



Office of the Washington State Auditor  
Pat McCarthy

## Financial Statements Audit Report

# Seattle Southside Regional Tourism Authority

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**For the period January 1, 2021 through December 31, 2021**

*Published October 6, 2022*

Report No. 1031280



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

October 6, 2022

Board of Directors  
Seattle Southside Regional Tourism Authority  
SeaTac, Washington

**Report on Financial Statements**

Please find attached our report on Seattle Southside Regional Tourism Authority's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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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*

### **Seattle Southside Regional Tourism Authority January 1, 2021 through December 31, 2021**

Board of Directors  
Seattle Southside Regional Tourism Authority  
SeaTac, 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 governmental activities and each major fund of Seattle Southside Regional Tourism Authority, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 28, 2022.

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

Our consideration of internal control was for the limited purpose described above 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 or significant deficiencies may exist that were not identified.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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, appearing to read "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

September 28, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Seattle Southside Regional Tourism Authority January 1, 2021 through December 31, 2021**

Board of Directors  
Seattle Southside Regional Tourism Authority  
SeaTac, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinions**

We have audited the accompanying financial statements of the governmental activities and each major fund of Seattle Southside Regional Tourism Authority, a component unit of the City of SeaTac, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Seattle Southside Regional Tourism Authority, as of December 31, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management 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, and

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time; and

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **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 in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 September 28, 2022 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 the effectiveness of the Authority's 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.



Pat McCarthy, State Auditor

Olympia, WA

September 28, 2022



## **FINANCIAL SECTION**

### **Seattle Southside Regional Tourism Authority January 1, 2021 through December 31, 2021**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2021

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet – Governmental Fund – 2021

Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position –  
2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
to the Statement of Activities – 2021

Notes to Financial Statements – 2021

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
– General Fund – 2021

Schedule of the RTA's Proportionate Share of Net Pension Liability – WA DRS PERS 1,  
WA DRS PERS 2&3 – 2021

Schedule of Employer Contributions – WA DRS PERS 1, WA DRS PERS 2/3 – 2021

## Management's Discussion & Analysis For the Year Ended December 31, 2021

### INTRODUCTION

Seattle Southside Regional Tourism Authority's (RTA) Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the RTA's financial activities for the fiscal year ended December 31, 2021. This discussion and analysis is designed to assist the readers in focusing on significant financial issues and activities, changes in financial position, and economic factors affecting RTA. This information should be read in conjunction with the transmittal letter, which can be found on pages 8-15 of this report.

The RTA is a component unit of the City of SeaTac and its financial information is discretely presented in the City's financial statements.

### FINANCIAL HIGHLIGHTS

- RTA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources (*net position*) at the close of 2021 by \$5,154,032, which represents an increase of \$668,604 or 14.9% over the prior fiscal year. The RTA's net position included an unrestricted balance of \$4,910,007.
- As of the close of the fiscal year 2021, RTA's governmental fund reported an ending fund balance of \$5,098,457, which is an increase of \$444,477 in comparison with the prior fiscal year. Of this amount, \$4,685,708, or 91.9%, is available for spending at the management's discretion (*unassigned fund balance*).
- At the end of the fiscal year 2021, RTA's unrestricted fund balance (the total of *committed*, *assigned*, and *unassigned* components of fund balance) for the general fund was \$5,083,582, or 162.6% of total fund expenditures for the fiscal year 2021.
- RTA's Tourism Promotion Area (TPA) lodging assessments revenue, which is the primary funding source for the RTA, increased by \$951,967 over the prior fiscal year. Total TPA revenue for 2021 was \$3,019,987.
- On October 13, 2020, the RTA officially signed the contract agreement with King County, under which the County provided the RTA with \$2,000,000 to be used to reimburse necessary expenditures incurred due to the COVID-19 emergency during the period of March 1, 2020 through December 30, 2020. The funding was under the CARES Act for the King County Tourism Support program. Most of the funds were expended in 2020 with a \$175,933 carried over into 2021.

Explanations for the changes in 2021 follow in the financial analysis section beginning on page 25 of this report.

### OVERVIEW OF THE FINANCIAL STATEMENTS

RTA's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to the financial statements. The comprehensive annual financial report also contains supplementary information in addition to the basic financial statements.

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## Government-Wide Financial Statements

The government-wide financial statements are designed to provide the readers with an overview of the RTA's financial condition and activities as a whole. This broad overview is similar to the financial reporting for a private-sector business. The RTA's government-wide financial statements are comprised of a single category - governmental activities, reporting only one type of function which is Tourism, categorized functionally as "Natural and Economic Environment."

The Statement of Net Position presents information on the difference between the RTA's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference reported as net position. The Statement of Net Position is like the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of improvement or deterioration in the RTA's overall financial position.

The Statement of Activities was designed to show how the RTA's net position changed during the fiscal year. Similar to the Statement of Net Position, this financial statement includes only governmental activities. Revenues in the areas of charges for services, operating grants, and capital grants are matched to the proper program. The revenues generated by the program are then compared to the expenses for the program. The end-result is the net expense or net revenue for that program. The net expense or net revenue shows if the program is self-supporting or if the program relies on general revenues.

All activity on the Statement of Activities is reported on the accrual basis of accounting. This means that revenues are reported when they are earned, and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items like unused vacation leave are included in the Statement of Activities as an expense even though no cash has changed hands.

The government-wide financial statements can be found on pages 31-32 of this report.

## Fund Financial Statements

The RTA's annual financial report also includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the RTA's finances based on the type of activity (governmental only for the RTA), the fund financial statements are presented in columns by major fund. For the RTA, there is only one fund, the General Fund, and General Funds are always considered to be a major fund. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities and in the case of the RTA that activity is tourism.

Governmental funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, the basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near term revenues and expenditures, while the government-wide financial statements include both near term and long-term revenues and expenses. The information in the governmental fund statements can be used to evaluate the RTA's near-term funding requirements and fiscal health. Comparing the governmental fund statements with the government-wide statements can assist the reader in understanding the long-term impact of the RTA's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide statements are included in the Reconciliation of the Governmental Fund

Balance to the Net Position of the Governmental Activities and in the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

In 2021, the RTA maintained budgetary control over its operating fund through the adoption of an annual budget. Budgets are adopted at the fund level under Washington State law. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 33-36 of this report.

#### Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for the reader to obtain a full understanding of the data presented in the government-wide and fund financial statements. The notes can be found on pages 37-57 of this report.

#### Other Information

This report also contains *Required Supplementary Information (RSI)* regarding RTA's proportionate share of the net pension liability and RTA's contributions to the employees' pension plan. The RSI also includes RTA's budgetary comparison schedule for the General Fund. Required supplementary information can be found immediately after the notes to the financial statements on pages 60-62.

### **GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS**

#### Statement of Net Position

Measuring net position is one way to gauge the RTA's financial condition. The table below is a condensed version of the RTA's Statement of Net Position:

## Seattle Southside Regional Tourism Authority

### Statement of Net Position

| Assets:                               | 2021         | 2020         |
|---------------------------------------|--------------|--------------|
| Current & other assets                | \$ 5,962,932 | \$ 4,769,033 |
| Capital assets, net                   | 95,332       | 154,652      |
| Total Assets                          | 6,058,264    | 4,923,685    |
| <b>Deferred Outflow of Resources:</b> |              |              |
| Pensions                              | 167,582      | 217,029      |
| Total Deferred Outflows of Resources  | 167,582      | 217,029      |
| <b>Liabilities:</b>                   |              |              |
| Long-term liabilities                 | 90,410       | 381,290      |
| Other liabilities                     | 150,330      | 122,856      |
| Total Liabilities                     | 240,740      | 504,146      |
| <b>Deferred Inflow of Resources:</b>  |              |              |
| Pensions                              | 831,074      | 151,140      |
| Total Deferred Inflows of Resources   | 831,074      | 151,140      |
| <b>Net Position:</b>                  |              |              |
| Investment in capital assets          | 95,332       | 154,652      |
| Restricted                            | 148,693      | -            |
| Unrestricted                          | 4,910,007    | 4,330,776    |
| Total Net Position                    | \$ 5,154,032 | \$ 4,485,428 |

The RTA's assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$5.15 million. The majority, 95.3%, of total net position is unrestricted while only 1.8% reflects the RTA's investment in capital assets and 2.9% reflects restricted net position. Net investment in capital assets in 2021 decreased mainly because of an increase in accumulated depreciation for the year. The unrestricted net position of \$4.91 million is available for ongoing tourism operations and activities of the RTA.

The RTA's overall net position increased \$668,604 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities.

#### Changes in Net Position

On the government-wide Statement of Activities, changes in net position shows the net change or the difference between the total revenue activities and the total expense activities that took place during the current reporting period.

The table below represents a condensed version of the RTA's Statement of Activities. The table designates revenues as either program revenues or as general revenues. Program revenues are revenues generated by a specific function. Expenses are listed by program or a specific function.

## Seattle Southside Regional Tourism Authority

### Statement of Activities

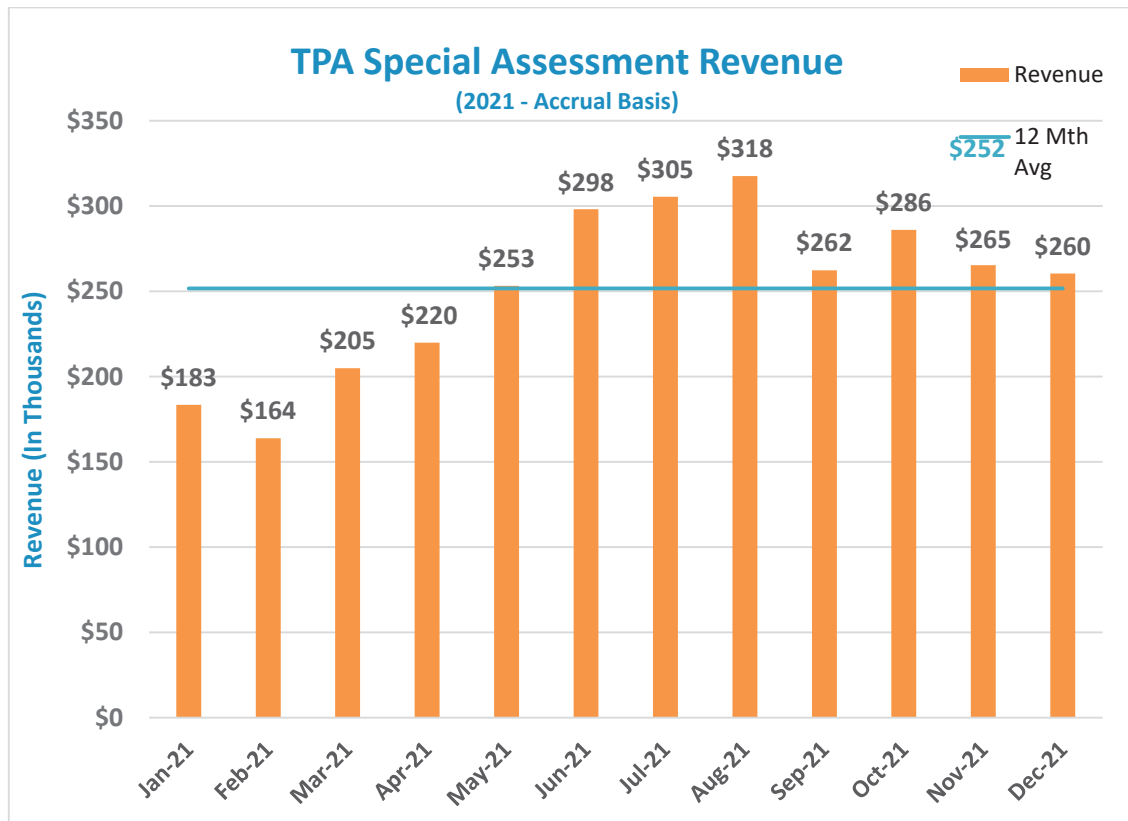
| Revenue:                            | 2021         | 2020         |
|-------------------------------------|--------------|--------------|
| Program Revenues:                   |              |              |
| Charges for services                | \$ 2,969,362 | \$ 2,093,553 |
| Operating grants & contributions    | 566,081      | 2,864,800    |
| General Revenues:                   |              |              |
| Investment earnings                 | (15,007)     | 24,425       |
| Total Revenues                      | \$ 3,520,436 | \$ 4,982,778 |
| Expenses:                           |              |              |
| Natural & Economic Environment      | 2,851,832    | 4,744,282    |
| Total Expenses                      | 2,851,832    | 4,744,282    |
| Increase (Decrease) in Net Position | 668,604      | 238,497      |
| Net Position-Beginning              | 4,485,428    | 4,246,931    |
| Net Position-Ending                 | \$ 5,154,032 | \$ 4,485,428 |

During the 2021 fiscal year, net position for governmental activities increased by \$668,604 or 14.9% over the prior fiscal year. Total government-wide revenues decreased by \$1,462,342 or 29.3% and total expenses decreased by \$1,892,450 or 39.9% compared to 2020.

Total 2021 operating grants and contributions revenues decreased by \$2.30M or 80.2%, primarily due to \$1,824,067 funding received from King County Coronavirus Relief Fund (CRF) for tourism recovery program in 2020 that was a one time source of revenue due to COVID-19. This funding was fully offset by reimbursable eligible expenditures in support of tourism campaigns outlined in the King County Council-approved Tourism Recovery Plan.

\$175,933 funding received from King County Coronavirus Relief Fund (CRF) for tourism recovery program in 2021. This funding was fully offset by reimbursable eligible expenditures in support of tourism campaigns outlined in the King County Council-approved Tourism Recovery Plan.

The most significant revenue component of governmental activities is the TPA lodging assessments. In 2021, TPA assessment revenues totaled \$3,019,987. As shown in the chart below, TPA averaged \$252 thousand in 2021. August was the highest month at \$318 thousand and February was the lowest month at \$164 thousand. Total TPA special assessment revenues increased by \$951,967 or 46.0% over 2020 caused by an increase in travel and increases in hotel bookings recovering from the COVID-19 pandemic beginning in March 2020.



## **ANALYSIS OF BALANCES AND TRANSACTIONS OF GOVERNMENTAL FUND**

As noted earlier, the RTA's only fund is the General Fund. As of December 31, 2021, the General Fund reported an ending fund balance of \$5,098,457, which is 142.8% of total revenues, an indication of the stability of fund balance. The RTA had \$4,685,708 or 91.9% in unassigned fund balance, which is available for spending at the discretion of the Chief Executive Officer with the Board's approval. The remainder of the fund balance is not available for new spending because \$217,979 is assigned for economic downturn and recession reserve, \$179,895 is committed for capital asset replacement reserve, and \$14,875 is non-spendable for inventory and a security deposit for the lease of the building.

The RTA's General Fund balance increased by \$444,477 or 9.6%. The primary reasons for the increase mirror the analysis of the Statement of Activities highlighted on page 26.

## **CAPITAL ASSETS & LONG-TERM DEBT**

### Capital Assets

In 2021, no new capital assets were purchased by the RTA. The RTA ended the year with \$95,332 (net) in capital assets as shown in the table below. No additional capital expenditure commitments have been made.

Additional information on capital assets is presented in *Note 1 – Summary of Significant Accounting Policies, Section F – Assets, Liabilities, Fund Balance & Net Position, Item 4 - Capital Assets (1.G.5)*.

### Seattle Southside Regional Tourism Authority's

#### Capital Assets

| Capital Assets:                                   | 2021      | 2020       |
|---|-----------|------------|
| Intangibles - Trademarks ( <i>Not Amortized</i> ) | \$ 9,947  | \$ 9,947   |
| Intangibles - Digital Images (Usage Rights)       | 81,711    | 81,711     |
| Intangibles - Software                            | 203,750   | 203,750    |
| Equipment   | 45,991    | 45,991     |
| Furniture   | 63,774    | 63,774     |
| Vehicle   | 42,765    | 42,765     |
| Less: Accumulated Depreciation/Amortization       | (352,606) | (293,286)  |
| Total Capital Assets (Net)                        | \$ 95,332 | \$ 154,652 |

#### Long-Term Debt

Other than long-term liabilities like pension obligations, compensated absences and a building lease, the RTA has no outstanding long-term debt. In addition, the RTA does not have the power to issue negotiable bonds or notes per City of SeaTac Ordinance No. 14-1014 which authorized the creation of the RTA as a public corporation. In order to issue debt, a formal amendment to this Ordinance would be required which would be allowed by RCW 35.21.745. Additional information on long-term debt is presented in *Note 6 – Long-Term Debt & Changes in Long-Term Liabilities*.

### BUDGET VARIATIONS

The table below compares the RTA's General Fund budgetary results for the two full years of operation:

|                | 2021<br>Original | 2021<br>Final  | 2020<br>Original | 2020<br>Final  |
|----------------|------------------|----------------|------------------|----------------|
| <b>Budget:</b> |                  |                |                  |                |
| Revenues       | \$ 3,059,130     | \$ 2,241,623   | \$ 5,105,500     | \$ 5,032,560   |
| Expenditures   | \$ (3,782,000)   | \$ (3,529,493) | \$ (5,105,500)   | \$ (5,641,500) |
| Difference     | \$ (722,870)     | \$ (1,287,870) | \$ -             | \$ (608,940)   |
| <b>Actual:</b> |                  |                |                  |                |
| Revenues       | N/A              | \$ 3,571,061   | N/A              | \$ 4,982,779   |
| Expenditures   | N/A              | \$ (3,126,584) | N/A              | \$ (4,700,962) |
| Difference     | N/A              | \$ 444,477     | N/A              | \$ 281,817     |

Actual 2021 revenues were higher compared to budget with an overall \$1,329,438 or 59.31% increase.

Actual 2021 expenditures were 11.42% less than the amended budget driven by conservative approach to spending due to due to uncertainty of travel and travel restrictions caused by the COVID-19 pandemic.



## **ECONOMIC FACTORS & NEXT YEAR'S BUDGET**

COVID-19 pandemic has had a devastating impact on all tourism metrics including hotels, venues, restaurants, arts and cultural institutions, attractions, tasting rooms, and sporting events. Travel restrictions were put in place on March 23, 2020 and some of those restrictions were still in place throughout 2021.

According to the Smith Travel Research, the year-end results for the three key revenue metrics in the Seattle Southside RTA area in 2021: Room Occupancy is 57.4%, *which is 17.8% higher than year 2020*; Average Daily Rate (or Average Room Rate) is \$94.03, *which is -0.8% lower than year 2020*; and Revenue per Available Room is \$53.97, *which is 16.8% higher than year 2020*.

### **2022 Budget**

Impacts of COVID-19 are still ongoing and restrictions on meetings and gatherings still existed as of September 2021.

The RTA's 2022 budget was approved and adopted by the Board of Directors on September 16, 2021. The 2022 budget process primarily based on increased TPA lodging assessment revenue (budgeted at 93% of 2019 TPA revenue) and incremental recovery spending, which resulted to an ending fund balance of \$4,662,444.

## **REQUESTS FOR INFORMATION**

This financial report was designed to provide a general overview of the RTA's finances for interested readers. Questions regarding any of the information in this report, or requests for additional information should be addressed to the Seattle Southside Regional Tourism Authority, Attention: Comptroller, 3100 S 176<sup>th</sup> Street, Suite 200, Seattle, Washington 98188.

# Statement of Net Position

As of December 31, 2021

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Assets</b>  |                            |
| Cash & cash equivalents                                  | \$ 2,281,976               |
| Investments  | 2,372,977                  |
| Receivables (net)  |                            |
| Accounts   | 23,279                     |
| Due from other governments                               | 520,612                    |
| Inventory  | 4,875                      |
| Contract receivable - security deposit                   | 10,000                     |
| Net pension asset  | 749,213                    |
| Capital assets not being depreciated:                    |                            |
| Trademarks - Intangible assets                           | 9,947                      |
| Capital assets (net of accum depreciation/amortization): |                            |
| Furniture  | 27,981                     |
| Equipment  | 10,277                     |
| Vehicles   | 25,391                     |
| Intangible assets (Software & Digital Images)            | 21,736                     |
| <b>Total Assets</b>                                      | <b>6,058,264</b>           |
| <b>Deferred Outflow of Resources</b>                     |                            |
| Pension related  | 167,582                    |
| <b>Total Deferred Outflow of Resources</b>               | <b>167,582</b>             |
| <b>Liabilities</b>                                       |                            |
| Accrued wages & benefits                                 | 81,989                     |
| Accounts payable & accrued expenses                      | 33,273                     |
| Noncurrent Liabilities (Note 6):                         |                            |
| Due within one year                                      |                            |
| Compensated absences                                     | 35,068                     |
| Due in more than one year                                |                            |
| Compensated absences                                     | 18,882                     |
| Net pension liability                                    | 71,528                     |
| <b>Total Liabilities</b>                                 | <b>240,740</b>             |
| <b>Deferred Inflow of Resources</b>                      |                            |
| Pension related  | 831,074                    |
| <b>Total Deferred Inflow of Resources</b>                | <b>831,074</b>             |
| <b>Net Position</b>                                      |                            |
| Investment in capital assets                             | 95,332                     |
| Restricted for pensions                                  | 148,693                    |
| Unrestricted   | 4,910,007                  |
| <b>Total Net Position</b>                                | <b>\$ 5,154,032</b>        |

The notes to the financial statements are an integral part of this statement.

Statement of Activities  
For the Year Ended December 31, 2021

| Functions/Programs             | Program Revenues    |                         |  | Net (Expense)<br>Revenue &<br>Changes in Net<br>Position |
|--------------------------------|---------------------|-------------------------|--|--|
|                                | Expenses            | Charges for<br>Services | Operating<br>Grants &<br>Contributions | Governmental<br>Activities                               |
|                                |                     |                         |  |  |
| Governmental Activities:       |                     |                         |  |  |
| Current                        |                     |                         |  |  |
| Natural & Economic Environment | \$ 2,851,832        | \$ 2,969,362            | \$ 566,081                             | \$ 683,611   |
| Total Governmental Activities  | <u>\$ 2,851,832</u> | <u>\$ 2,969,362</u>     | <u>\$ 566,081</u>                      | <u>\$ 683,611</u>  |
| General Revenues               |                     |                         |  |  |
|                                |                     |                         |  | Investment earnings                                      |
|                                |                     |                         |  | <u>(15,007)</u>  |
|                                |                     |                         |  | Total General Revenues                                   |
|                                |                     |                         |  | <u>(15,007)</u>  |
|                                |                     |                         |  | Change in Net Position                                   |
|                                |                     |                         |  | <u>668,604</u>   |
|                                |                     |                         |  | Net Position - Beginning                                 |
|                                |                     |                         |  | <u>4,485,428</u>   |
|                                |                     |                         |  | Net Position - Ending                                    |
|                                |                     |                         |  | <u>\$ 5,154,032</u>                                      |

The notes to the financial statements are an integral part of this statement.

Balance Sheet  
Governmental Fund  
As of December 31, 2021

| Assets                                  | General Fund               |
|---|----------------------------|
| Cash & cash equivalents                 | \$ 2,281,976               |
| Investments                             | 2,372,977                  |
| Receivables (net):                      |                            |
| Accounts                                | 23,279                     |
| Due from other governments              | 520,612                    |
| Inventory                               | 4,875                      |
| Contract receivable - security deposit  | 10,000                     |
| <b>Total Assets</b>                     | <b><u>5,213,719</u></b>    |
| <br>                                    |                            |
| Liabilities                             |                            |
| Accrued wages & benefits                | 81,989                     |
| Accounts payable & accrued expenditures | 33,273                     |
| <b>Total Liabilities</b>                | <b><u>115,262</u></b>      |
| <br>                                    |                            |
| Fund Balances                           |                            |
| Nonspendable:                           |                            |
| Inventory                               | 4,875                      |
| Noncurrent receivable                   | 10,000                     |
| Committed:                              |                            |
| Capital asset replacement reserve       | 179,895                    |
| Assigned:                               |                            |
| Economic downturn/recession reserve     | 217,979                    |
| Unassigned                              | 4,685,708                  |
| <b>Total Fund Balances</b>              | <b><u>\$ 5,098,457</u></b> |

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Fund  
Balance Sheet to the Statement of Net Position  
As of December 31, 2021

|  |    |           |
|--|----|-----------|
| Total fund balance - governmental fund | \$ | 5,098,457 |
|--|----|-----------|

Amounts reported in governmental activities in the Statement of Net Position are different due to the following transactions:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund.

These capital assets consist of:

|   |                  |        |
|---|------------------|--------|
| Intangibles - Trademarks (not amortized)    | 9,947            |        |
| Intangibles - Software                      | 203,750          |        |
| Intangibles - Digital Images                | 81,711           |        |
| Furniture                                   | 63,774           |        |
| Equipment                                   | 45,991           |        |
| Vehicle                                     | 42,765           |        |
| Less: Accumulated depreciation/amortization | <u>(352,606)</u> | 95,332 |

Long-term assets related to governmental activities that are not reported in the governmental fund.

|                   |                |         |
|-------------------|----------------|---------|
| Net pension asset | <u>749,213</u> | 749,213 |
|-------------------|----------------|---------|

Deferred outflows and inflows of resources related to pensions are not reported in the governmental fund.

|                            |                  |           |
|----------------------------|------------------|-----------|
| Deferred outflows-pensions | 167,582          |           |
| Deferred inflows-pensions  | <u>(831,074)</u> | (663,492) |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund as follows:

|                              |                 |           |
|------------------------------|-----------------|-----------|
| Compensated absences payable | (53,950)        |           |
| Net pension liability        | <u>(71,528)</u> | (125,478) |

|   |    |                  |
|---|----|------------------|
| Net position of governmental activities                     | \$ | <u>5,154,032</u> |
| (as shown on the Government-wide Statement of Net Position) |    |                  |

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Fund  
For the Year Ended December 31, 2021

|   | <u>General Fund</u>        |
|---|----------------------------|
| <b>Revenues</b>   |                            |
| Intergovernmental   | \$ 318,288                 |
| Special assessments                                       | 3,019,987                  |
| Investment earnings                                       | (15,007)                   |
| Miscellaneous   | 247,793                    |
| <b>Total Revenues</b>                                     | <u>3,571,061</u>           |
| <b>Expenditures</b>                                       |                            |
| Natural & Economic Environment                            | <u>3,126,584</u>           |
| <b>Total Expenditures</b>                                 | <u>3,126,584</u>           |
| Excess (deficiency) of revenues over (under) expenditures | 444,477                    |
| <b>Fund Balance - Beginning</b>                           | <u>4,653,980</u>           |
| <b>Fund Balance - Ending</b>                              | <u><u>\$ 5,098,457</u></u> |

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance to the Statement of Activities  
For the Year Ended December 31, 2021

|  |    |         |
|--|----|---------|
| Net change in fund balance for the governmental fund | \$ | 444,477 |
|--|----|---------|

Amounts reported for governmental activities in the Statement of Activities are different due to the following adjustments:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of those assets are allocated over their useful lives and reported as depreciation/amortization expense. In the current period, the amounts are:

|                                   |                 |          |
|-----------------------------------|-----------------|----------|
| Depreciation/amortization expense | <u>(59,320)</u> | (59,320) |
|-----------------------------------|-----------------|----------|

Some revenues will not be collected within the availability period after year-end. Therefore, they are not considered "available" and are not reported as revenues in governmental fund.

|   |                 |          |
|---|-----------------|----------|
| Deferred Inflows of Resources-Unavailable Revenue | <u>(50,625)</u> | (50,625) |
|---|-----------------|----------|

Some expenditures reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

These expenditures consist of:

|                                    |               |                |
|------------------------------------|---------------|----------------|
| Pension expense                    | 304,538       |                |
| Net change in compensated absences | <u>29,534</u> | <u>334,072</u> |

|   |    |                       |
|---|----|-----------------------|
| Change in net position of governmental activities (as shown on the Government-wide Statement of Net Activities) | \$ | <u><u>668,604</u></u> |
|---|----|-----------------------|

The notes to the financial statements are an integral part of this statement.

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## Notes to Financial Statements

### December 31, 2021

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Seattle Southside Regional Tourism Authority (RTA) 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. Organization

In May 2014, under the Washington state's Tourism Promotion Area (TPA) Act (RCW 35.101) and the Interlocal Cooperation Act (RCW 39.34), the cities of SeaTac, Tukwila, and Des Moines (all located in King County) entered into an Interlocal Agreement for the joint establishment of a Tourism Promotion Area (TPA). The Interlocal Agreement established the purpose of the TPA to include receiving special assessment and lodging tax revenues, managing and operating the TPA, serving as a destination marketing organization, and providing tourism promotion services. On October 14, 2014, Seattle Southside Regional Tourism Authority ("RTA") was chartered as a public development authority by City of SeaTac Ordinance No. 14-1014. This Ordinance authorized the creation of the RTA as a public corporation and a separate legal entity pursuant to RCW 35.21.730(5).

On January 13, 2015, the City Council of the City of SeaTac passed Resolution No. 15-001 appointing the initial Board of Directors for the RTA, formally commencing the existence of the RTA. The first Board of Director's meeting was held January 16, 2015 with the initial Board Officers being selected by the RTA Board Members.

##### B. Reporting Entity

For financial reporting purposes, in conformance with GAAP, the RTA is considered a discretely presented component unit of the City of SeaTac. Although the RTA is an independent legal entity responsible for its own debts, obligations and liabilities, the City of SeaTac, as the Legislative Authority for the Tourism Promotion Area has the responsibility for approving the RTA's Annual Budget and confirming the appointments of RTA Board Members as recommended for appointment by current RTA Board Members.

##### C. Basis of Presentation - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes, intergovernmental revenues, nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. The RTA has no business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or a segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or a segment. The RTA has only one function/program, Tourism, which has been classified as "Natural and Economic Environment" for reporting purposes. On the Statement of Activities, program revenues include the following: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting



the operational and capital requirements of a specific function or segment. Taxes, interest, and other items not properly included among program revenues are reported instead as general revenues. As in the case of the RTA, its Tourism Promotion Area (TPA) special assessments revenues are classified as imposed “non-exchange” transaction, and therefore reported as program revenues. The State mandates that TPA special assessments be spent exclusively for tourism purposes.

Separate fund financial statements have been provided for the RTA’s only governmental fund, a General Fund. The General Fund is an operating fund that accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. The RTA’s fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance.

The principal revenues of the RTA are TPA special assessments imposed on lodging units in the amount of \$2.00 per occupied room per day for lodging businesses that are either hotel, motel, or bed and breakfast facilities, with 90 or more lodging units located in the cities of SeaTac, Tukwila, and Des Moines. In addition, the RTA continues to apply for lodging taxes through each partner city’s Hotel/Motel Advisory Committee or Lodging Tax Committee. Interlocal Agreements with the three cities transfer city lodging taxes to the RTA to use for tourism promotion services pursuant to Chapter 67.28 RCW. The RTA also sells advertising insertion orders for placement in various RTA publications or on the website and receives commissions on the sale of tickets for tourism related attractions, both of which are recognized as program revenue. Lastly, Interest earnings have been reported as general RTA revenue. Expenditures for the RTA include salaries and benefits, supplies, services, and capital outlay for furniture, equipment, and intangible assets.

D. Measurement Focus, Basis of Accounting

1. Government-Wide

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the RTA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under modified accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, judgments, and other post-employment benefits, are recorded only when a payment is due. General capital acquisitions are reported as expenditures in governmental funds. Acquisitions under capital leases are reported as other financing sources.

TPA special assessments, intergovernmental revenues in form of lodging taxes, and interest associated with the current fiscal period are considered susceptible to accrual and so have been recognized as

revenues of the current fiscal period. Other revenue items are considered measurable and available only when cash is received by the RTA.

E. Revenue Recognition

TPA special assessments are earned two months prior to being remitted by the State's Department of Revenue through the State Treasurer's Office. As such, there is a receivable and related accrued revenue in the amount of \$520,612 from TPA special assessments earned during November and December 2021 that were not collected until January and February 2022.

F. Budgetary Information

1. Scope of the Budget

The RTA's 2021 Annual Budget was prepared on the modified accrual basis of accounting and included amounts for current year operating revenues and expenditures. The Board of Directors approved the RTA's structurally balanced operating budget with a \$3,782,000 expenditure appropriation, through the passage of Resolution #2020-004 on September 17, 2020.

2. Amending the Budget

The President/CEO is authorized to transfer budgeted amounts between departments and object classes within departments.

Required Supplementary Information includes a budget schedule that contains the RTA's original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by any legally authorized Board approved changes during the year.

3. Excess of Expenditures over Appropriations

In 2021, expenditures did not exceed appropriations in the RTA's General Fund.

G. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

For purposes of the financial statements, the RTA considers cash and cash equivalents to include cash on hand, demand deposits, and amounts invested in the Washington State Local Government Investment Pool (LGIP).

The demand deposits are 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 (PDPC) per RCW Chapter 39.58.

The LGIP is managed and operated by the Washington State Treasurer's Office. Investments in the LGIP are valued at amortized cost. All interest from investments is credited to the RTA's only fund, a General Fund.

As of December 31, 2021, the RTA's cash and cash equivalents were as follows:

|  |                    |
|--|--------------------|
| U.S. Bank, Checking Account .....                      | \$429,140          |
| WA State Local Government Investment Pool (LGIP) ..... | <u>1,852,836</u>   |
| Total Cash & Cash Equivalents                          | <u>\$2,281,976</u> |

2. Investments

Investments with a maturity greater than one year when purchased are stated at fair value. On November 13, 2020, the Board adopted the RTA's investment policy to formalize its investment-related activities. The RTA purchased an investment with a maturity greater than one year and is stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year-end.

3. Receivables & Amounts Due from Other Governments

The RTA's receivables consist of revenues due from other governments and a long-term security deposit receivable. The security deposit being held is from the RTA's operating lease for office space. The due from other governments receivable is for two months of special assessments earned in 2021 which were due to the RTA from the State and lodging taxes due from the three cities included in the TPA. Receivables that are not collected within 60 days of year-end are reported as unavailable revenues in the deferred inflows section of the fund financial statements.

4. Inventories

The RTA holds in inventory a small quantity of Sound Transit rail tickets for sale to area visitors. The tickets are sold as a convenience to area visitors at cost. The first-in first-out (FIFO) method is used to value the cost of RTA ticket inventory. All other RTA inventory consists of expendable supplies held for consumption and are recorded as an expenditure when purchased. The amount of these supplies is considered immaterial.

5. Capital Assets

Capital assets are reported in the governmental activities column in the government-wide Statement of Net Position. Non-depreciable capital assets include trademarks. Depreciable assets include furniture and equipment, and amortizable intangible assets include software. Capital assets are generally defined as an asset with an initial cost of more than \$5,000 and an estimated useful life greater than four years. Such assets are recorded at historical cost when purchased. Donated capital assets are recorded at the acquisition value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Costs for normal maintenance and repairs are not capitalized.

The following table summarizes asset capitalization thresholds and service life:

| Capital Asset Classes          | Capitalization Threshold | Estimated Service Life |
|--------------------------------|--------------------------|------------------------|
| Trademarks - Intangible Assets | None                     | Indefinite Life        |
| Intangible Assets              | \$5,000                  | 4 Years                |
| Equipment                      | \$5,000                  | 5 Years                |
| Vehicle                        | \$5,000                  | 8 years                |
| Furniture                      | \$5,000                  | 10 Years               |

6. Compensated Absences

Vacation

The RTA's policy allows employees to accumulate unused vacation benefits. Employees accrue in the range of 12 days (96 hours) to 24 days (192 hours) per year, depending on the employee's length of service. The maximum vacation accrual is equal to two times an employee's annual yearly vacation accrual amount. An employee separating from the RTA will be paid for all unused vacation provided a two-week notice period has been given to the RTA. The governmental funds record expenditures for compensated absences as they mature. Compensated absences are accrued when earned in the government-wide statements.

Sick Leave

RTA employees accrue 12 days (96 hours) of sick leave per year with a maximum accrual of 480 hours. Except for the President/CEO, outstanding sick leave cannot be cashed out upon separation.

7. Pensions (See Note 4 - 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 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. For purposes of calculating the restricted net position related to the net pension asset, RTA includes the net pension asset and the related deferred outflows and deferred inflows.

8. Other Accrued Liabilities

These accounts consist of accrued wages, employee benefits, and other expenses.

9. Long-Term Debt (See Note 6 - Long-Term Debt & Changes in Long-Term Liabilities)

#### 10. Fund Balance Classifications

Fund balance in governmental funds represent the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, states that governmental funds should report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the RTA is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. Governments, such as the RTA, that do not have policies or procedures in all classifications comparable to

the GASB Statement No. 54 policies that underlie the classifications, would not report such amounts in all possible fund balance classifications and would follow GASB Statement No. 54 guidelines for unrestricted funds to be used in the order of committed, assigned and then unassigned.

In 2017, the RTA Board passed Resolution #2017-008 which established a capital asset replacement reserve designating the reserve, based on audited accumulated depreciation expenses plus a 2.1% CPI increase, as committed fund balance in the RTA's General Fund governmental fund balance sheet.

The RTA's flow assumption or order of spending within unrestricted fund balance would first be committed for qualifying purchases and if the committed fund balance is exceeded, assigned fund balance would then be utilized. Currently, the RTA only has a 2021 excess budget appropriation designated as assigned. Unassigned fund balance would be used last.

The following are the fund balance classifications as defined by GASB Statement No. 54:

Nonspendable: Amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. Not in spendable form includes items that are not expected to be converted to cash like inventories and prepaid amounts. It may also include long-term amounts of loans and notes receivable. RTA nonspendable items include inventory, prepayments, and a noncurrent deposit receivable for office space.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (passage of a resolution) to establish (and to modify or to rescind) the commitments of the RTA's highest level of decision-making authority which is the RTA Board of Directors. The RTA currently has one authorized commitment which is a capital asset replacement reserve established by Resolution #2017-008.

Assigned: Amounts that are restrained by the RTA's intent to be used for a specific purpose, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by the governing body (the RTA Board), or a body or official to which the governing body has delegated the authority to assign amounts to, be used for specific purposes. Assigned fund balance includes amounts in the General Fund that are intended to be used for a specific purpose. Although the RTA has no written policy or procedure on assigning fund balance and the authority to make assignments has not been delegated to anyone, the RTA Board adopted the 2021 Annual Budget utilizing reserves to fund an excess of expenditures over budget requiring this amount to be classified as assigned.

Unassigned: Residual classification to the General Fund. This classification represents fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

#### 11. Minimum Reserves

On September 15, 2016, the RTA Board passed Resolution No. 2016-036 establishing a minimum net position reserve to be calculated with the RTA annual budget. The resolution sets aside a two-month operating expenditure (excludes capital) contingency reserve to be maintained to mitigate potential future risks and to provide operational stability.

#### H. Other

##### 1. Stabilization Arrangements

On September 15, 2016, the RTA Board passed Resolution No. 2016-036 establishing a budgetary Economic Downturn/Recession Reserve of 11% of TPA special assessments to be used as necessary during an economic downturn or recession. When spent, this reserve will be replenished within one to three years following the end of the economic downturn or recession. This reserve is appropriated annually by the RTA Board but remains unspent until an economic downturn or recession occurs.

## **NOTE 2 – INVESTMENTS**

Washington state law allows agencies to invest its surplus funds in U.S. Treasuries and Agency securities, certificates of deposits, commercial paper, bankers' acceptances, and repurchase agreements secured by eligible securities.

The RTA is a participant in the Local Government Investment Pool (LGIP) as authorized by Chapter 294, Laws of 1986. The State Finance Committee is the administrator of the statute that created the Pool and adopts the rules. The State Treasurer is responsible for establishing the investment policy for the Pool and reviews the policy manual annually. Proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The Pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB) bonds are rated Aaa by Moody's and AA+ by Standard and Poors.

The RTA measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1:** Quoted prices in active markets for identical assets;
- Level 2:** Significant other observable inputs; and
- Level 3:** Significant unobservable inputs.

As of December 31, 2021, the RTA held the following investment balances at fair values:

| Type of Investments  | Valuation Measurement Method | Fair Value   | Maturity   |
|--|------------------------------|--------------|------------|
| WA State Local Government Investment Pool (LGIP) *           | N/A                          | \$ 1,852,836 | N/A        |
| U.S. Treasury Note   | Fair Value Level 2           | 496,563      | 6/30/2023  |
| U.S. Treasury Note   | Fair Value Level 2           | 985,820      | 9/15/2024  |
| U.S. Government Agency Securities - Federal Farm Credit Bank | Fair Value Level 2           | 496,030      | 4/5/2024   |
| U.S. Government Agency Securities - Federal Home Loan Bank   | Fair Value Level 2           | 394,564      | 12/22/2023 |

\* LGIP included with Cash & Cash Equivalent on the Basic Financial Statements.

#### Interest Rate Risk

In accordance with the RTA's investment policy, the RTA manages its exposure to declines in fair values by limiting the maximum maturity length of investments to three years.

#### Custodial Credit Risk

The RTA's investment policy requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the RTA's agent separate from where the investment was purchased or by the trust department of the bank where purchased, in the RTA's name.

#### Concentration of Credit Risk

It is the policy of the RTA to diversify its investment portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific class of securities.

### **NOTE 3 – SIGNIFICANT COMMITMENTS**

In December 2015, the RTA signed the Master Services Agreement for professional services that includes strategic planning, research and analysis, a marketing action plan, a sales strategy and plan, campaign concept development and implementation, a social media strategy, public relations, and media services. A new statement of work is signed each year with the contractor and varies based on the RTA's needs, marketing metrics, and data. In 2021, service fees and media/production costs (excluding web development) were at a combined total of approximately \$490,710.

## **NOTE 4 – PENSION PLANS**

### **A. Public Employees Retirement System (PERS) Plans 1, 2 and 3**

The following table represents the aggregate pension amounts for all plans for the year 2021:

| Aggregate Pension Amounts - All Plans |              |
|---------------------------------------|--------------|
| Pension liabilities                   | \$ (71,528)  |
| Pension assets                        | \$ 749,213   |
| Deferred outflows of resources        | \$ 167,582   |
| Deferred inflows of resources         | \$ (831,074) |
| Pension expense/expenditures          | \$ (201,614) |

#### State Sponsored Pension Plans

Substantially all full-time and qualifying part-time RTA 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 (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

Or the DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

#### Public Employees' Retirement System (PERS)

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

#### PERS Plan 1

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.

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 2021 were as follows:

| PERS Plan 1                      |          |           |
|----------------------------------|----------|-----------|
| Actual Contribution Rates:       | Employer | Employee* |
| <i>January – August 2021</i>     |          |           |
| PERS Plan 1                      | 7.92%    | 6.00%     |
| PERS Plan 1 UAAL                 | 4.87%    |           |
| Administrative Fee               | 0.18%    |           |
| Total                            | 12.97%   | 6.00%     |
| <i>September – December 2021</i> |          |           |
| PERS Plan 1                      | 5.20%    | 6.00%     |
| PERS Plan 1 UAAL                 | 4.87%    |           |
| Administrative Fee               | 0.18%    |           |
| Total                            | 10.25%   | 6.00%     |

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

Although the RTA has no employees in PERS Plan 1, actual PERS 1 Plan contributions were \$38,639 in 2021 due to the UAAL contributions made through PERS Plan 2/3. PERS Plan 2/3 contributed 4.87% to the PERS Plan 1 UAAL out of the total actual employer required contribution rate of 12.97%.

### PERS Plan 2/3

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

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

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.

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 2021 were as follows:

| PERS Plan 2/3                |              |             |
|------------------------------|--------------|-------------|
| Actual Contribution Rates:   | Employer 2/3 | Employee 2* |
| <i>January – August 2021</i> |              |             |
| PERS Plan 2/3                | 7.92%        | 7.90%       |
| PERS Plan 1 UAAL             | 4.87%        |             |
| Administrative Fee           | 0.18%        |             |
| Employee PERS Plan 3         | N/A          | Varies      |
| Total                        | 12.97%       | 7.90%       |
| <i>July – December 2021</i>  |              |             |
| PERS Plan 2/3                | 5.20%        | 6.36%       |
| PERS Plan 1 UAAL             | 4.87%        |             |
| Administrative Fee           | 0.18%        |             |
| Employee PERS Plan 3         | N/A          | Varies      |
| Total                        | 10.25%       | 6.36%       |

\*For employees participating in JBM, the contribution rate was 15.9%

The RTA's actual PERS plan contributions were \$38,639 to PERS Plan 1 and \$64,283 to PERS Plan 2/3 for the year ended December 31, 2021.

#### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study and the 2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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 no changes in assumptions, but changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. A high-level summary of those changes is outlined in the following paragraph. OSA will revert back to the methods outlined in their 2019 AVR when preparing the 2021 AVR, a contribution rate setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019, AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the Fiscal Year (FY)-end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to our projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. Please see the Actuarial Assumptions and Methods section of OSA 2020 AVR for more information.

### Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB used the CMA's and their target asset allocation to simulate future investment returns at various future times.

### 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, 2021, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

### Sensitivity of the Net Pension Liability/(Asset)

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

| Plan     | 1% Decrease<br>(6.4%) | Current Discount<br>Rate<br>(7.4%) | 1% Increase<br>(8.4%) |
|----------|-----------------------|------------------------------------|-----------------------|
| PERS 1   | \$121,851             | \$71,528                           | \$27,640              |
| PERS 2/3 | \$(213,436)           | \$(749,213)                        | \$(1,190,425)         |

#### 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, 2021, the RTA reported a net pension liability of \$71,528 for the PERS 1 Plan and a net pension asset of \$(749,213) for the PERS 2/3 Plan for its proportionate share of the net pension liabilities/assets as follows:

| Plan     | Liability<br>or (Asset) |
|----------|-------------------------|
| PERS 1   | \$71,528                |
| PERS 2/3 | \$(749,213)             |

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

| Plan     | Proportionate Share<br>6/30/20 | Proportionate Share<br>6/30/21 | Change in<br>Proportion |
|----------|--------------------------------|--------------------------------|-------------------------|
| PERS 1   | 0.006862%                      | 0.005857%                      | (0.001005%)             |
| PERS 2/3 | 0.008911%                      | 0.007521%                      | (0.001390%)             |

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* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2021, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2020, with update procedures used to roll forward the total pension liability to the measurement date.

#### Pension Expense

For the year ended December 31, 2021, the RTA recognized pension expense as follows:

| Plan     | Pension Expense |
|----------|-----------------|
| PERS 1   | \$(50,732)      |
| PERS 2/3 | \$(150,882)     |
| Total    | \$(201,614)     |

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the RTA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS 1   | Deferred Outflows of Resources<br>(Debit Balance) | Deferred Inflows of Resources<br>(Credit Balance) |
|--|---|---|
| Differences between expected and actual experience   | \$0   | \$0   |
| Net difference between projected and actual investment earnings on pension plan investments          | \$0   | \$79,372  |
| Changes of assumptions   | \$0   | \$0   |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$0   | \$0   |
| Contributions subsequent to the measurement date   | \$16,400  | \$0   |
| TOTAL  | \$16,400  | \$79,372  |
| PERS 2/3   | Deferred Outflows of Resources<br>(Debit Balance) | Deferred Inflows of Resources<br>(Credit Balance) |
| Differences between expected and actual experience   | \$36,388  | \$9,185   |
| Net difference between projected and actual investment earnings on pension plan investments          | \$0   | \$626,167   |
| Changes of assumptions   | \$1,095   | \$53,206  |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$85,584  | \$63,144  |
| Contributions subsequent to the measurement date   | \$28,115  | \$0   |
| TOTAL  | \$151,182   | \$751,702   |

| All PERS Plans in Total  | Deferred Outflows of Resources<br>(Debit Balance) | Deferred Inflows of Resources<br>(Credit Balance) |
|--|---|---|
| Differences between expected and actual experience   | \$36,388  | \$9,185   |
| Net difference between projected and actual investment earnings on pension plan investments          | \$0   | \$705,539   |
| Changes of assumptions   | \$1,095   | \$53,206  |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$85,584  | \$63,144  |
| Contributions subsequent to the measurement date   | \$44,515  | \$0   |
| TOTAL  | \$167,582   | \$831,074   |

Deferred outflows of resources related to pensions resulting from the RTA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended

December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended<br>December 31st: | PERS 1     | PERS 2/3    |
|------------------------------|------------|-------------|
| 2022                         | \$(21,026) | \$(149,487) |
| 2023                         | \$(19,267) | \$(138,237) |
| 2024                         | \$(18,218) | \$(156,899) |
| 2025                         | \$(20,861) | \$(172,796) |
| 2026                         | \$0        | \$(8,132)   |
| Thereafter                   | \$0        | \$(3,084)   |
| Total                        | \$(79,372) | \$(628,635) |

B. Deferred Compensation Plan (457(b) Plan)

In lieu of Social Security, the RTA Board of Directors passed Resolution #2015-023 authorizing employee participation in the Washington State Department of Retirement System's Deferred Compensation Program (DCP) which is an Internal Revenue Code (IRC) 457(b) defined contribution plan. Employees who voluntarily elect to participate in the DCP, can defer up to \$19,500 (maximum in 2021). Employees who are aged 50 or older have the option of contributing up to an additional \$6,500 in catch-up contributions. In addition, special 457(b) contributions (twice the annual limit in the amount of \$39,000) may be allowed for participants for three years prior to the normal retirement age. The RTA provides a 5% maximum employer DCP match and there is no vesting period. All funds deferred by employees are held in trust by the Washington State Investment Board for the exclusive benefit of program participants and eligible beneficiaries. As such, amounts deferred and placed in trust have not been reflected as assets or liabilities of the RTA in the accompanying financial statements. In 2021, voluntary employee contributions were \$66,917. The RTA provided a 5% match in the amount \$42,097.

## **NOTE 5 – CAPITAL ASSETS**

The RTA's assets are depreciated using straight-line depreciation with no salvage value. Capital asset activity for the year ended December 31, 2021 was as follows:

| Type of Assets   | Beg<br>Balance<br>01/01/21 | Additions   | Deletions | Ending<br>Balance<br>12/31/21 |
|--|----------------------------|-------------|-----------|-------------------------------|
| <b>Capital assets not being depreciated/amortized:</b>         |                            |             |           |                               |
| Trademarks - Intangible Assets                                 | \$ 9,947                   |             |           | \$ 9,947                      |
| Total capital assets not being depreciated                     | 9,947                      | -           | -         | 9,947                         |
| <b>Capital assets being depreciated/amortized:</b>             |                            |             |           |                               |
| Software - Intangible Asset                                    | 203,750                    |             |           | 203,750                       |
| Digital Images - Intangible Asset                              | 81,711                     |             |           | 81,711                        |
| Equipment  | 45,991                     |             |           | 45,991                        |
| Furniture  | 63,774                     |             |           | 63,774                        |
| Vehicle  | 42,765                     |             |           | 42,765                        |
| Total capital assets being deprec/amort                        | 437,991                    | -           | -         | 437,991                       |
| Total government activities capital assets before deprec/amort | \$ 447,938                 | \$ -        | \$ -      | \$ 447,938                    |
| <b>Less accumulated deprec/amort for:</b>                      |                            |             |           |                               |
| Software - Intangible Asset                                    | (178,281)                  | (25,469)    |           | (203,750)                     |
| Digital Images - Intangible Asset                              | (44,675)                   | (15,300)    |           | (59,975)                      |
| Equipment  | (28,887)                   | (6,827)     |           | (35,714)                      |
| Furniture  | (29,415)                   | (6,378)     |           | (35,793)                      |
| Vehicle  | (12,028)                   | (5,346)     |           | (17,374)                      |
| Total accumulated deprec/amort                                 | (293,286)                  | (59,320)    | -         | (352,606)                     |
| Total government activities capital assets (net)               | \$ 154,652                 | \$ (59,320) | \$ -      | \$ 95,332                     |

Depreciation/amortization expense was charged to the following activity of the RTA as follows:

|   |          |
|---|----------|
| <b>Governmental Activities:</b>                                 |          |
| Natural & Economic Environment                                  | \$59,320 |
| Total Depreciation/Amortization Expense-Governmental Activities | \$59,320 |



## **NOTE 6 – RISK MANAGEMENT**

### **A. Liability Insurance**

The RTA is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles [1]. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

For the past three years, there have been no settlements that exceeded the RTA's insurance coverage.

[1] The liability program assumes no liability deductibles apply to any coverage. Claims deductible levels of \$25,000, \$50,000, \$100,000, \$250,000, \$500,000 and \$1,000,000 are potential coverage options for members that may at the sole discretion of WCIA, be extended to members. Member should include the liability deductible amount if applicable.

B. Payroll Benefit Insurance

The RTA's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour.

The RTA's unemployment insurance is administered in Washington State by the Employment Security Department in accordance with the provisions of the Employment Security Act. The RTA's employer status for unemployment insurance is an in-lieu of contribution or "reimbursable" employer per RCW 50.44.060. The RTA is billed by Employment Security for any unemployment benefits paid to former employees every three months. Starting 2021, the RTA will pay its unemployment insurance tax quarterly at the tax rate of 1.94%.

As a political subdivision, the RTA is exempt from federal unemployment taxes.

Association of Washington Cities Employer Benefit Trust ("Trust")

The RTA 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC 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 obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

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

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

## **NOTE 7 – LONG-TERM DEBT & CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

| Type of Debt                | Beg<br>Balance<br>01/01/21 | Additions | Reductions | Ending<br>Balance<br>12/31/21 | Due<br>Within<br>One Year |
|-----------------------------|----------------------------|-----------|------------|-------------------------------|---------------------------|
| Net Pension Liability       | \$ 356,233                 | \$ -      | \$ 284,705 | \$ 71,528                     | N/A                       |
| Building Lease              | 3,406                      | -         | 3,406      | -                             | -                         |
| Compensated Absences        | 83,484                     | -         | 29,534     | 53,950                        | 35,068                    |
| Total Long-term Liabilities | 443,123                    | -         | 317,645    | 125,478                       | 35,068                    |

The pension obligation was added due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in 2016. More information can be found in *Note 4 – Pension Plans*.

The building lease liability is related to the nine months of the rent holiday. Specifically, this liability is for the recognition of building lease expenditures/expenses measured on the straight-line basis as described in *Note 7 - Leases*.

Compensated absence liabilities are employee leave balances for which employees will be paid. The RTA's compensated absences liabilities will be liquidated by the General Fund. Additional information on compensated absence liabilities can be found in *Note 1 - Summary of Significant Accounting Policies – Section G - Assets, Liabilities, Fund Balance, and Net Position, Item 5 – Compensated Absences (1.G.6)*.

## **NOTE 8 – LEASES**

The RTA signed a sixty-six (66) month noncancelable lease agreement for office space which includes space for a visitor center on the first floor of the building. This lease agreement was effective August 1, 2015 and expires on January 31, 2021. The landlord approved a short-term lease extension for nine (9) months after January 31, 2021. For 2021, the rent expenses/expenditures for the lease agreement were measured on the straight-line basis and totaled \$95,244 (excluding a minor adjustment for 2016).

After January 31, 2021, the lease on the office space will be recorded as an operating lease.

## **NOTE 9 – CONTINGENCIES AND LITIGATIONS**

The RTA is not aware of any material liabilities or unresolved situations requiring the recording of an estimated liability accrual in the financial statements. In the opinion of management, the RTA's liability insurance is adequate to cover any claims that may arise.

## **NOTE 10 – SUBSEQUENT EVENTS**

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19. In the months following the declaration, precautionary measures taken to slow the spread of the virus,

as ordered by Governor Inslee, include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities. These measures still continue to be in effect through 2021.

The travel restrictions and severity of the COVID-19 outbreak were mirrored by declines in hotel bookings. The RTA's main source of revenues (TPA assessment) depends significantly on the hotel occupancy guestrooms. In order to mitigate the decrease in TPA assessments revenues due to the impact of COVID-19, the management implemented proactive cost saving measures.

Precautionary measures were in effect for all of 2021 as imposed by CDC, State of Washington and King County.

On December 21, 2020, Congress passed H.R. 133, the Consolidated Appropriations Act, 2021 (the "Omnibus Act"), which includes the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "**Economic Aid Act**"). The Economic Aid Act expands eligibility for the Paycheck Protection Program ("**PPP**") loans to destination marketing organizations. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business.

As a destination marketing organization, the RTA applied for the PPP loan on January 19, 2021 with the USBank. On February 11, 2021, the RTA received the PPP loan proceeds in the amount of \$243,212. The RTA intends to use the proceeds for purposes consistent with the PPP. The RTA received notice from US Bank that the PPP loan met the requirements for forgiveness and the loan was forgiven.

Required Supplementary Information (RSI)  
General Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Period Ended December 31, 2021

|   | Original Budget     | Final Budget        | Actual Amounts      | Variance with<br>Final Budget-<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------|--|
| <b>Revenues</b>   |                     |                     |                     |  |
| Intergovernmental   | \$ 1,052,500        | \$ 234,993          | \$ 318,288          | \$ 83,295  |
| Special assessments                                       | 1,981,630           | 1,981,630           | 3,019,987           | 1,038,357  |
| Interest earnings   | 15,000              | 15,000              | (15,007)            | (30,007)   |
| Miscellaneous   | 10,000              | 10,000              | 247,793             | 237,793  |
| <b>Total Revenues</b>                                     | <b>3,059,130</b>    | <b>2,241,623</b>    | <b>3,571,061</b>    | <b>1,329,438</b>   |
| <b>Expenditures</b>                                       |                     |                     |                     |  |
| Natural & Economic Environment                            | 3,752,000           | 3,499,493           | 3,126,584           | 372,909  |
| Capital Outlay-Natural & Economic Environ                 | 30,000              | 30,000              | -                   | 30,000   |
| <b>Total Expenditures</b>                                 | <b>3,782,000</b>    | <b>3,529,493</b>    | <b>3,126,583</b>    | <b>402,910</b>   |
| Excess (deficiency) of revenues over (under) expenditures | (722,870)           | (1,287,870)         | 444,477             | 1,732,347  |
| <b>Fund Balance - Beginning</b>                           | <b>3,763,222</b>    | <b>4,653,980</b>    | <b>4,653,980</b>    | <b>-</b>   |
| <b>Fund Balance - Ending</b>                              | <b>\$ 3,040,352</b> | <b>\$ 3,366,110</b> | <b>\$ 5,098,457</b> | <b>\$ 1,732,347</b>                                      |

**Notes to the Schedule of Revs, Exps and Changes in FB - Budget and Actual:**

1) Budgetary basis is the same as GAAP basis which is the modified-accrual basis of accounting.

Required Supplementary Information (RSI)

Schedule of the RTA's Proportionate Share of the Net Pension Liability - WA DRS PERS 1  
As of June 30th  
Last 10 Fiscal Years<sup>1</sup>

|   | 2021       | 2020         | 2019       | 2018         | 2017         | 2016       |
|---|------------|--------------|------------|--------------|--------------|------------|
| RTA's proportion of the net pension liability (asset)   | 0.005857%  | 0.006862%    | 0.007370%  | 0.007327%    | 0.008561%    | 0.003702%  |
| RTA's proportionate share of the net pension liability (asset)  | \$ 71,528  | \$ 242,266   | \$ 283,403 | \$ 327,226   | \$ 406,226   | \$ 198,815 |
| RTA's covered payroll   | \$ 865,094 | \$ 1,074,469 | \$ 996,104 | \$ 1,012,136 | \$ 1,079,531 | \$ 440,143 |
| RTA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 8.27%      | 22.55%       | 28.45%     | 32.33%       | 37.63%       | 45.17%     |
| Plan fiduciary net position as a percentage of the total pension liability <sup>2</sup>               | 88.74%     | 68.64%       | 67.12%     | 63.22%       | 61.24%       | 57.03%     |

Schedule of the RTA's Proportionate Share of the Net Pension Liability - WA DRS PERS 2 & 3  
As of June 30th  
Last 10 Fiscal Years<sup>1</sup>

|   | 2021         | 2020         | 2019       | 2018         | 2017         | 2016       |
|---|--------------|--------------|------------|--------------|--------------|------------|
| RTA's proportion of the net pension liability (asset)   | 0.007521%    | 0.008911%    | 0.009514%  | 0.009438%    | 0.011011%    | 0.004750%  |
| RTA's proportionate share of the net pension liability (asset)  | \$ (749,213) | \$ 113,967   | \$ 92,413  | \$ 161,145   | \$ 382,580   | \$ 239,159 |
| RTA's covered payroll   | \$ 865,094   | \$ 1,074,469 | \$ 996,104 | \$ 1,012,136 | \$ 1,079,531 | \$ 440,143 |
| RTA's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | -86.60%      | 10.61%       | 9.28%      | 15.92%       | 35.44%       | 54.34%     |
| Plan fiduciary net position as a percentage of the total pension liability <sup>2</sup>               | 120.29%      | 97.22%       | 97.77%     | 95.77%       | 90.97%       | 85.82%     |

Notes to the Schedule of Proportionate Share of Net Pension Liability:

- 1) This schedule will be completed prospectively until it contains ten years of data.
- 2) Percentage information provided by DRS Participating Employer Financial Information (PEFI) Report - Note 2.

Required Supplementary Information (RSI)

Schedule of Employer Contributions - WA DRS PERS 1

For the Year Ended December 31, 2021

Last 10 Fiscal Years<sup>1</sup>

|  | 2021        | 2020        | 2019         | 2018         | 2017         | 2016        |
|--|-------------|-------------|--------------|--------------|--------------|-------------|
| Statutorily required contributions   | \$ 38,639   | \$ 46,455   | \$ 49,559    | \$ 52,297    | \$ 49,912    | \$ 45,259   |
| Contributions in relation to the statutorily required contributions <sup>2</sup> | \$ (38,639) | \$ (46,455) | \$ (49,559)  | \$ (52,297)  | \$ (49,912)  | \$ (45,259) |
| Contribution deficiency (excess)   | \$ -        | \$ -        | \$ -         | \$ -         | \$ -         | \$ -        |
| RTA's covered payroll  | \$ 898,712  | \$ 967,352  | \$ 1,000,814 | \$ 1,033,324 | \$ 1,019,670 | \$ 948,818  |
| Contributions as a percentage of covered payroll                                 | 4.30%       | 4.80%       | 4.95%        | 5.06%        | 4.89%        | 4.77%       |

Schedule of Employer Contributions - WA DRS PERS 2/3

For the Year Ended December 31, 2021

Last 10 Fiscal Years<sup>1</sup>

|  | 2021        | 2020        | 2019         | 2018         | 2017         | 2016        |
|--|-------------|-------------|--------------|--------------|--------------|-------------|
| Statutorily required contributions   | \$ 64,283   | \$ 76,470   | \$ 77,189    | \$ 77,362    | \$ 69,694    | \$ 59,109   |
| Contributions in relation to the statutorily required contributions <sup>2</sup> | \$ (64,283) | \$ (76,470) | \$ (77,189)  | \$ (77,362)  | \$ (69,694)  | \$ (59,109) |
| Contribution deficiency (excess)   | \$ -        | \$ -        | \$ -         | \$ -         | \$ -         | \$ -        |
| RTA's covered payroll  | \$ 898,712  | \$ 967,352  | \$ 1,000,814 | \$ 1,033,324 | \$ 1,019,670 | \$ 948,818  |
| Contributions as a percentage of covered payroll                                 |             | 7.91%       | 7.71%        | 7.49%        | 6.83%        | 6.23%       |

Notes to the Schedules of Employer Contributions:

- 1) These schedules will be completed prospectively until it contains ten years of data.
- 2) Contributions are actual employer contributions; RTA PERS 1 contributions only include the portions of the PERS 2/3 contributions that cover PERS 1 UAAL.



## 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.

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