



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Whatcom Transportation Authority

Whatcom County

For the period January 1, 2013 through December 31, 2014

Published September 14, 2015

Report No. 1015086





Washington State Auditor's Office

September 14, 2015

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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Whatcom Transportation Authority Whatcom County January 1, 2014 through December 31, 2014

The results of our audit of the Whatcom Transportation Authority are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

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 under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.526	Bus and Bus Facilities Formula Grant
20.507	Federal Transit Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Authority qualified as a low-risk auditee under OMB Circular A-133.

**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
Whatcom County
January 1, 2013 through December 31, 2014**

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, Whatcom County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 3, 2015.

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 opinion 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 3, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Whatcom Transportation Authority
Whatcom County
January 1, 2014 through December 31, 2014**

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, Whatcom County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. 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 blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 3, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom Transportation Authority Whatcom County January 1, 2013 through December 31, 2014

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, Whatcom County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 14.

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 an opinion on these financial statements based on our audits. We conducted our audits 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. 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 opinion.

Opinion

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, 2014 and 2013, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 19 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 September 3, 2015 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.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 3, 2015

FINANCIAL SECTION

**Whatcom Transportation Authority
Whatcom County
January 1, 2013 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013

Statement of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2014

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2014**

Overview

The management of Whatcom Transportation Authority (WTA) offers the readers of WTA's financial statements this narrative as an overview and analysis of the financial activities for the year ended December 31, 2014. 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. To more fully understand the financial position of WTA, this narrative should be considered in conjunction with the information contained in WTA's financial statements and accompanying notes.

Whatcom Transportation Authority was established in 1983 to provide public transit services. 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 available to groups of 5-15 people a vehicle for commuting to work.

Financial Highlights

WTA's financial position continued to improve during 2014 although at a slower rate than in 2013. Ridership is strong and operating expenses were contained to 2.1% over 2013 expenses. Sales tax revenue increased slightly while capital grant contributions were down 64.6% due to the timing of completion of a number of projects. WTA began providing enhanced transit service to the Nooksack tribe via two additional routes to Kendall. This is a five year agreement for \$443,837 in revenue to WTA.

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 Assets. Over time, increases or decreases in net assets 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, 2014**

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.

Financial Analysis

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 and liabilities of WTA.

A summarized comparison of WTA's assets, liabilities, and net position as of December 31, 2014, 2013 and 2012, follows:

Condensed Statement of Net Position

	2014	2013	2012
Current Assets	\$ 35,376,779	\$ 32,595,148	\$ 30,300,326
Capital Assets	44,240,513	44,958,768	47,278,778
Total Assets	\$ 79,617,292	\$ 77,553,916	\$ 77,579,104
Current Liabilities	\$ 2,431,232	\$ 2,503,646	\$ 7,858,262
Noncurrent Liabilities	68,367	85,539	88,727
Total Liabilities	\$ 2,499,599	\$ 2,589,185	\$ 7,946,989
Net Assets:			
Invested in capital assets (net of debt)	\$ 44,240,513	\$ 44,958,768	\$ 47,278,778
Unrestricted	32,877,180	30,005,963	22,353,337
Total Net Position	\$ 77,117,693	\$ 74,964,731	\$ 69,632,115
Total Liabilities and Net Position	\$ 79,617,292	\$ 77,553,916	\$ 77,579,104

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2014**

Assets

In 2014, total assets were \$79,617,292, an increase of \$2,063,376 from 2013. Total assets in 2013 were \$77,553,916, a decrease of \$25,188 from 2012. The change between 2014 and 2013 is primarily due to constrained spending during 2013. The decrease between 2013 and 2012 is primarily due to the receipt of capital grant revenue offset by an increase in the depreciation expense related to capital assets.

Liabilities

The excess of \$32,945,547 of current assets over current liabilities in 2014 and \$30,091,502 in 2013 reflects the continuing ability of WTA to meet its short-term obligations with liquid or easily liquidated assets. The current liability balance varies due to the timing of accounts payable payments.

Current liabilities decreased \$72,414 in 2014 and \$5,354,616 in 2013 due to changes in the self-insured medical program in 2013 and a large outstanding invoice for bus procurements in 2012.

Long-term liabilities decreased \$17,172 in 2014 and \$3,188 in 2013 due to decreases in long-term vacation liability and related benefits.

Net Position

The difference between total assets and total liabilities is net position, or equity. The change in net position measures whether the overall financial condition of the agency has improved or deteriorated during the year. The net position is reported in the following 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.

Statement of Revenues, Expenses and Changes in Fund Net Position

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

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2014**

A summarized comparison of WTA's revenues, expenses, and changes in net position for the years ended December 31, 2014, 2013 and 2012, follows:

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

	<u>12/31/2014</u>	<u>12/31/2013</u>	<u>12/31/2012</u>
Operating Revenues	\$ 4,389,228	\$ 4,403,393	\$ 4,029,302
Operating Expenses	<u>27,209,938</u>	<u>26,655,488</u>	<u>25,612,672</u>
Operating (Loss)	(22,820,710)	(22,252,095)	(21,583,370)
Non-operating revenue	24,931,277	27,569,448	21,939,277
Special Item - see Note 9	46,202	-	(46,202)
(Loss) Gain on Disposal of Assets	<u>(3,807)</u>	<u>15,263</u>	<u>(398,712)</u>
Increase (Decrease) in Net Position	2,152,962	5,332,616	(89,007)
Net Position (Beginning of Period)	<u>74,964,731</u>	<u>69,632,115</u>	<u>69,721,122</u>
Net Position (End of Period)	<u>\$ 77,117,693</u>	<u>\$ 74,964,731</u>	<u>\$ 69,632,115</u>

Revenue Analysis

Revenues	2014	2013	2012	2014 % of Total	2014 vs. Prev Yr
Operating	\$ 4,389,228	\$ 4,403,393	\$ 4,029,302	14.95%	\$ (14,165)
Invest. Income	153,036	113,923	117,481	0.52%	39,113
Sales Tax	21,807,594	21,120,920	20,022,608	74.27%	686,674
Operating Grants	847,370	846,708	634,333	2.89%	662
Capital Grants	1,872,633	5,292,847	1,073,931	6.38%	(3,420,214)
Other Revenue	250,644	195,050	90,924	0.85%	55,594
Special Item	46,202	-	(46,202)	0.15%	46,202
(Loss)/Gain	(3,807)	15,263	(398,712)	-0.01%	(19,070)
Total Revenue	<u>\$ 29,362,900</u>	<u>\$ 31,988,104</u>	<u>\$ 25,523,665</u>	<u>100.00%</u>	<u>\$ (2,625,204)</u>

WTA relies primarily on passenger fares, contracted service, and vanpool fees to support operations.

2014 total operating revenues decreased \$14,165 from 2013. Between 2013 and 2012, this change was an increase of \$374,091 due to the addition of Sunday service and expanded evening service purchased by the City of Bellingham Transportation Benefit District.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2014**

Operating expenses increased by \$554,450 between 2014 and 2013 primarily due to increased operations expense. The increase of \$1,042,816 between 2013 and 2012 was primarily in the operations and maintenance categories.

WTA received operating grant funds totaling \$844,870 through the State of Washington's Department of Transportation for operating assistance in 2014. In 2013, this amount totaled \$839,040. These projects include the "County Connector" project linking Whatcom County to Skagit Transit and Island County Transit, and operating assistance for paratransit operations. WTA also received a Public Transportation Grant providing operating assistance to the State's public transit agencies.

Additionally, WTA received a Risk Management Grant award for \$2,500 from the Washington State Transit Insurance Pool in both 2014 and 2013. These funds were allocated to the enhancement of WTA's Emergency Operations Program.

Requests for Information

The 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
Director of Finance
Whatcom Transportation Authority
4111 Bakerview Spur
Bellingham, WA 98226-8056

**WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION**

December 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 29,249,884	\$ 25,927,582
Taxes receivable	4,009,555	3,861,901
Accounts receivable	116,286	177,785
Interest receivable	13,255	8,869
Grants receivable	284,646	1,056,320
Due from other governmental units	538,865	131,843
Inventory	1,058,964	905,225
Prepays	105,324	525,623
Total current assets	<u>35,376,779</u>	<u>32,595,148</u>
Noncurrent assets:		
Capital assets not being depreciated:		
Land	6,130,578	6,130,578
Construction in progress	1,741,957	1,058,035
Capital assets being depreciated:		
Buildings	23,880,804	23,880,804
Other equipment	4,173,330	4,173,330
Transportation equipment	32,025,177	31,502,513
Improvements	2,812,639	2,397,408
Communications equipment	1,247,603	975,925
Maintenance/shop equipment	1,658,610	1,505,262
Less: Accumulated depreciation	<u>(29,430,185)</u>	<u>(26,665,087)</u>
Total noncurrent assets	<u>44,240,513</u>	<u>44,958,768</u>
Total assets	<u>\$ 79,617,292</u>	<u>\$ 77,553,916</u>

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

**WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION**

December 31, 2014 and 2013

LIABILITIES	<u>2014</u>	<u>2013</u>
Current liabilities:		
Accounts payable	\$ 303,728	\$ 132,395
Accrued wages	457,475	476,358
Other accrued expenses	264,639	408,145
Accrued vacation, sick leave and related benefits	1,405,390	1,096,793
Medical fund payable - IBNR	-	343,753
Due to other governmental agencies	-	46,202
Total current liabilities	<u>2,431,232</u>	<u>2,503,646</u>
Noncurrent liabilities:		
Long-term vacation liability	58,230	63,322
Related vacation benefits	4,711	16,791
Claims/lawsuits other payables	5,426	5,426
Total noncurrent liabilities	<u>68,367</u>	<u>85,539</u>
Total liabilities	<u>2,499,599</u>	<u>2,589,185</u>
NET POSITION:		
Net investment in capital assets	44,240,513	44,958,768
Unrestricted	<u>32,877,180</u>	<u>30,005,963</u>
TOTAL NET POSITION	<u>\$ 77,117,693</u>	<u>\$ 74,964,731</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Passenger fares	\$ 1,906,013	\$ 1,935,893
Special transit fares	2,182,764	2,145,961
Supplementary transportation	270,074	301,397
Other operating revenue	<u>30,377</u>	<u>20,142</u>
Total Operating Revenues	<u>4,389,228</u>	<u>4,403,393</u>
OPERATING EXPENSES:		
Operations	14,486,247	12,718,170
Maintenance	4,070,435	5,741,173
Administrative expenses	5,014,409	4,343,318
Depreciation/Amortization/Depletion	<u>3,638,847</u>	<u>3,852,827</u>
Total Operating Expenses	<u>27,209,938</u>	<u>26,655,488</u>
Operating Loss	<u>(22,820,710)</u>	<u>(22,252,095)</u>
NONOPERATING REVENUES:		
Sales Tax	21,807,594	21,120,920
External subsidies - grant revenue	2,720,003	6,139,555
Investment income	153,036	113,923
Other non operating revenues	<u>250,644</u>	<u>195,050</u>
Total Nonoperating Revenues	<u>24,931,277</u>	<u>27,569,448</u>
Income before contributions, gains, losses, other revenues and expenses	2,110,567	5,317,353
Special item	46,202	-
(Loss) gain on asset disposal	<u>(3,807)</u>	<u>15,263</u>
Increase in net position	2,152,962	5,332,616
Net Position - beginning of period	74,964,731	69,632,115
Net Position - end of period	<u>\$ 77,117,693</u>	<u>\$ 74,964,731</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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,043,705	\$ 4,480,201
Payments to suppliers	(4,928,953)	(10,135,400)
Payments to employees	(18,198,264)	(17,765,954)
Other receipts (payments)	398,937	(1,686,234)
Net cash (used) by operating activities	(18,684,575)	(25,107,387)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax receipts	21,807,594	21,120,920
Operating contributions - grants	847,370	846,708
Other noncapital financing activities	250,644	195,048
Net cash provided by noncapital financing activities	22,905,608	22,162,676
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	-	-
Capital contributions - grants	1,872,633	5,292,847
Purchase of capital assets	(2,920,593)	(1,532,815)
Other (payments) receipts	(3,807)	15,263
Net cash (used) provided by capital and related financial activities	(1,051,767)	3,775,295
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	153,036	113,923
Net cash provided by investing activities	153,036	113,923
Net increase in cash and cash equivalents	3,322,302	944,507
Balances - beginning of the year	25,927,582	24,983,075
Balances - end of the year	\$ 29,249,884	\$ 25,927,582

**Reconciliation of Operating (Loss) to
Net Cash (Used) by Operating Activities**

Operating (loss)	\$ (22,820,710)	\$ (22,252,095)
Adjustments to reconcile operating income to net cash provided:		
Depreciation expense	3,638,847	3,852,827
Change in assets and liabilities:		
Receivables, net	274,111	(888,996)
Inventories and other miscellaneous current assets	266,560	(461,319)
Accounts and other payables	(26,212)	(5,354,616)
Accrued expenses	(17,171)	(3,188)
Net cash (used) by operating activities	\$ (18,684,575)	\$ (25,107,387)

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, 2014

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Whatcom Transportation Authority (the Authority) was incorporated in August 1983 and operates under the laws of the State of Washington applicable to a municipality. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

The Authority has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements and Management Discussion and Analysis-for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements.) The following summary of significant accounting policies are described below.

A. Reporting Entity

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.

Whatcom Transportation Authority is a municipal corporation governed by an appointed nine-member board of elected officials that are representative of the districts served by WTA. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. (The Authority has no component units.)

B. Basis of Accounting and Reporting

The accounting records of the Authority are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The Authority complies with the *Budgeting, Accounting and Reporting System for Transit Districts* in the State of Washington.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net assets. Their reported fund equity (total net assets) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. The Authority discloses changes in cash flows by a separate statement that presents their operating, non-capital financing, capital and related financing and investing activities.

The Authority uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and liabilities, current and non-current, are appropriately recorded.

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

The Authority distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses are the result of providing, producing and delivering services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority come from fare box collections and bus media sales. The Authority also recognizes as operating revenue vanpool income, special transit fare agreements with Western Washington University, the Bellingham Transportation Benefit District, and advertising commissions. 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. Revenues and expenses not meeting this definition are reporting as non-operating revenues and expenses.

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

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, 2014, Whatcom Transportation Authority was holding \$29,249,884 in short-term residual investments of surplus cash. Of this, \$29,197,845 was held in the Whatcom County Investment Pool with the balance of \$52,039 in bank accounts. This amount is classified on the balance sheet as cash and cash equivalents. The 2013 year end amount was \$25,927,582.

WTA's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Public Deposit Protection Commission (PDPC).

For purposes of the Statements 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, 2014 consist of \$4,009,555: \$3,978,784 in state sales tax receivable for the months of November 2014 and December 2014, and \$30,771 due from the Washington State Department of Licensing representing the State gas and diesel taxes paid on fuel purchases to be refunded by the State of Washington. WTA is required to pay this fuel tax upon purchase of the fuel from the vendor and then applies for refunds with the State based upon monthly usage of fuels for revenue vehicles. The tax amounts receivable at December 31, 2013 totaled \$3,861,901: \$3,842,841 and \$19,060 respectively.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

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

Customer accounts receivable of \$116,286 at December 31, 2014 consist of amounts owed from private individuals or organizations for services rendered. This amount is considered fully collectible by WTA. Customer accounts receivable at year end 2013 was \$177,785.

Interest receivable at December 31, 2014 was \$13,255. This is interest earned on investments and tax revenues through the end of the year but not paid at year end. Interest receivable at yearend 2013 was \$8,869.

Grants receivable at December 31, 2014 totaled \$284,646; \$138,664 due from the Washington State Department of Transportation and \$145,982 due from the Federal Transit Administration. At year end 2013 grants receivable was \$1,056,320; \$917,656 due from the FTA and \$138,664 due from WSDOT.

3. Due From Other Governments at December 31, 2014 \$538,865 was due: \$132,621 from Bellingham Transportation Benefit District #1 for contracted bus service, \$359,751 due from Western Washington University for pass sales and contracted service and \$46,493 due from the Nooksack Indian Tribe for fixed route service. At yearend 2013 \$131,843 was due from Bellingham Transportation Benefit District #1.
4. Inventories are valued using the weighted average method. Inventories were valued at \$ 1,058,964 at December 31, 2014 and \$905,225 at December 31, 2013.
5. Capital Assets and Depreciation - See Note 3
6. Compensated Absences
Most non-exempt employees of the Whatcom Transportation Authority are covered by a bargaining agreement with the Amalgamated Transit Union #843. Under provisions of this contract, employees accumulate vacation benefits at rates of 80 - 176 hours per year, based upon years of service, and sick leave benefits at the rate of 104 hours per year. Exempt employees accrue vacation benefits at rates of 120 - 248 hours per year, based upon years of service and job classification, and sick leave benefits at the rate of 104 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 with an accrued sick leave balance of 500 hours or greater can cash out 60% of the sick leave balance. Those with an accrued sick leave balance of 300 to 499 hours at time of separation can cash out 30% of that balance. As of December 31, 2014, a liability of \$1,468,331 has been accrued for vacation, sick leave and related benefits liability. The liability at year end 2013 was \$1,176,906.
7. Other Accrued Liabilities - These accounts consist of accrued payroll and Department of Labor and Industries taxes payable, plus amounts due to other governments.
8. Other Payables/Liabilities - Contingency/Lawsuits Payable - See Note 6 and Note 7

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

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

NOTE 2 - TAXES RECEIVABLE/RECOGNITION METHODOLOGY

Taxes receivable are Whatcom Transportation Authority's portion of State sales and use tax for 2014. Six-tenths of one percent of sales and use tax collected on retail sales within the Public Transportation Benefit Area (PTBA) of Whatcom County are returned to the Authority. Taxes are recorded on the accrual basis.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

All capital assets are stated at historical cost. Donated capital assets are valued at fair market value when received. Major expenses for capital assets are capitalized when they increase useful lives. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

The Authority has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. The Authority has sufficient legal interest to include these assets in WTA's records.

When a capital asset is sold, the original cost is removed from the Authority's asset accounts, accumulated depreciation is reduced by the accumulated depreciation related to the property sold, and the net gain or loss on disposition is attributed to income.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives. Depreciation is computed using the straight-line method with useful lives of 5 to 30 years. The statement of revenues and expenses includes depreciation of all depreciable capital assets and total gains and losses upon disposal.

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets, not being depreciated:				
Land	6,130,578	-	-	6,130,578
Work in progress	1,058,035	1,741,957	1,058,035	1,741,957
Total capital assets, not being depreciated	7,188,613	1,741,957	1,058,035	7,872,535
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements	2,397,408	415,231	-	2,812,639
Transportation equipment	31,502,513	1,423,914	901,250	32,025,177
Communications equipment	975,925	271,678	-	1,247,603
Maintenance/shop equipment	1,505,262	153,348	-	1,658,610
Other equipment	4,173,330	-	-	4,173,330
Total capital assets being depreciated	64,435,242	2,264,171	901,250	65,798,163
Less accumulated depreciation for:				
Buildings	8,918,332	819,622	-	9,737,954
Improvements	1,671,528	149,760	22,034	1,799,254
Transportation equipment	10,956,665	2,305,651	873,750	12,388,566
Communications equipment	788,326	64,349	-	852,675
Maintenance/shop equipment	778,716	114,270	16,318	876,668
Other equipment	3,551,520	358,345	134,797	3,775,068
Total accumulated depreciation	26,665,087	3,811,997	1,046,899	29,430,185
Total capital assets, net	44,958,768	194,131	912,386	44,240,513

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

Capital assets activity for the year ended December 31, 2013 was as follows:

	Beginning Balance 1/1/2013	Increases	Decreases	Ending Balance 12/31/2013
Capital assets, not being depreciated:				
Land	6,130,578	-	-	6,130,578
Work in progress	5,256,258	-	4,198,223	1,058,035
Total capital assets, not being depreciated	11,386,836	-	4,198,223	7,188,613
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements	2,397,408	-	-	2,397,408
Transportation equipment	27,917,595	5,723,125	2,138,207	31,502,513
Communications equipment	896,341	84,384	4,800	975,925
Maintenance/shop equipment	1,475,272	29,990	-	1,505,262
Other equipment	4,225,882	-	52,552	4,173,330
Total capital assets being depreciated	60,793,302	5,837,499	2,195,559	64,435,242
Less accumulated depreciation for:				
Buildings	8,098,711	819,621	-	8,918,332
Improvements	1,546,246	125,282	-	1,671,528
Transportation equipment	10,752,009	2,236,403	2,031,747	10,956,665
Communications equipment	761,936	31,190	4,800	788,326
Maintenance/shop equipment	690,349	88,367	-	778,716
Other equipment	3,052,109	551,963	52,552	3,551,520
Total accumulated depreciation	24,901,360	3,852,826	2,089,099	26,665,087
Total capital assets, net	47,278,778	1,984,673	4,304,683	44,958,768

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

NOTE 4 - 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 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49% of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 plan may legally be used to pay the defined benefits of any of the Plan 2

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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(These notes are an integral part of these financial statements)

or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after an employee completes five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at age 60 with at least five years of service, Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2% of the average final compensation (AFC) per year of service, but the benefit may not exceed 60% of AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2% of the AFC for each year of service reduced by 2% for each year that the member's age is less than 55. The total benefit is limited to 60% of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3% annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2% of the AFC per year of service. The AFC is the monthly average of the

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3% annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3% 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.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5% to 15% of salaries, based on member choice. Members who do not choose a contribution rate default to a 5% rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirements benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1% of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, 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 twelve months of that service are

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

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

earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3% for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5% for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2% of the AFC per year of service. For Plan 3, the monthly benefit amount is 1% of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3% annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, of found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Non-vested	101,191
Total	368,272

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014**

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

Employee contribution rates for Plan 1 are established by statute at 6% for state agencies and local government unit employees, and at 7.5% for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5% to 15%.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00 %****	4.92%****	5.00-15.00% *****

*The employer rates include the employer administrative expense fee currently set at 0.18%.
 **The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
 ***Plan 3 defined benefit portion only.
 ****The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
 *****Variable based on rate selected by the PERS 3 member.

Both Whatcom Transportation Authority and the employees made the required contributions. WTA's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$38,471	\$1,447,923	\$365,805
2013	\$28,853	\$1,129,246	\$410,626
2012	\$29,199	\$1,042,075	\$370,955

NOTE 5 - WASHINGTON STATE TRANSIT INSURANCE POOL

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 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 made pursuant to the provisions of Chapter 39.34 RCW, the Inter-local Cooperation Act. To date, 25 transit agencies are members of the Pool.

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NOTES TO FINANCIAL STATEMENTS
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(These notes are an integral part of these financial statements)

The Pool allows members programs of joint self-insurance; joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. The coverage provided by the Pool are property and liability insurance protecting the member systems assets and personal property and from claims arising from the negligent or other tortuous conduct of the member transit System, their officers, employees, or agents.

NOTE 6 - CONTINGENCIES AND LITIGATION

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 reserves 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 disallowed amounts will be immaterial.

NOTE 7 – WTA SELF-INSURED MEDICAL BENEFIT PLAN

WTA implemented a self-insured medical plan on April 1, 2004 under the guidance of RCW 48.62. This plan covered the medical and prescription claims of WTA employees and their covered dependents up to \$75,000 per covered individual. WTA Self-Insured Medical Plan was funded by both WTA and employee contributions, based upon actuarial calculations and retained a third-party administrator to manage the processing and payment of all claims and to provide benefit coordination.

After several years of ever-increasing claims charges and stop-loss coverage costs, WTA and Amalgamated Transit Union #843 reached a negotiated agreement to end the self-insured medical plan effective March 31, 2013. Effective April 1, 2013, WTA joined the Association of Washington Cities Employee Benefit Trust, providing medical coverage to all WTA employees.

This plan closed on March 31, 2014.

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,

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

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.

As of December 31, 2014, 263 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 insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through 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. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC 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 fewer than 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 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 HCP. Similarly, the terminating member forfeits all rights and interest to the 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 the AWC Board of Directors President and Vice President. 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, 2014**

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

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). 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 – SPECIAL ITEM – SALE OF FTA FUNDED VEHICLES

In 2011 and in 2012 WTA sold, at auction, surplus revenue vehicles that had reached the end of their useful lives. These vehicles were originally purchased using Federal Transit Administration grant funding. Per FTA Circular 5010.1D, pg. IV-28, when a vehicle is sold for greater than \$5,000, those funds must be returned to FTA or permission must be granted by FTA to use those excess grant funds on future projects.

WTA requested approval from FTA to use those funds on future projects rather than return them. Under the terms of the agreement, until such time as those funds are incorporated into a new grant application, they must be recorded on the Authority's books as a liability payable to the FTA.

In 2014 these funds were incorporated into a new grant application and the liability payable to the FTA has been reversed.

WHATCOM TRANSPORTATION AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014**

1	2	3	4	5			6
Federal Agency Name/Pass Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot-note Reference
				From Pass-Through Awards	From Direct Awards	Total	
U.S. Department of Transportation - Federal Transit Administration	Bus and Bus Facilities Formula Program	20.526	WA-90-X545	\$ -	\$ 342,584	\$ 342,584	1,2,3
U.S. Department of Transportation - Federal Transit Administration	Federal Transit - Formula Grants	20.507	WA-90-X546	\$ -	\$ 319,874	\$ 319,874	1,2,3
U.S. Department of Transportation - Federal Transit Administration	Federal Transit - Formula Grants	20.507	WA-90-X547	\$ -	\$ 244,722	\$ 244,722	1,2,3
U.S. Department of Transportation - Federal Transit Administration	Federal Transit - Formula Grants	20.507	WA-90-X548	\$ -	\$ 964,519	\$ 964,519	1,2,3
Total Federal Awards Expended				\$ -	\$ 1,871,699	\$ 1,871,699	

The Accompanying Notes to The Schedule of Expenditures of Federal Awards are an integral part of this Schedule

NOTE 1 – BASIS OF ACCOUNTING

The schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Authority's financial statements. The Authority uses the accrual basis of accounting.

NOTE 2 – 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.

NOTE 3 – TRANSIT FORMULARY GRANTS

The amount reported for this award represents eligible expenditures made in 2014. WTA was given "pre-award authority" for its bus replacement costs.

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.

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