



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Whatcom Transportation Authority

Whatcom County

For the period January 1, 2016 through December 31, 2017

Published April 30, 2018

Report No. 1021200





Office of the Washington State Auditor

Pat McCarthy

April 30, 2018

Board of Directors
Whatcom Transportation Authority
Bellingham, Washington

Report on Financial Statements

Please find attached our report on the Whatcom Transportation Authority's financial statements.

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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**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, 2016 through December 31, 2017**

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 24, 2018.

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.

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

April 24, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whatcom Transportation Authority Whatcom County January 1, 2016 through December 31, 2017

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 10.

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 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 opinions.

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, 2017 and 2016, 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.

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 10 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2018 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

April 24, 2018

FINANCIAL SECTION

**Whatcom Transportation Authority
Whatcom County
January 1, 2016 through December 31, 2017**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017 and 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2017 and 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2017 and 2016

Schedule of Employer Contributions – PERS 1 – 2017 and 2016

Schedule of Employer Contributions – PERS 2/3 – 2017 and 2016

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

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, 2017.

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.

Financial Highlights

WTA's cash and cash equivalents declined \$532 thousand during 2017 as additional service was rolled out and an effort was made to reduce undesignated financial reserves. The budgeted decrease in cash reserves was \$3.7 million. This smaller reduction results from higher than budgeted sales tax receipts and the service expansion cost coming in under budget.

The agency increased service over 12% from 2016 with changes occurring in March and September 2017. This increase resulted from the conclusion and implementation of WTA's six-year strategic plan that was developed with input from various stakeholders. An additional outcome of the strategic plan was the development of a two-year service planning cycle to address the continual growing and changing transportation needs of our community.

Fixed route ridership declined 2.1% from 2016. Similarly, many transit agencies throughout the country are experiencing declining ridership. Paratransit ridership increased approximately 3.7% over 2016 as the population of Whatcom County continues to age and more disabled residents use WTA services. Vanpool ridership continues to decrease due to lower gas prices during the year. WTA plans to launch a marketing campaign and incentive program during 2018 targeted at increasing awareness and participation in the vanpool program.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

Sales tax revenues were strong while contract revenue declined significantly due to the expiration of agreements with the City of Bellingham Transportation Benefit District No. 1 and the Nooksack Tribe. Fare revenue was slightly higher than 2017 primarily 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.

As anticipated, operating expenses increased primarily due to the addition of new Transit Operators to support the service increases in March and September. Diesel fuel and other supplies also increased to support the new service. WTA continues to dedicate the necessary resources to keep our fleet in a State of Good Repair and to that end had increased expenses for bus tires and engine rebuilds.

Capital grant revenue decreased \$4.1 million in 2017 compared to 2016 as no fixed route buses were purchased. The purchase of fixed route buses is programmed by WTA with delivery and payment occurring approximately every 2 years.

Capital grant revenue increased \$4.7 million during 2016 compared to 2015 due to a number of capital projects that were completed, billed and reimbursed by the FTA during 2016.

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.

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.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

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.

A summarized comparison as of December 31, 2017, 2016 and 2015, follows:

Condensed Statement of Net Position

	2017	2016	2015
Current Assets	\$ 39,534,053	\$ 39,080,498	\$ 37,226,671
Capital Assets	41,163,871	44,215,043	42,213,829
Total Assets	\$ 80,697,924	\$ 83,295,541	\$ 79,440,500
Total Deferred Outflows of Resources	\$ 1,791,908	\$ 2,297,078	\$ 1,309,919
Current Liabilities	\$ 2,894,110	\$ 2,836,070	\$ 2,594,858
Noncurrent Liabilities	10,770,586	13,346,665	11,212,746
Total Liabilities	\$ 13,664,696	\$ 16,182,735	\$ 13,807,604
Total Deferred Inflows of Resources	\$ 1,763,454	\$ 263,351	\$ 1,693,724
Invested in capital assets (net of debt)	\$ 41,163,871	\$ 44,215,043	\$ 42,213,829
Unrestricted	25,897,811	24,931,490	23,035,262
Total Net Position	\$ 67,061,682	\$ 69,146,533	\$ 65,249,091

Assets

Current assets increased in 2017 \$454 thousand, or 1.2%, over 2016 primarily due to increases in sales tax receipts and grant funds due to WTA at December 31st. A portion of these grants funds include \$16,756 and \$3,093 from the Federal Emergency Management Fund and the Washington State Military Department, respectively, as reimbursement for expenses incurred during a weather event in early 2017.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

Current assets in 2016 and 2015 increased \$1.85 million each year, or 5.0% and 5.2% respectively, primarily due to increases in cash and cash equivalents resulting from a higher net income than projected coupled with lower receivable balances and inventory.

Net capital assets in 2017 decreased \$3.1 million, or 6.9% from 2016 due to a decrease in construction in progress and increased depreciation. In 2016, capital assets increased \$2 million, or 4.7% over 2015 due to the purchase of seven fixed route and thirteen paratransit buses. In 2015, capital assets declined \$2 million, or 4.6% from 2014 as completed projects began to be depreciated.

Deferred Outflows of Resources

Total deferred outflows of resources related to pensions in 2017 decreased \$505 thousand, or 22.2% over 2016 primarily due to the difference between the plans' projected and actual investment earnings. In 2016, total deferred outflows of resources related to pensions increased \$987 thousand, or 75.4% over 2015 primarily due to the difference between the plans' projected and actual investment earnings.

Liabilities

Current liabilities increased \$58 thousand, or 2% over 2016 as a result of increased accrued leave balances for our employees and a lower amount of outstanding invoices at December 31st. 2016 current liabilities increased \$241 thousand, or 9.3% over 2015 due to higher accrued wages and compensated absence balances at year end. Current liabilities in 2015 increased \$163 thousand, or 6.7% over 2014 due to higher outstanding invoices at year end partially offset by a small reduction in accrued compensated absences.

In 2017, noncurrent liabilities decreased \$2.6 million, or 19.3% from 2016 as a result of the increased in the net pension obligations. Similarly, in 2016, noncurrent liabilities increased \$2.1 million, or 19.0% primarily due to the increase in long term pension obligations resulting from the adjustment required by GASB 68. During 2015, noncurrent liabilities increased \$11.1 million over 2014 which was also due to the change in accounting principle related to GASB 68 that went into effect in 2015.

Deferred Inflows of Resources

At December 31, 2017, deferred inflows related to pensions were \$1.5 million or 569.6% over 2016 due to the difference between the plans' projected and actual investment earnings. In 2016, deferred inflows related to pensions decreased \$1.4 million, or 84.5% due to the difference between the plans' projected and actual investment earnings.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

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 deteriorated during the year.

Net position in 2017 declined \$2.1 million or 3% from 2016 primarily due to the increase in the deferred inflows related to pensions (a non-cash transaction). During 2016, net position increased \$3.9 million or 6.0% due to a combination of net investment in assets and increased cash position due to strong operating income. Net position in 2015 decreased \$11.9 million, or 15.4% over 2014 due to the recording of the net pension obligation required by Washington State's Public Employees' Retirement System (PERS) participants.

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.

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, 2017, 2016 and 2015, follows:

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

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

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Operating Revenues	\$ 2,833,874	\$ 4,012,588	\$ 4,381,699
Operating Expenses	<u>32,779,231</u>	<u>29,980,526</u>	<u>28,494,176</u>
Operating (Loss)	(29,945,357)	(25,967,938)	(24,112,477)
Non-operating revenue	27,944,445	29,849,329	24,071,589
Gain (Loss) on Disposal of Assets	<u>(83,939)</u>	<u>16,051</u>	<u>(50,224)</u>
Increase (Decrease) in Net Position	(2,084,851)	3,897,442	(91,112)
Net Position - Beginning of Period	69,146,533	65,249,091	77,117,693
Changes in Accounting Principles-GASB 68	<u>-</u>	<u>-</u>	<u>(11,777,490)</u>
Net Position - End of Period	<u><u>\$ 67,061,682</u></u>	<u><u>\$ 69,146,533</u></u>	<u><u>\$ 65,249,091</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. In 2017, operating revenues decreased \$1.2 million, or 29.4% primarily due to the termination of the agreement with the City of Bellingham Transportation Benefit District, which WTA expected and budgeted for in 2017. During 2016, operating revenues decreased \$369 thousand, or 8.4% primarily due to a reduction in the contract with the City of Bellingham Transportation Benefit District and a small decrease in passenger fares as ridership continues to decline. In 2015, operating revenues decreased \$8 thousand, or 0.2% versus 2014 due to a slight decline in passenger fares.

Non-operating revenues consist primarily of sales tax revenue, operating grants, advertising revenue, tenant lease income, and interest income. WTA currently receives six-tenths of one percent of Whatcom County sales and use tax. Sales tax revenue growth in 2017 was significant, \$2.2 million or 9.1% over 2016 due to strong sales during the year and the addition of the bottled water tax during the fourth (4th) quarter. During 2016, sales tax revenue increased \$1.1 million, or 4.8% over 2015. In 2015, sales tax revenue increased \$889 thousand, or 4.1% over 2014.

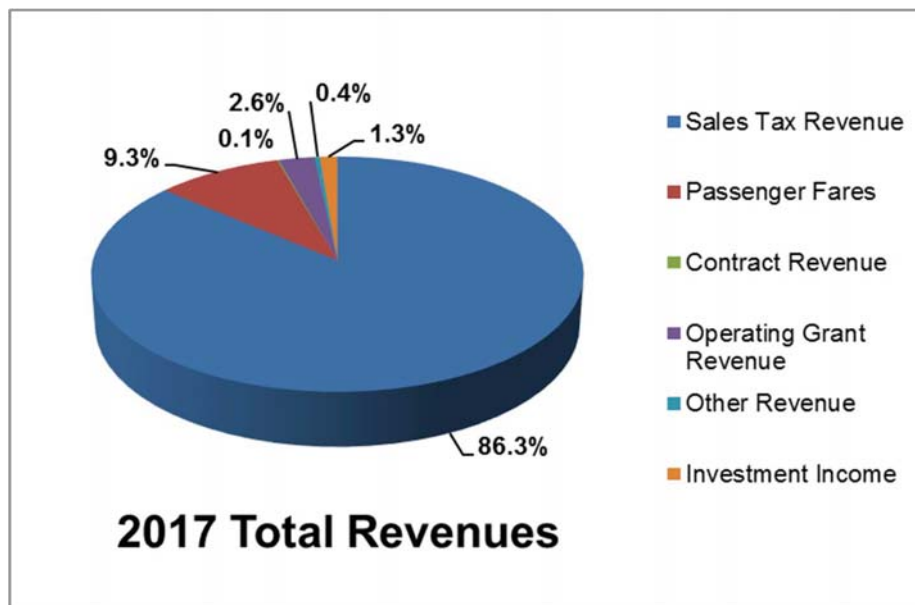
**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**

WTA received operating grant funds totaling \$772 thousand during 2017 from Washington State's Department of Transportation and \$16,754 and \$3,100 from the Federal Emergency Management Fund and the State Military Department, respectively, as reimbursement for damages incurred during the February 2017 weather event. In 2016, WTA received \$580 thousand from Washington State's Department of Transportation for operating assistance for paratransit operations. In 2015, WTA received \$712 thousand.

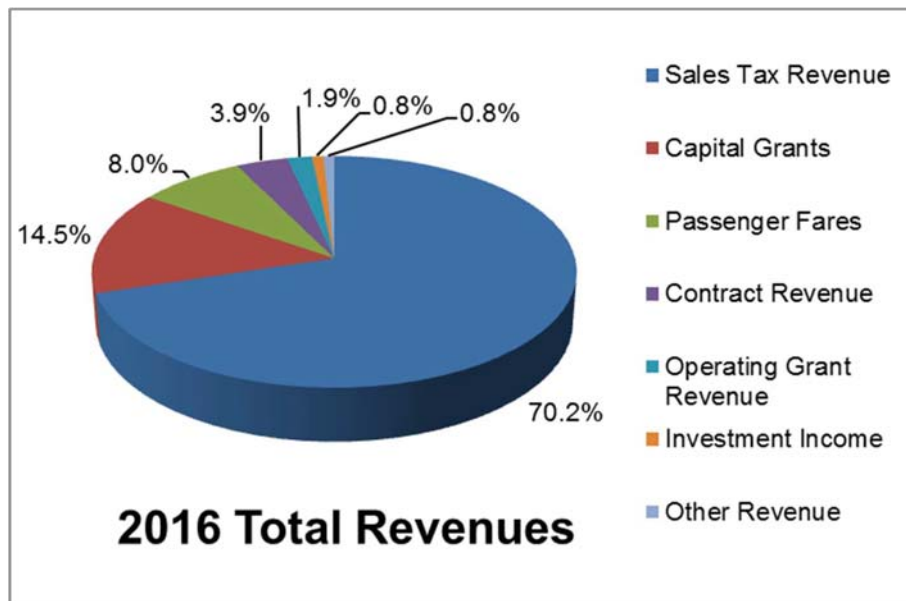
Additionally, WTA received a Risk Management Grant award for \$2,500 from the Washington State Transit Insurance Pool (WSTIP) in 2017, 2016, and 2015. These funds were allocated to the enhancement of WTA's Emergency Operations and Safety Program.

Revenue Analysis

Revenues	2017	2016	2015	2017 % of Total	2017 vs. Prev Yr
Operating	\$ 2,833,874	\$ 4,012,588	\$ 4,381,699	9.23%	\$ (1,178,714)
Invest. Income	388,413	286,683	217,812	1.27%	101,730
Sales Tax	25,946,586	23,781,618	22,696,321	84.53%	2,164,968
Operating Grants	794,064	627,672	714,708	2.58%	166,392
Capital Grants	616,805	4,897,739	217,944	2.01%	(4,280,934)
Other Revenue	198,577	255,617	224,804	0.65%	(57,040)
Gain/(Loss)	(83,939)	16,051	(50,224)	-0.27%	(99,990)
Total Revenue	\$ 30,694,380	\$ 33,877,968	\$ 28,403,064	100.00%	\$ (3,183,588)



**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**



Expenses

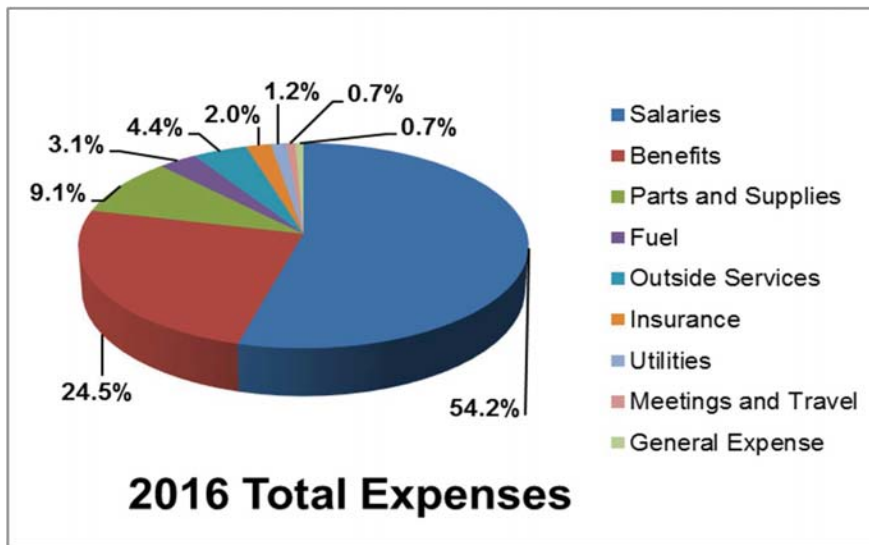
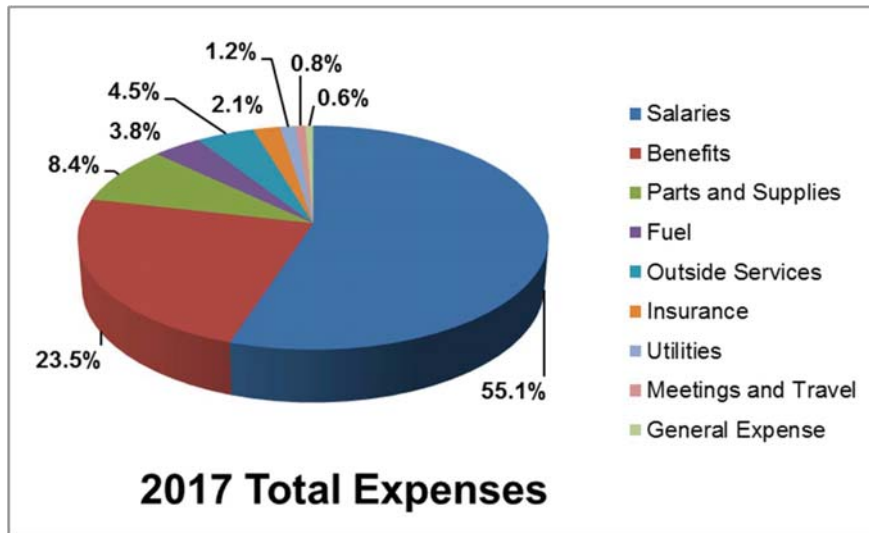
Operating expenses consist of expenses related to transit operations, maintenance, administration, customer service, marketing, depreciation and amortization.

Operating expenses (less depreciation) for 2017 were \$2.4 million, or 9.2% higher than 2016 expenses primarily due to increased employee wages and benefits. Fuel expense in 2017 increased was \$270 thousand, or 33.4% over 2016 as a result of higher fuel prices and increased miles traveled.

During 2016, operating expenses (less depreciation) increased \$1.2 million, or 5.0% primarily for similar reasons. This overall increase was tempered by a decrease in fuel expense of \$191 thousand resulting from lower oil prices.

In 2015, operating expenses (less depreciation) increased \$1.1 million, or 4.7% over 2014 due to increased benefit costs along with higher maintenance expenses related to engine rebuilds and tire purchases. This increase was partially offset by lower fuel costs.

**WHATCOM TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (M D & A)
For the Year Ended December 31, 2017**



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
Director of Finance
Whatcom Transportation Authority
4011 Bakerview Spur
Bellingham, WA 98226-8056
(360) 788-9331

WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION

December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and Cash Equivalents	\$ 32,539,435	\$ 33,071,616
Taxes Receivable	4,698,092	4,383,548
Accounts Receivable (Net)	124,295	117,233
Interest Receivable	36,142	26,539
Grants Receivable	954,550	226,709
Due from Other Governments	-	76,163
Inventories	1,016,274	979,281
Prepayments	165,266	199,409
Total current assets	<u>39,534,054</u>	<u>39,080,498</u>
Noncurrent assets:		
Capital Assets not Being Depreciated:		
Land	6,130,578	6,130,578
Construction in Progress	590,811	1,456,965
Capital Assets Being Depreciated:		
Buildings	23,880,804	23,880,804
Improvements	3,535,905	3,141,036
Transportation Equipment	34,932,375	35,285,508
Other Equipment	5,367,559	5,441,447
Maintenance/shop equipment	1,892,988	1,892,988
Communications equipment	2,770,904	2,525,663
Less: Accumulated depreciation	<u>(37,938,053)</u>	<u>(35,539,946)</u>
Total Noncurrent Assets	41,163,871	44,215,043
 TOTAL ASSETS	 <u>\$ 80,697,925</u>	 <u>\$ 83,295,541</u>
 DEFERRED OUTFLOWS of RESOURCES		
Deferred Outflows Related to Pensions	\$ 1,791,908	\$ 2,297,078
 TOTAL DEFERRED OUTFLOWS of RESOURCES	 <u>\$ 1,791,908</u>	 <u>\$ 2,297,078</u>

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

**WHATCOM TRANSPORTATION AUTHORITY
STATEMENT OF NET POSITION**

December 31, 2017 and 2016

LIABILITIES	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts Payable	\$ 368,230	\$ 457,148
Accrued Wages	539,279	503,455
Unearned Revenue	68,849	72,033
Accrued Compensated Absences	1,604,588	1,512,070
Other Accrued Expenses	313,164	291,364
Total Current Liabilities	<u>2,894,110</u>	<u>2,836,070</u>
Noncurrent Liabilities:		
Accrued Long-Term Compensated Absences	114,303	97,224
Other Noncurrent Liabilities	5,426	5,426
Pension Obligations (Net)	10,650,857	13,244,015
Total noncurrent liabilities	<u>10,770,586</u>	<u>13,346,665</u>
 TOTAL LIABILITIES	 <u>\$ 13,664,696</u>	 <u>\$ 16,182,735</u>
 DEFERRED INFLOWS of RESOURCES		
Deferred Inflows Related to Pensions	\$ 1,763,454	\$ 263,351
 TOTAL DEFERRED INFLOWS of RESOURCES	 <u>\$ 1,763,454</u>	 <u>\$ 263,351</u>
 NET POSITION		
Net Investment in Capital Assets	41,163,871	44,215,043
Unrestricted	25,897,812	24,931,490
TOTAL NET POSITION	<u>\$ 67,061,683</u>	<u>\$ 69,146,533</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Passenger Fares	\$ 2,797,899	\$ 2,706,733
Special Transit Fares	35,975	1,305,855
Total Operating Revenues	<u>2,833,874</u>	<u>4,012,588</u>
OPERATING EXPENSES:		
Salaries	15,579,719	14,037,564
Benefits	6,759,119	6,450,573
Supplies	3,498,850	3,135,261
Services	2,470,768	2,289,464
Depreciation	4,470,775	4,067,664
Total Operating Expenses	<u>32,779,231</u>	<u>29,980,526</u>
Operating Loss	<u>(29,945,357)</u>	<u>(25,967,938)</u>
NONOPERATING REVENUES:		
Sales Tax	25,946,586	23,781,618
External subsidies - grant revenue	1,410,870	5,525,411
Investment income	388,413	286,683
Other non operating revenues	198,577	255,617
Total Nonoperating Revenues	<u>27,944,446</u>	<u>29,849,329</u>
(Loss) / Income before contributions, gains, losses, other revenues and expenses	(2,000,911)	3,881,391
Special item	-	-
(Loss)/Gain on asset disposal	<u>(83,939)</u>	16,051
(Decrease) / increase in net position	<u>(2,084,850)</u>	3,897,442
Net Position - beginning of period	69,146,533	65,249,091
Changes in Accounting Principles-GASB 68	-	-
Net Position - end of period	<u>\$ 67,061,683</u>	<u>\$ 69,146,533</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS from OPERATING ACTIVITIES		
Receipts from customers	\$ 2,902,974	\$ 4,381,327
Payments to employees	(22,684,440)	(20,528,522)
Payments to suppliers	(6,155,396)	(5,509,978)
Other receipts (payments)	(1,036,223)	50,755
Net cash (used) by operating activities	(26,973,085)	(21,606,418)
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Tax receipts	25,946,586	23,781,618
Operating contributions - grants	794,065	627,672
Other noncapital financing activities	198,577	255,617
Net cash provided by noncapital financing activities	26,939,228	24,664,907
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Capital contributions - grants	616,805	4,897,739
Purchases of capital assets	(1,419,603)	(6,068,880)
Other receipts (payments)	(83,939)	16,051
Net cash (used) by capital and related financial activities	(886,737)	(1,155,090)
CASH FLOWS from INVESTING ACTIVITIES		
Interest and dividends	388,413	286,683
Net cash provided by investing activities	388,413	286,683
Net (decrease)/increase in cash and cash equivalents	(532,181)	2,190,082
Balances - beginning of the year	33,071,616	30,881,534
Balances - end of the year	\$ 32,539,435	\$ 33,071,616

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

Operating (loss)	\$ (29,945,357)	\$ (25,967,938)
Adjustments to reconcile operating income to net cash provided:		
Depreciation expense	4,470,775	4,067,664
Change in assets and liabilities:		
Receivables, net	(982,887)	157,165
Inventories and other current assets	(2,850)	179,091
Accounts and other payables	58,040	241,212
Accrued expenses	(570,806)	(283,612)
Net cash (used) by operating activities	\$ (26,973,085)	\$ (21,606,418)

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, 2017**

(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

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

1. Cash and Cash Equivalents

It is the Authority's policy to invest all temporary cash surpluses. At December 31, 2017, Whatcom Transportation Authority was holding \$32,539,435 in short-term residual investments of surplus cash, of which \$32,469,788 was held in the Whatcom County Investment Pool. This amount is classified on the balance sheet as cash and cash equivalents. The 2016 year-end balance was \$33,071,616.

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

2. Receivables

Taxes receivable at December 31, 2017 consist of \$4,646,827 in state sales tax receivable for the months of November 2016 and December 2016, and \$51,265 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, 2016 were \$4,344,339 and \$39,209 respectively.

Customer accounts receivable at December 31, 2017 of \$124,295 consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. This amount is considered fully collectible by WTA. Customer accounts receivable at December 31, 2016 was \$117,233.

Grants receivable at December 31, 2017 consist of \$275,989 due from the Washington State Department of Transportation, \$658,712 due from the Federal Transit Administration, \$3,093 due from the Washington State Military Department, and \$16,756 due from the Federal Emergency Management Agency. Grants receivable at December 31, 2016 were \$144,887 from the Washington State Department of Transportation and \$81,822 from the Federal Transit Administration.

Interest receivable at December 31, 2017 totaled \$36,142. 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, 2016 was \$26,539.

3. Amounts Due from Other Governments at December 31, 2016 was zero. Amounts due at year-end 2016 were \$83,598 from Bellingham Transportation Benefit District #1, and \$(7,435) from the Nooksack Indian Tribe.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

4. Inventories are valued by the weighted average method. Inventories were valued at \$1,016,274 at December 31, 2017 and \$979,281 at December 31, 2016.
5. Capital Assets See Note 3, *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 government could retain an equity interest in these assets. However, the Authority has sufficient 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

6. Deferred Outflows/Inflows of Resources See Note 6, *Pensions*
7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. 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 accrue vacation benefits at rates of 104 - 200 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.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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, 2017, a liability of \$1,718,891 has been accrued for vacation, sick leave and related benefits liability. The liability at year end 2016 was \$1,609,294.

8. 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.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Unearned Revenues

This account includes amounts recognized as receivables but not revenues because the revenue recognition criteria have not been met. \$60,515 was recognized for 2018 passes delivered to Western Washington University in 2017, and \$8,333 was recognized for 2018 advertising revenue received but not earned. Unearned revenues at December 31, 2016 were \$63,700 and \$8,333 respectively.

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

WTA implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* in 2015. The Statement took effect for governments in fiscal years beginning after June 15, 2014. The statement revises and established new financial reporting requirements for most state and local governments that provide their employees with pension benefits.

The implementation required a restatement of the 2014 unrestricted net position in the amount of \$11,777,490 to properly reflect the agency's deferred outflows and inflows of resources related to pensions, the net pension obligation and pension expense for activity prior to 2015.

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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

WTA will continue to update these balances annually based on information received from the Washington State Department of Retirement Systems.

See Note 6 *Pension Plans* for additional information.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	Beginning Balance 1/1/2017	Increases	Decreases	Ending Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 6,130,578	\$ -	\$ -	\$ 6,130,578
Work in progress	1,456,965	590,811	1,456,965	590,811
Total capital assets, not being depreciated	7,587,543	590,811	1,456,965	6,721,389
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements other than buildings	3,141,036	394,869	-	3,535,905
Transportation equipment	35,285,508	1,788,794	2,141,927	34,932,375
Communications equipment	2,525,663	245,241	-	2,770,904
Maintenance/shop equipment	1,892,988	-	-	1,892,988
Other equipment	5,441,447	-	73,888	5,367,559
Total capital assets being depreciated	72,167,446	2,428,904	2,215,815	72,380,535
Less accumulated depreciation for:				
Buildings	11,377,197	819,622	-	12,196,819
Improvements	2,082,380	130,505	-	2,212,885
Transportation equipment	15,620,814	2,889,930	1,998,780	16,511,964
Communications equipment	1,095,431	357,105	-	1,452,536
Maintenance/shop equipment	1,105,753	92,791	-	1,198,544
Other equipment	4,258,371	180,822	73,888	4,365,305
Total accumulated depreciation	35,539,946	4,470,775	2,072,668	37,938,053
Total capital assets, net	\$ 44,215,043	\$(1,451,060)	\$ 1,600,112	\$ 41,163,871

WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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

Capital asset activity for the year ended December 31, 2016 was as follows:

	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital assets, not being depreciated:				
Land	\$ 6,130,578	\$ -	\$ -	\$ 6,130,578
Work in progress	695,068	1,456,965	695,068	1,456,965
Total capital assets, not being depreciated	6,825,646	1,456,965	695,068	7,587,543
Capital assets, being depreciated:				
Buildings	23,880,804	-	-	23,880,804
Improvements other than buildings	3,141,035	5,400	5,399	3,141,036
Transportation equipment	32,030,857	4,258,211	1,003,560	35,285,508
Communications equipment	1,531,245	1,006,469	12,051	2,525,663
Maintenance/shop equipment	1,879,955	13,033	-	1,892,988
Other equipment	5,430,718	28,935	18,206	5,441,447
Total capital assets being depreciated	67,894,614	5,312,048	1,039,216	72,167,446
Less accumulated depreciation for:				
Buildings	10,557,576	819,621	-	11,377,197
Improvements	1,944,652	169,255	31,527	2,082,380
Transportation equipment	14,163,778	2,871,913	1,414,877	15,620,814
Communications equipment	828,112	279,370	12,051	1,095,431
Maintenance/shop equipment	990,364	116,694	1,305	1,105,753
Other equipment	4,021,949	254,628	18,206	4,258,371
Total accumulated depreciation	32,506,431	4,511,481	1,477,966	35,539,946
Total capital assets, net	\$42,213,829	\$ 2,257,532	\$ 256,318	\$44,215,043

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

NOTE 4 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Pension obligations	\$ 13,244,015	\$ (2,593,158)	\$ -	\$ 10,650,857	\$ -
Compensated absences	97,224	17,079	-	114,303	-
Other noncurrent liabilities	5,426	-	-	5,426	-
Total Long-Term Liabilities	<u>\$ 13,346,665</u>	<u>\$ (2,576,079)</u>	<u>\$ -</u>	<u>\$ 10,770,586</u>	<u>\$ -</u>

NOTE 5 - 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.

WTA has twenty-six (26) unresolved claims against it as of December 31, 2017. Financial Accounting Standards Statement 5 requires an accrual of potential losses if:

- a) There is significant information to indicate a loss is likely to occur, and
- b) The amount of the loss can be reasonably estimated.

None of the claims or suites requires a loss accrual under these criteria.

In the opinion of management, such claims will be immaterial and will not have any significant effect on the financial position of WTA. The Washington State Transit Insurance Pool (WSTIP) covers all current claims under the pool's coverage limits.

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.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

(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 subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$(10,650,857)
Deferred outflows of resources	\$1,791,908
Deferred inflows of resources	\$(1,763,454)
Pension expense/expenditures	\$1,232,110

State Sponsored Pension Plans

Substantially all Whatcom Transportation Authority 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.

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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 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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	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

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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.

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 2017 were as follows:

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

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The Authority's actual PERS plan contributions were \$759,821 to PERS Plan 1 and \$1,055,358 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 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, whose rates include a component for the PERS 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 7.5 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 7.5 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, 2017, are summarized in the table below. The inflation

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

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 7.5 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$6,713,024	\$5,510,649	\$4,469,135
PERS 2/3	13,848,258	5,140,208	(1,994,748)

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, 2017, the Authority reported a total pension liability of \$10,650,857 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$5,510,649
PERS 2/3	\$5,140,208

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.113245%	0.116134%	-0.002889%
PERS 2/3	0.142251%	0.147940%	-0.005689%

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, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with updated procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the Authority recognized pension expense as follows:

	Pension Expense
PERS 1	\$489,345
PERS 2/3	\$742,764
TOTAL	\$1,232,110

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	\$(205,642)
Contributions subsequent to the measurement date	\$398,300	\$0
TOTAL	\$398,300	\$(205,642)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$520,824	\$(169,053)

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

Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(1,370,256)
Changes of assumptions	\$54,599	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$230,748	\$(18,504)
Contributions subsequent to the measurement date	\$587,438	\$0
TOTAL	\$1,393,609	\$(1,557,812)

Total of All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$520,824	\$(169,053)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(1,575,898)
Changes of assumptions	\$54,599	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$230,748	\$(18,504)
Contributions subsequent to the measurement date	\$985,737	\$0
TOTAL	\$1,791,908	\$(1,763,454)

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, 2018. 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
2018	\$(139,001)
2019	\$43,885
2020	\$(10,190)
2021	\$(100,336)
2022	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2018	\$(505,895)
2019	\$176,752
2020	\$(87,571)
2021	\$(517,884)
2022	\$79,546
Thereafter	\$103,410

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

NOTE 7 – RISK MANAGEMENT

Whatcom Transportation Authority is a member of the Washington State Transit Insurance Pool (The Pool). 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 of 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 of the RCW, the Interlocal Cooperation Act. The Pool was formed on January 1, 1989. To date, 25 transit agencies are members of the Pool.

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 Pool is fully funded by its member participants. Members make an annual contribution to the pool. The pool acquires reinsurance from unrelated underwriters that are subject to a pool per occurrence self-insured retention. Members are responsible for the selected deductible amounts of each claim. Claims are filed by members and the Pool performs claims adjustments, loss prevention, and appraisal services.

WTA joined the Pool in December 1995, for coverage effective January 1, 1996. Current coverage includes:

Risk	Coverage	Deductible
Bodily Injury / Property Damage	\$20,000,000 per each occurrence	\$5,000
Personal Injury / Advertising Injury	\$20,000,000 per offense	\$5,000
Vanpool Driver Medical Expense Protection	\$35,000 per each occurrence	\$5,000
Underinsured Motorists Coverage	\$60,000 per each occurrence	\$5,000
Employee Theft	\$1,000,000 per loss	\$10,000
Forgery or Alteration	\$1,000,000 per loss	\$10,000
Theft of Money & Securities	\$1,000,000 per loss	\$10,000
Computer Fraud	\$1,000,000 per loss	\$10,000
Funds Transfer Fraud	\$1,000,000 per loss	\$10,000
Money Orders and Counterfeit Currency	\$1,000,000 per loss	\$10,000
Public Officials Liability	\$20,000,000 per occurrence	\$5,000
Pollution and Remediation	\$5,000,000 per condition	\$5,000

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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.

As of December 31, 2017, 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 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, 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 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 HCP a minimum of 60 days prior to termination. A participating employer's termination will not

**WHATCOM TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

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 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.

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.

**WHATCOM TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017**

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

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.116134%	0.113245%	0.114870%	0.114069%
Employer's proportionate share of the net pension liability	\$ 5,510,649	\$ 6,081,790	\$ 6,008,769	\$ 5,746,279
Covered payroll	\$ 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	37.66%	45.27%	46.47%	46.47%
Plan fiduciary net position as a percentage of the total pension liability	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:**

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.147940%	0.142251%	0.143104%	0.141492%
Employer's proportionate share of the net pension liability	5,140,208	7,162,225	5,113,187	2,860,064
Covered payroll	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	35.30%	53.78%	40.17%	23.52%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	93.29%

**WHATCOM TRANSPORTATION AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2017**

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

	2017	2016	2015	2014
Statutorily or contractually required contributions	759,821	672,192	577,964	523,496
Contributions in relation to the statutorily or contractually required contributions	(759,821)	(672,192)	(577,964)	(523,496)
Contribution deficiency (excess)	0	0	0	0
Covered payroll	15,413,674	13,976,438	13,029,862	12,666,334
Contributions as a percentage of covered payroll	4.93%	4.81%	4.44%	4.13%

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

	2017	2016	2015	2014
Statutorily or contractually required contributions	1,055,358	865,216	727,640	620,275
Contributions in relation to the statutorily or contractually required contributions	(1,055,358)	(865,216)	(727,640)	(620,275)
Contribution deficiency (excess)	0	0	0	0
Covered payroll	15,353,706	13,874,771	12,917,257	12,418,906
Contributions as a percentage of covered payroll	6.87%	6.24%	5.63%	4.99%

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov