



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Peninsula Regional Transportation Planning Organization

For the period July 1, 2019 through June 30, 2020

Published June 1, 2021

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

June 1, 2021

Executive Board
Peninsula Regional Transportation Planning Organization
Port Townsend, Washington

Report on Financial Statements

Please find attached our report on the Peninsula Regional Transportation Planning Organization's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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*

Peninsula Regional Transportation Planning Organization July 1, 2019 through June 30, 2020

Executive Board
Peninsula Regional Transportation Planning Organization
Port Townsend, 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 Peninsula Regional Transportation Planning Organization, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Council's financial statements, and have issued our report thereon dated May 24, 2021.

We issued an unmodified opinion on the fair presentation of the Council's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Council using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 5 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Council is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 Council's financial statements are free from material misstatement, we performed tests of the Council'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 Council'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 Council'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

May 24, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Peninsula Regional Transportation Planning Organization July 1, 2019 through June 30, 2020

Executive Board
Peninsula Regional Transportation Planning Organization
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Peninsula Regional Transportation Planning Organization, for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Council's 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 the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 Council'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 Council'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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Peninsula Regional Transportation Planning Organization has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Peninsula Regional Transportation Planning Organization, and its changes in cash and investments, for the year ended June 30, 2020, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Council used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Peninsula Regional Transportation Planning Organization, as of June 30, 2020, or the changes in financial position or cash flows thereof for the year then

ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 5 to the 2020 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the Council is unknown. Our opinion is not modified with respect to this matter.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2021 on our consideration of the Council’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 Council’s internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

May 24, 2021

FINANCIAL SECTION

Peninsula Regional Transportation Planning Organization July 1, 2019 through June 30, 2020

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2020
Notes to Financial Statements – 2020

**Peninsula Regional Transportation Planning Organization
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended June 30, 2020**

Beginning Cash and Investments

308	Beginning Cash and Investments	-
388 / 588	Net Adjustments	-

Revenues

320	Licenses and Permits	-
330	Intergovernmental Revenues	93,710
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		93,710

Expenditures

510	General Government	-
540	Transportation	93,710
550	Natural/Economic Environment	-
Total Expenditures:		93,710
Excess (Deficiency) Revenues over Expenditures:		-

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

Other Decreases in Fund Resources

594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		-

Increase (Decrease) in Cash and Investments: -

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	-
50891	Unassigned	-
Total Ending Cash and Investments		-

Peninsula Regional Transportation Planning Organization (PRTPO)

Notes to Financial Statements

For Fiscal Year - July 1, 2019 through June 30, 2020 (MCAG 3232)

Note 1 – Summary of Significant Accounting Policies

The Peninsula Regional Transportation Planning Organization is a regional planning organization created under Chapter 47.80 RCW in 1991 and operates under the laws of the state of Washington applicable to a Regional Transportation Planning Organization. The PRTPO is a special purpose planning organization made from a voluntary association of cities, towns, counties, ports, transit agencies and tribes from the Olympic Peninsula Region of Washington State. The following local governments, tribes and agencies belong to the PRTPO through an Interlocal Agreement:

Clallam County	Clallam Transit
Jefferson County	Jefferson Transit
Kitsap County	Kitsap Transit
Mason County	Mason Transit
City of Bainbridge Island	WSDOT, Olympic Region
Bremerton	Hoh River Tribe
Forks	Jamestown S'Klallam Tribe
Port Angeles	Lower Elwha Klallam Tribe
Port Orchard	Makah Tribe
Port Townsend	Port Gamble S'Klallam Tribe
Poulsbo	Quileute Tribe
Sequim	Squaxin Island Tribe
Shelton	Skokomish Tribe
Port of Allyn	Suquamish Tribe
Port of Bremerton	
Port of Port Angeles	
Port of Shelton	

The PRTPO reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* Manual prescribed by the State Auditor's Office under the authority of Washington State Law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the PRTPO are reported in an individual fund. This fund uses a separate set of self-balancing accounts that comprises its revenue and expenditures. The PRTPO's resources are allocated to and accounted for in an individual fund for the purpose of performing transportation planning and administrative duties. The General fund is reported below.

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the PRTPO also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Note 2 – Budget Compliance

Budgets

The PRTPO adopts biennial appropriated budgets for the general fund based on funds granted through the Washington State Department of Transportation (WSDOT). The budgets are appropriated at the fund level for planning projects. The budget constitutes the legal authority for expenditures on those planning projects. Biennial appropriations for these funds lapse at the fiscal year end. Biennial appropriated budgets are adopted based on the same basis of accounting as used for financial reports.

The appropriated and actual expenditures for the legally adopted budget in the General Fund were as follows:

FY 2020/2021 Biennial Appropriation	FY 2020 Budget	Actual FY 2020 Expenditures (Cash Basis)	4 th Qtr 2020 Expenditures (Late July 2020)	Variance/ Balance	Balance for FY 2021 Budget
\$304,143	\$152,071	\$93,710	\$26,288	\$32,073	\$184,145

Any revisions that alter the expenditures for the planning projects, or alter the total expenditures of the fund must be approved by the PRTPO Executive Board.

Note 3 – Deposits and Investments

PRTPO has an Inter-local Agreement with Jefferson Transit Authority (JTA) to provide Fiscal Agent duties. JTA utilizes the Jefferson County Treasurer for PRTPO deposits. JTA invoices WSDOT for planning services quarterly. PRTPO does not carry a cash balance in the fund as all payments from WSDOT are in turn paid to service providers.

PRTPO's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) and this not subject to custodial credit risk.

Note 4 – Accounting and Reporting Changes

Effective July 1, 2019 the Peninsula Regional Transportation Planning Organization (PRTPO) began operating as an independent transportation planning organization for the first time in 30 years, creating a new financial reporting entity for the state of Washington. In coordination with WSDOT, who previously administered the PRTPO, a framework for regional transportation planning collaboration has been established. Through Inter-local Agreements Kitsap Transit has assumed the duties of Lead Planning Agency, and Jefferson Transit Authority has assumed the duties of Fiscal Agent.

Note 5 – Risk Management

The PRTPO risk exposure is limited to errors and omissions. The PRTPO purchases a policy for Errors and Omission coverage through the Association of Washington Cities –Risk Management Service Agency (AWC-RMSA).

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2019, 100 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA

have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Great American for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2019, AWC RMSA carried a retention of \$200,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

Outline of coverages

	Member deductible	Pool retention or deductible	Coverage limits
General, automobile, and employment practices liability	None*	\$250,000	\$15,000,000
Crime – Employee fidelity	None	\$200,000	\$1,000,000
Cyber liability	None	\$25,000	\$3,000,000

*Optional member-specific deductibles may be selected.

Note 5 – Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

All PRTPO meetings (Executive Committee, Executive Board, and Technical Advisory Committee) are being held as remote meetings utilizing Zoom software. To date, there have been no other financial or operational impacts on the PRTPO.

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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