has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – PRIOR YEAR EXPENDITURES

In 2018, a reimbursement was received for 2015-2018 expenditures related to project WA-90-X548. The federal percentage of the refund was returned and reflected as a reduction to the 2018 Schedule 16. During 2019, a portion of the reimbursement was discovered to be unrelated to this project, resulting in \$69,394 in prior year expenditures being added back to the 2019 Schedule 16

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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