



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

# **Financial Statements and Federal Single Audit Report**

## **Whatcom Council of Governments**

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

**Published May 30, 2019**

**Report No. 1023991**





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

May 30, 2019

Council Board  
Whatcom Council of Governments  
Bellingham, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Whatcom Council of Governments' financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Whatcom Council of Governments January 1, 2018 through December 31, 2018

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the Council’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

#### Internal Control over Financial Reporting:

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

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

#### Federal Awards

#### Internal Control over Major Programs:

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

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

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

### **Identification of Major Federal Programs**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

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

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

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

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

**Whatcom Council of Governments  
January 1, 2018 through December 31, 2018**

Council Board  
Whatcom Council of Governments  
Bellingham, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Whatcom Council of Governments, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Council's financial statements, and have issued our report thereon dated May 22, 2019.

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

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

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

## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy  
State Auditor  
Olympia, WA

May 22, 2019

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

**Whatcom Council of Governments  
January 1, 2018 through December 31, 2018**

Council Board  
Whatcom Council of Governments  
Bellingham, Washington

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

We have audited the compliance of the Whatcom Council of Governments, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended December 31, 2018. The Council's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

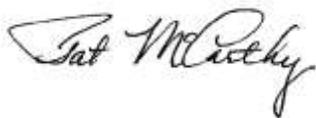
Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types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

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

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

### **Purpose of this Report**

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

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

Pat McCarthy  
State Auditor  
Olympia, WA

May 22, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Whatcom Council of Governments January 1, 2018 through December 31, 2018

Council Board  
Whatcom Council of Governments  
Bellingham, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Whatcom Council of Governments, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Council's financial statements, as listed on page 16.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Whatcom Council of Governments, for the year ended December 31, 2018, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

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

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Whatcom Council of Governments, as of December 31, 2018, or the changes in financial position or cash flows for the year then ended, due to the

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

## **Other Matters**

### ***Supplementary and Other Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019 on our consideration of the Council’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

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

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Pat McCarthy  
State Auditor  
Olympia, WA

May 22, 2019

## **FINANCIAL SECTION**

### **Whatcom Council of Governments January 1, 2018 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2018  
Notes to Financial Statements – 2018

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2018  
Schedule of Expenditures of Federal Awards – 2018  
Notes to the Schedule of Expenditures of Federal Awards – 2018

**Whatcom Council of Governments**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	236,012
388 / 588	Prior Period Adjustments, Net	-

**Revenues**

320	Licenses and Permits	-
330	Intergovernmental Revenues	1,509,667
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	241,445
Total Revenues:		1,751,112

**Expenditures**

540	Transportation	-
550	Natural and Economic Environment	1,648,176
Total Expenditures:		1,648,176
Excess (Deficiency) Revenues over Expenditures:		102,936

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	17
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		17

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	16
Total Other Decreases in Fund Resources:		16

**Increase (Decrease) in Cash and Investments: 102,937**

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	338,949
<b>Total Ending Cash and Investments</b>		<b>338,949</b>

*The accompanying notes are an integral part of this statement.*

**Whatcom Council of Governments**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2018**

**Note 1 - Summary of Significant Accounting Policies**

The Whatcom Council of Governments was formed on February 23, 1966, and operates under the laws of the state of Washington applicable to a regional planning agency (RCW 36.64.080). The Council is a special purpose government which provides a mutual forum to identify, discuss, study, and bring into focus regional challenges and opportunities. The Council's current primary function is providing staff support for regional transportation planning activities in Whatcom County. The Council is composed of elected officials representing the cities of: Bellingham, Blaine, Everson, Ferndale, Lynden, Nooksack and Sumas; Whatcom County; the Lummi Indian Nation; the Port of Bellingham; and the Lake Whatcom Water & Sewer District.

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

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

B. Basis of Accounting and Measurement Focus

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

The Council does not recognize expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 3, *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 700 hours. Upon separation or retirement employees do not receive payment for unused sick leave.

**Note 2 – Budget Compliance**

A. Budgets

The Council adopts annual appropriated budgets for the general fund. This budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follows:

FUND	FINAL APPROPRIATED AMOUNT	ACTUAL EXPENDITURES	VARIANCE
General	\$ 1,921,683	\$1,648,176	\$273,507

The Executive Director is authorized to transfer budgeted amounts between object classes; however, any revisions that alter the total expenditures, or that affect the number of authorized employee positions must be approved by the Council’s legislative body.

**Note 3 – Deposits and Investments**

It is the Council’s policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and the

Washington Public Deposit Protection Commission. All investments are insured, registered or held by the Council or its agent in the government’s name.

Investments are reported at fair value. Investments by type at December 31, 2018 are as follows:

Type of Investment	The Council’s own investments	Investment held by Whatcom County as agent for other local governments, individuals or private organizations	Total
Whatcom County Investment Pool	\$0	\$72,815	\$72,815

**Note 4 – Pension Plans**

A. State Sponsored Pension Plans

All of the Council’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit plan: Public Employees’ Retirement System (PERS).

The State Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

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

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

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

On June 30, 2018, the Council’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$34,915	0.005223%	\$ 233,261
PERS 2/3	51,990	0.006738%	115,045
Total			\$ 348,306

B. Local Government Pension Plans

The Council maintains a Simplified Employee Pension plan for regular employees. The Council’s contribution percentage of the employee’s salary equals 7.5% less the required WA Department of

Retirement Systems employer contribution percentage for PERS participants. No contributions have been made since July 1, 2013, when the required employer contribution for PERS participants rose above 7.5%.

### C. Defined Contribution Pension

The Council contributes to 2 defined contribution plans under 26 U.S. Code Section 457:

- 1) Whatcom Council of Governments Deferred Compensation Plan  
Administered by MassMutual Retirement Services  
\$36,930 contributed in 2018
- 2) Whatcom Council of Governments Deferred Compensation Plan  
Administered by the Washington State Department of Retirement Services  
\$5,906 contributed in 2018

The Council makes nonelective contributions for employees that are not required to be covered by the Federal Old Age, Survivors and Disability Insurance Program (Social Security). The Council has not entered into a Social Security Act - Section 218 agreement with the Social Security Administration. Therefore, Social Security contributions are only required for employees that, 1) work less than 20 hours per week, are not vested in a Washington State public employee retirement system and contribute less than 7.5% of compensation to one of the Council's 457(b) deferred compensation plans; or 2) are not in a PERS position and contribute less than 7.5% of compensation to one of the Council's 457(b) deferred compensation plans. For the rest of the employees, the Council makes contributions to the 457(b) Deferred Compensation Plan of the employee's choice in an amount equal to what would have been the required Social Security employer payment. The required employer contribution is currently 6.2%. The funds are not available to employees until termination, retirement, death or unforeseeable emergency.

### **Note 5 – Risk Management**

The Council is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a

property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk” blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded limits in the last three years.

#### **Note 6 – Health & Welfare**

The Council 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, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision

insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employer's 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 HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

**Whatcom Council of Governments  
Schedule of Liabilities  
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Accrued Vacation Leave		37,477	3,989	-	41,466
264.30	Net Pension Liability		578,630	-	230,324	348,306
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>616,107</b>	<b>3,989</b>	<b>230,324</b>	<b>389,772</b>
	<b>Total Liabilities:</b>		<b>616,107</b>	<b>3,989</b>	<b>230,324</b>	<b>389,772</b>

**Whatcom Council of Governments  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>Highway Planning and Construction Cluster</b>								
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	GCB-2565 (IMTC)	88,487	-	88,487	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	GCB-2565 (FHWA)	378,615	-	378,615	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-7758	13,161	-	13,161	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-8470	38,243	-	38,243	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9096	46,717	-	46,717	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9101	69,353	-	69,353	-	2, 3, 4

**Whatcom Council of Governments  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9107	54,395	-	54,395	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9108	163,981	-	163,981	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9143	15,801	-	15,801	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9144	149,732	-	149,732	-	2, 3, 4
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Highway Planning and Construction	20.205	LA-9343	42,977	-	42,977	12,634	2, 3, 4
<b>Total Highway Planning and Construction Cluster:</b>				<b>1,061,461</b>	<b>-</b>	<b>1,061,461</b>	<b>12,634</b>	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Metropolitan Transportation Planning and State and Non- Metropolitan Planning and Research	20.505	GCB-2565 (FTA)	16,495	-	16,495	-	2, 3, 4

**Whatcom Council of Governments  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2018**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Metropolitan Transportation Planning and State and Non- Metropolitan Planning and Research	20.505	GCB-2871	26,571	-	26,571	-	2, 3, 4
<b>Total CFDA 20.505:</b>				<b>43,066</b>	-	<b>43,066</b>	-	
<b>Transit Services Programs Cluster</b>								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB-2641	88,710	-	88,710	-	2, 3, 4
<b>Total Transit Services Programs Cluster:</b>				<b>88,710</b>	-	<b>88,710</b>	-	
<b>Highway Safety Cluster</b>								
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA Traffic Safety Commission)	National Priority Safety Programs	20.616	AG-1815	7,776	-	7,776	-	2, 3, 4
<b>Total Highway Safety Cluster:</b>				<b>7,776</b>	-	<b>7,776</b>	-	
<b>Total Federal Awards Expended:</b>				<b>1,201,014</b>	-	<b>1,201,014</b>	<b>12,634</b>	

**WHATCOM COUNCIL OF GOVERNMENTS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2018**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Council's financial statements. The Council uses the cash basis of accounting and measurement focus which is a departure from generally accepted accounting principles (GAAP).

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - INDIRECT COST RATE

The Council has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The amount expended includes \$322,446 claimed as an indirect cost recovery using an approved indirect cost rate of 69.97 percent.

NOTE 4 – FRINGE BENEFIT RATE

The amount expended includes \$305,760 claimed as a fringe benefit cost recovery using an approved fringe benefit rate of 66.33 percent.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

### Contact information for the State Auditor's Office

<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>