

Skagit Transit

*Serving
The Skagit County
Public Benefit Area
Burlington, Washington*

Annual Financial Report

For The Fiscal Year Ended
December 31, 2011



**SKAGIT
TRANSIT**

Skagit Transit

Skagit County, Washington

Annual Financial Report

Year Ended December 31, 2011

MCAG 2744
Submitted pursuant to R.C.W. 43.09.230
To the
Washington State Auditor's Office

Prepared by:
Department of Finance & Administration

Certified correct this th day of May29, 2012, to the best of my knowledge and belief:

Motoko Pleasant
Manager of Finance & Administration
Skagit Transit
360.757.8801
360.757.8019 (fax)
email: mpleasant@skagittransit.org
Home Page: www.Skagittransit.org

Skagit Transit

Management Discussion & Analysis

This section of Skagit Transit's Annual Financial Report presents management's overview and analysis of the PTBA's financial performance for the fiscal year ending December 31, 2011. This section should be read in conjunction with the financial statements and notes to the financial statements that follow this section.

Financial Highlights

- The assets of Skagit Transit exceeded its liabilities at December 31, 2011, by \$30,750,628. Of this amount, \$14,016,561 may be used to meet Skagit Transit's ongoing obligations to provide services to the public, including the capital program, and to meet the obligations of creditors.
- Skagit Transit total net assets increased by \$2,913,273 in 2011. The overall financial condition of Skagit Transit as of December 31, 2011 was considered to have improved. Reserve funding was authorized to be used between 2000 and 2002 for operations, but a major layoff occurred on October 31, 2002, which insured that future spending of the Reserve Funds would not occur in order to balance the operating budget. At year-end, the budget was balanced with Skagit Transit projected to remain in the black for operating expenses throughout 2012.
- Passenger Fares increased by \$84,038 between 2010 and 2011.
- Skagit Transit remained free of long-term debt during the period.

Summary of Net Assets

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	14,565,034	11,885,204
Capital Assets	16,734,067	16,426,797
Total Assets	<u>31,299,101</u>	<u>28,312,001</u>
Liabilities		
Current Liabilities	391,314	328,295
Noncurrent Liabilities	157,159	146,350
Total Liabilities	548,473	474,645
Net Assets		
Invested in Capital Assets	16,734,067	16,426,797
Unrestricted	14,016,561	11,410,559
Ending Net Assets	<u>\$ 30,750,628</u>	<u>\$ 27,837,356</u>

Summary Statement of Revenues, Expenses and Changes in Fund Net Assets

	2011	2010
Operating Revenues:		
Passenger Fares	\$ 780,401	\$ 696,363
Non-Operating Revenues		
Sales Tax	8,404,588	7,854,632
Interest	25,261	26,185
Grants	1,849,793	2,080,530
Gain (loss) on Disposition of Assets	30,976	(176,496)
Other Non-operating Revenues	73,198	46,530
Total Revenues	11,164,217	10,527,744
Operating Expenses		
Operations	4,929,380	4,638,615
Maintenance	1,499,051	1,576,935
Administration	5,052,490	1,734,720
Depreciation	1,756,773	1,373,562
Total Expenses	13,237,694	9,323,832
Net Income (loss) Before Contributions	(2,073,477)	1,203,912
Capital Grants and Contributions	4,986,750	1,425,274
Total Change in Net Assets	2,913,273	2,629,186
Net Assets - Beginning of Year	27,837,356	25,208,170
Net Assets - End of Year	\$30,750,629	\$27,837,356

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of Skagit Transit report information about the PTBA using accounting methods similar to those used by private sector companies.

The Statement of Net Assets presents information on all the PTBA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the PTBA is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Assets present information showing how the PTBA's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to the PTBA, and earned but unused vacation leave).

This MD&A should be viewed along with the attached financial statements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within financial statements. The notes to the financial statements can be found in this report.

Financial Analysis

Net Assets

For the year ending December 31, 2011, assets exceeded liabilities by \$30,750,629. Transit is a capital-intensive enterprise, and 54.4 % of Skagit Transit's net assets are invested in capital assets.

Skagit Transit ended 2011 with \$16,734,067 in Capital Assets. See Note 3 for further information.

During 2011 Capital Assets increased by \$307,270. Skagit Transit purchased one (1) new bus and nine (9) new vans for vanpool program in 2011. The construction of Chuckanut Park and Ride that began in 2010 was completed in 2011.

Inventory levels decreased by \$65,605 during 2011. It is expected that inventory levels will be maintained at appropriate levels to match our service levels.

Skagit Transit was successfully awarded seven (7) new federal grants, four (4) state grants and two (2) local grants in 2011. Skagit Transit continues to aggressively seek all available grants.

Cash and cash equivalents were increased in 2011 from 2010. Skagit Transit was successful in receiving state and federal grants to fund most of the capital project such as the new Chuckanut Park & Ride.

Operating Revenues

Operating Revenues for fares increased by \$84,038 during 2011. Fixed Route service had a revenue increase of \$37,856 or 10%, Dial-a-Ride had a decrease of \$2,487, or 19% and Vanpool had an increase of \$48,669, or 15%. Fixed Route ridership increased by 13% and Dial-a-Ride ridership decreased by 1%. Dial-a-Ride fares are by donation. Fixed Route riders paid regular fares on those flex routes in 2011. The vanpool ridership increased by 7% and mileage increased by 22% in 2011.

Non-Operating Revenues

Revenues from the transit portion of the sales tax increased by \$549,956 or 7.0% over 2010. In November 2008, the proposition to increase sales tax from 2/10 of 1% to 4/10 of 1% was approved by the voters and went into effect in April 2009.

Interest income was \$25,261 in 2011. It decreased in 2011 by 3.52 % from \$26,185 received in 2010.

Grant revenues were derived from fifteen (15) federal, state and local grants for use in capital and operating expenditures.

Operating Expenses

Operating expenses increased during 2011 as a result of inflation and implementation of new services.

Fixed Route refers to regularly scheduled buses operating on established routes.

Dial-A-Ride refers to ADA paratransit service that is scheduled through a dispatch center.

Vanpool service was initiated in June 2002. The Skagit Transit Vanpool program supported 41 vanpool groups compared to 36 groups in 2010. The increase in participation was attributed to higher fuel costs, additional demand by Boeing workers and increased environmental awareness. Many large employers have increased subsidies to make it advantageous to use vanpools.

Operating Expenses by Department

Operations – \$4,929,380 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$1,499,051 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$5,052,490 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation - \$1,756,773 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total Operating Expenses were \$13,237,694.

Capital Assets are depreciated based on their actual costs spread over their useful life.

Economic Factors and Future Outlook

Skagit County includes the Mount Vernon Urbanized Area (UZA). This UZA is comprised of the urban growth areas of the cities of Mount Vernon, Burlington, and Sedro-Woolley. This

designation of the UZA brings to Skagit Transit the availability of receiving federal funding for urban transit systems. It also brings the responsibility of Skagit Transit's involvement in the new Metropolitan Planning Organization.

The population of Skagit County has been growing at rates slightly less than population growth throughout the state. During the time period from 2000 through 2010, the county population grew at 15.85% rate compared to 14.24% for the state.

The economy had been hit hard by the layoffs by the various large employers located in Seattle and Everett. The economic recovery has continued to be slow in 2010 and 2011.

Skagit Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. The sales tax revenue increased by 55.5% in 2009 over 2008, 9.8% in 2010 over 2009, and 7% in 2011 over 2010. The large increase in 2009 was due to the increased share of sales tax from 2/10 of 1% to 4/10 of 1% that began in April 2009.

The county's average unemployment rate is 9.3% with 5,730 of the 57,990 of the available workforce unemployed.

Skagit Transit's revenues were severely cut in 2000 when the Motor Vehicle Excise Tax (MVET) was removed. Skagit Transit operated slightly reduced service levels for the next two years using reserve funding as authorized by our Board of Directors. When the PTBA residents soundly defeated an attempt to increase the local transit portion of sales tax in September of 2002, Skagit Transit was forced to reduce service substantially and live within its revenue flow. The budget was designed to allow minimal growth in services while staying within the revenue stream. In November 2008, the Proposition to increase sales tax by 2/10 of 1% for Skagit Transit was passed. The increase in sales tax revenue will ensure Skagit Transit will be able to implement more services in the PTBA.

Grant applications will be submitted for the 2013-2015 fiscal years. Outside restriction on the reserve funds and their use, other Skagit Transit assets are without restriction, commitments or other limitations for future use.

Skagit Transit management has made a commitment to meeting the needs of the public, in a financially sound manner. A 30% enhancement of current fixed route service is planned to begin in September 2012.

Capital Assets

Skagit Transit's investment in capital assets as of December 31, 2011, amounted to \$16,734,067, net accumulated depreciation. Capital assets consist of transit coaches and other vehicles, buildings, equipment, transit centers and park and ride lots. Capital assets increased by 1.9% during the year. In 2011, Skagit Transit purchased one (1) new bus and nine (9) vans for the vanpool program. Chuckanut Park and Ride, one of the last three park and ride construction projects, was completed in 2011. (South Mount Vernon and March's Point were completed in 2010)

Please refer to Note 3 of Notes to the Financial Statements for more information.

Request for Information

This financial report is designed to provide a general overview of the PTBA's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Manager of Finance & Administration, 600 County Shop Lane, Burlington, WA 98233, telephone 360-757-8801.

Skagit Transit
Statement of Net Assets
December 31, 2011

ASSETS

Current Assets:		
Cash	\$	6,070,971
Investments		5,848,348
Taxes receivables		1,494,643
Accounts receivable (net of allowance for uncollectibles)		12,311
Due from other governments		887,655
Inventory		251,106
Total Current Assets		14,565,034
Noncurrent Assets:		
Capital assets not being depreciated		
Land		3,323,563
Right of way		850,000
Capital assets being depreciated		
Buildings		4,421,161
Improvements other than buildings		4,722,907
Vehicles		10,028,105
Equipment & Furnishings		1,022,852
Intangible Assets		359,087
<i>Less: Accumulated depreciation</i>		
Buildings		(1,686,109)
Improvements other than buildings		(552,577)
Vehicles		(4,784,711)
Equipment & Furnishings		(781,601)
Intangible Assets		(188,610)
Total Net Capital Assets		16,734,067
Total Noncurrent Assets		16,734,067
Total Assets	\$	31,299,101

LIABILITIES

Current Liabilities:		
Accounts payable		101,445
Compensated Absences		32,215
Benefit payable		82,212
Deferred credits		3,220
Taxes and other payables		172,222
Total Current Liabilities		391,314
Noncurrent liabilities:		
Compensated Absences		157,159
Total Noncurrent Liabilities		157,159
Total Liabilities	\$	548,473
Net Assets:		
Net Assets, Invested in Capital Assets	\$	16,734,067
Unrestricted		14,016,561
Total Net Assets	\$	30,750,628

The Notes to the Financial Statements are an integral part of this statement

Skagit Transit
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For Fiscal Year Ended December 31, 2011

Operating Revenues:	
Passenger Fares	780,401
Total Operating Revenues	780,401
Operating Expenses:	
Operations	4,929,380
Maintenance	1,499,051
Administration	5,052,490
Depreciation	1,756,773
Total Operating Expenses	13,237,694
Operating Income (Loss)	(12,457,293)
Non-Operating Revenues (Expenses)	
Sales Tax	8,404,588
Interest	25,261
Grants	1,849,793
Gain (loss) on Disposition of Assets	30,976
Other Non-operating Revenues (Expenses)	73,197
Total Non-Operating Revenues (Expenses)	10,383,815
Income(loss) before contributions, gains, losses, other revenues and expenses	(2,073,478)
Capital Grants and Contributions	4,986,750
Increase (decrease) in net assets	2,913,272
Net Assets - Beginning of period	27,837,356
Net Assets - End of period	\$ 30,750,628

The Notes to the Financial Statements are an integral part of this statement.

Skagit Transit
Statement of Cash Flows
For Fiscal Year Ended December 31, 2011

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 771,286
Cash Payments to Suppliers for Good & Services	(5,058,930)
Cash Payments to Employees for Services	(6,282,552)
Other Cash Receipts	109,257
Net Cash Provided (Used) by Operating Activities	<u>(10,460,939)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	8,356,821
Federal, State and Local Assistance Received	2,807,650
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>11,164,471</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(2,087,011)
Capital Grants and Contributions	4,632,630
Proceeds from Sale of Equipment	31,938
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>2,577,557</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(11,203)
Interest on Investments	11,203
Net Cash Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>3,281,089</u>
Cash and Cash Equivalents, Beginning	2,789,882
Cash and Cash Equivalents, Ending	<u><u>\$ 6,070,971</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Skagit Transit
Reconciliation Operating Loss / Operating Activities
For Fiscal Year Ended December 31, 2011

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(12,457,293)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation on Capital Assets	\$ 1,756,773
Nonoperating Expenses/Misc Nonoperating Revenue	109,258
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(9,115)
Decrease (Increase) in Inventories	65,605
Increase (Decrease) in Accounts Payable	94,114
Increase (Decrease) in Wages & Benefits Payable	(20,281)
Total Adjustments	<u>1,996,354</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,460,939)</u>

The Notes to the Financial Statements are an integral part of this statement.

Notes to Financial Statements

December 31, 2011

Note 1: Summary of Significant Accounting Policies

Skagit Transit Authority (Skagit Transit) was authorized on November 3, 1992 and operates under the laws of the State of Washington applicable to a Public Transportation Benefit Area (PTBA). The accounting and reporting policies of Skagit Transit conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below. These notes should be viewed as an integral part of the accompanying financial statements.

a) Reporting Entity

Skagit Transit is a special purpose government and provides public transportation to the general public and is supported primarily through local sales tax. The agency is governed by an elected nine member board. Skagit Transit has no component units. Skagit Transit's basic financial statements include the financial position and results of the operations of the PTBA. A review of other units of local government, using the criteria set forth in GAAP, indicates there are no additional entities or funds for which the PTBA has reporting responsibilities. Based on the standards set by GASB-14, there are no component units of Skagit Transit.

b) Basis of Accounting & Presentation

The accounting records of Skagit Transit are maintained in accordance with methods prescribed by the State Auditor Office under the authority of Chapter 43.09 of the RCW. Skagit Transit uses the Budgeting, Accounting and Reporting System (BARS) for Transit Districts (GAAP) in the State of Washington.

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

Skagit Transit uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund(s).

The Agency distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the transit are charges to customers for fare box collections and bus pass sales. Operating expenses for the Agency include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The accounting records of Skagit Transit are maintained in accordance with the methods prescribed by the Federal Transit Administration (FTA) and the Washington State Auditor under the authority of Revised Code of Washington (R.C.W.) 43.09. The authority for the FTA to prescribe an accounting and reporting system is found in Section 15 of the Federal Transit Act of 1992, as amended.

Skagit Transit began participating in the FTA National Transit Database beginning with FY 2005. A Six-Year Planning summary report has been sent to the Washington State Department of Transportation (WSDOT), under separate cover. These reports require specific information and are not prepared on the basis of generally accepted accounting principles.

c) Assets, Liabilities, and Net Assets

a) Cash and Cash Equivalents

It is Skagit Transit's policy to invest all temporary cash surpluses. For purposes of the Statement of Cash Flows, the agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. State statutes permit Skagit Transit to invest in obligations of the United States, certificates of deposits issued by banks that are designated as public depositories by the Washington Public Deposit Commission, the Local Government Investment Pool of the Washington State Treasurer or authorized investments through the Skagit County Treasurer.

Investments for Skagit Transit are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. For other property and investments – See Note 2.

b) Receivables

Accounts receivable consist mainly of bus passes sold and local sales tax collected. Farecard revenue receivable was \$6,065 and local sales tax receivable was \$1,494,643.

c) Amounts Due From Other Governments

Amounts due from other governments include grant reimbursements of \$886,916, fuel tax refund of \$5,405, and interest receivable of \$734.

d) Inventories

Inventory consists of fuel, repair parts and supplies. No general administrative expenses are included in the inventory valuation. Expenses are recorded as the materials are consumed. Inventory is valued on the average cost method. At 12/31/11, Skagit Transit carried an inventory valued at \$251,106 for consumable parts and supplies used in the maintenance and repair of vehicles.

e) Restricted Assets and Liabilities

Skagit Transit has no restricted assets and liabilities.

f) Capital Assets

Capital Assets include property, facilities, and equipment and are capitalized at total acquisition cost provided that such costs exceed \$1,000 and the asset has a useful life of at least two years. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

Land	Not Depreciated
Buildings & Structures	30 - 50 years
Buses	5 - 12 years
Other Vehicles	5 years
Shop Equipment	10 years

Capital Assets & Depreciation – See Note 3

g) Compensated Absences

Compensated absences are absences for which employees will be paid using general leave.

General leave, which may be accumulated up to 25 days, is payable upon resignation, retirement, or death if the employee has successfully completed their probation period.

All compensated absences that are unused at the end of each year are listed on the balance sheet as a liability. The current liability for compensated absences equaled \$32,215 as of December 31, 2011 and noncurrent liability was \$157,159.

The classification of short-term and long-term is based on a five-year historical average on leave paid as a percentage of the liability.

	Current Liability	Noncurrent Liability	Total
Beginning Balance	\$ 47,422	\$ 146,350	\$ 193,772
Leave Earned	60,187	336,148	396,335
Leave Paid	75,394	325,339	400,733
Ending Balance	\$ 32,215	\$157,159	\$ 189,374

- h) Fund Reserves & Designations – See Note 10
- i) There were no material violations of finance related legal or contractual provisions during FY 2011.

Note 2 – Deposits & Investments

Skagit Transit’s deposits and certificates of deposits are covered entirely 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).

Investments

Skagit Transit invests in short term investments which produces a low interest rate risk. The Local Government Investment Pool investment policy requires a 90 day maximum on the weighted average maturity. As of December 31, 2011, Skagit Transit had the following investments:

Investment	Cost	Fair Value
Local Governmental investment Pool	\$5,848,348	\$5,848,348
Total	\$5,848,348	\$5,848,348

Disclosure Relating to Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignments of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. Accordingly, participants’ balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Rule 2a-7 funds are limited to high quality obligations such as the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit with limited maximum and average maturities, the effect of which is to minimize both market and credit risk.

Investments or deposits held by the LGIP are held by a third-party custody provider in the LGIP's name.

Note 3 – Capital Assets & Related Depreciation

Major expenses for Capital Assets, including capital leases, and major repairs to assets that increase their useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

All Capital Assets are valued at historical cost (or estimated historical cost, where historical cost is not known) or estimated market value for donated assets.

Furnishings, equipment and buildings are capitalized if they have a useful life of more than two years and an acquisition cost of \$1,000 or more per unit. Items that are sensitive in nature and whose acquisition cost is less than \$1,000 are coded to an appropriate expense category when purchased, but are assigned a capital asset number.

Skagit Transit has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, Skagit Transit has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

The original cost of operating property retired or otherwise disposed of and the cost of installation is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from Skagit Transit asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line basis. Depreciation expense is charged to operations to allocate the cost of Capital Assets over their estimated useful lives, using the straight-line method with useful lives of three to fifty years.

Capital Assets and accumulated depreciation are categorized at January 1, 2011 and again at December 31, 2011, and are as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
Capital Assets not Being Depreciated				
Land	\$3,323,563	\$ -	\$ -	\$3,323,563
Right of Way	850,000	-	-	850,000
Construction/Work in Progress	238,285	-	238,285	-
Total Assets not Being Depreciated	4,411,848	-	238,285	4,173,563
Capital Assets Being Depreciated				
Buildings	4,421,153	8	-	4,421,161
Improvements other than buildings	3,166,388	1,556,519	-	4,722,907

	Vehicles	10,472,314	653,104	1,097,313	10,028,105
	Equipment & Furnishings	997,352	81,657	56,157	1,022,852
	Intangible Assets	273,882	85,205	-	359,087
	Total Assets Being Depreciated	19,331,090	2,376,493	1,153,470	20,554,113
Less					
Depreciation for:					
	Buildings	1,535,549	150,560	-	1,686,109
	Improvements other than buildings	443,062	109,515	-	552,577
	Vehicles	4,479,710	1,378,380	1,073,381	4,784,708
	Equipment & Furnishings	720,560	105,037	43,996	781,601
	Intangible Assets	137,260	51,350	-	188,610
	Total Assets Being Depreciated	7,316,141	1,794,842	1,117,377	7,993,606
Total Capital Assets, Being Depreciated, Net		\$12,014,949			\$12,560,507
Total Net Capital Assets		<u>\$16,426,797</u>			<u>\$ 16,734,070</u>

Individual useful lives are assigned to newly acquired or rebuilt assets as follows:

Land	Not Depreciated
Buildings	30 -50years
Buses	5 -12 years
Other Vehicles	5 years
Shop Equipment	10 years
Route Improvements	20 years
Furniture & Fixtures	10 years
Intangible Assets	5-10 years
Computer Equipment	5 years
Vehicle Improvements	3-5 years

Chuckanut Park and Ride

In September 2011, Chuckanut Park and Ride was opened to the public. Skagit Transit and Washington State Department of Transportation (WSDOT) worked together to build a new 350+ stall park and ride for commuters which serves as a regional transit transfer station tying three transit systems together – Skagit Transit, Island Transit and Whatcom Transit Authority. Coordination efforts between Skagit Transit and WSDOT include the two agencies purchasing the property in 2007, and designing the project through a combination of state appropriated grant funds, Skagit Transit local funds, and grant funds awarded to Skagit Transit. Construction funding was secured through federal and state grant funds awarded to Skagit Transit. WSDOT and Skagit Transit entered into

agreement for construction management services and construction contract award and administration services. The ownership of the facility resides with WSDOT for the park and ride, ownership of the transit bus pad, shelter, and other personal property resides with Skagit Transit. Skagit Transit is responsible for maintaining the facility.

Chuckanut Park and Ride Funding Sources:

- 2005-2007 State Appropriation TPA (Transportation Partnership Account) \$4,000,000
- 2007-2009 Regional Mobility Grant Program \$194,194
- 2009-2011 Regional Mobility Grant Program \$1,773,421
- 2006 and 2010 Federal Discretionary Grant Sponsored by Congressman Rick Larsen \$697,000
- 2010 Federal Transit Administration Bus Livability Grant \$2,800,000
- Skagit Transit \$850,000
- Total Funding - \$10,314,615

Chuckanut Park and Ride Project Costs:

- Land Acquisition \$3,929,112
- Engineering and Design \$1,391,000
- *Estimated* Construction and Construction Management Costs - \$5,019,888

South Mount Vernon Park and Ride

In 2008, State Legislation transferred \$4.5 million in state appropriated funds from WSDOT to Skagit Transit to build a park and ride in South Mount Vernon. \$1.5 million was available between 2007-2009 and \$3 million between 2009-2011 biennium. In 2008 and 2009, property was acquired and construction began. The new facility boasts 360+ parking stalls with reserved vanpool parking, security cameras, lighting, and a transit bus island complete with bus shelters, informational kiosk and connections to local and regional bus services. The facility is conveniently located along the I-5 corridor making this facility an asset to commuters going both south and north of Skagit County.

Note 4 – Prepaid Rent – Skagit Station

Skagit Transit had no prepaid rent at year end 2011.

Note 5 – Qualified Retirement

All of Skagit Transit's employees have the opportunity to participate in a 401(a) Defined Contribution Plan administered by Great-West Retirement Services.

Effective 7/01/2002, the employees voted to participate in Social Security (OASDI/Old Age, Survivors and Disability Insurance). At that time, the Skagit Transit Board of Directors modified the contribution levels to be:

401(a) Defined Contribution Plan (mandatory)

5.00% by Skagit Transit

5.00% by the employee

401(a) Defined Contribution Plan

A defined contribution plan provides benefits in return for services rendered, provides an account for each participant, and specifies how contributions to the individual's accounts are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participants' accounts.

Skagit Transit employees begin mandatory participation in the 401(a) plan on the first day of employment. Contributions made by Skagit Transit vest over a 5-year period, upon the completion of each year of service (10%, 20%, 30%, 40%, 100%). An employee who leaves Skagit Transit is entitled to Skagit Transit contributions plus investment earnings at the vesting level attained.

Plan balances and contributions for FY 2011 and FY 2010 were as follows:

	<u>FY 2011</u>	<u>FY 2010</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	\$3,444,408	\$3,243,314
Employee 401(a) Contributions	215,048	204,915
SKAGIT TRANSIT 401(a) Contributions	215,048	204,915
Loan Issuances	(79,868)	(198,503)
Loan Repayments	93,427	64,123
Distributions	(168,005)	(294,861)
Adjustments	6,019	139,877
Earnings	<u>88,848</u>	<u>80,628</u>
Total Ending Fund Balances	<u>\$3,814,925</u>	<u>\$3,444,408</u>

Under Current IRS rules, the 401(a) plan is held in trust for the employees. It is the opinion of Skagit Transit's legal counsel that Skagit Transit has no liability for losses under the plans, but does have the duty of due care that would be required of an ordinary prudent investor.

There are no other post-employment benefits.

Note 6 – Insurance

A. Unemployment Insurance

Skagit Transit has elected to remain self-insured for unemployment compensation.

B. State Industrial Insurance

Skagit Transit is covered by State Industrial Insurance.

C. Medical, Dental, and Vision Insurance

A comprehensive medical, dental, and vision insurance program covers employees of Skagit Transit. The medical premiums are paid 95% by Skagit Transit with the employees sharing 5% for full time employees. Other insurances are paid for by Skagit Transit.

D. Life Insurance

Regular employees have a \$12,000 term life insurance policy that also offers some coverage for dependents. Skagit Transit pays the premium.

E. Short & Long-Term Disability Insurance

Skagit Transit pays up to 2% of the gross wage of the regular employee (who works a minimum 30 hours per week) to purchase short and long-term disability insurance. The short-term disability benefit is for 180 days. The long-term disability benefits the employee for two years beyond the exhaustion of the short-term benefit.

Note 7 – Risk Management

Washington State Transit Insurance Pool (WSTIP)

Skagit Transit is a member of the Washington State Transit Insurance Pool (WSTIP). Chapter 48.62 of the R.C.W. authorizes the governing body of one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provision of Chapter 39.94 of the R.C.W., the Interlocal Cooperation Act. The Pool was formed on January 1, 1989 when eight transits in the state of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twenty-four (24) transits from the states of Washington and Ohio have joined the Pool.

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

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

Skagit Transit joined the Washington State Insurance Pool in July 1993, for coverage effective August 1, 1993. The insurance pool covers auto and general liability, property, auto physical damage, boiler-machinery, public official's liability, public honesty bond, monies and securities, and depositors forgery insurance for Skagit Transit.

The pool's governing body consists of its Board of Directors, which is comprised of one representative and alternate from each member system. The Executive Committee consists of the pool's annually elected officers, the Past-President and two at-large positions. The Executive Committee handles the day-to-day operations of WSTIP and serves as a Claims Review Committee in all cases involving reserves in excess of \$35,000

The pool's responsibilities include:

- Providing for the management and operation of the pool;
- Providing for excess liability coverage for the members;
- Establishing deductibles and/or limits to any coverage that is provided;
- Providing an annual report and audit of the operation of the pool to the members, State Risk Manager, and the State Insurance Commissioner;
- Establishing and maintaining such funds and accounts as may be required by GAAP;
- Establishing and maintaining annual budgets for the operation of the pool;

Member responsibilities include:

- Appointing a Director and at least one Alternate Director to the board;
- Appointing an employee of the transit agency to be responsible for the risk management function within that agency;
- Maintaining an active safety officer and/or committee, and considering all recommendations of the pool concerning the development and implementation of a loss control policy to present unsafe practices;
- Reporting all losses to the pool to insure accuracy of the pool's loss data base;
- Paying its premium and any readjusted amount promptly to the pool when due.

- Providing the pool with such other information or assistance as may be necessary for the pool to carry out its responsibilities.

As of December 31, 2011, coverage includes:

Risk	Coverage
General Liability:	
Bodily Injury/Property Damage	\$12,000,000 per occurrence
Personal Injury/Advertising Injury	\$12,000,000 per each offense
Vanpool Driver medical Expense Protection	\$35,000 per each occurrence
Underinsured Motorists Coverage	\$60,000 per each occurrence
WSTIP self insured retention	\$100,000 per occurrence <i>(Deductible - \$2,500 per each coverage)</i>
Crime:	
Employee Theft	\$1,000,000
Forgery or Alterations	\$1,000,000
Theft of Money and Security	\$1,000,000
Computer Fraud	\$1,000,000
Funds Transfer Fraud	\$1,000,000
Money Orders and Counterfeit Money	\$1,000,000 <i>(Deductible - \$10,000 per each coverage)</i>
Errors & Omissions:	\$12,000,000 per occurrence <i>(Deductible - \$5,000 per occurrence)</i>

Note 8 – Contingent Liabilities

Skagit Transit has recorded in its financial statements all material liabilities, including an estimate for situations that are not yet resolved, but where, based on available information, management believes it is probable that Skagit Transit will have to make payment. In the opinion of management, Skagit Transit's insurance policies and reserves are adequate to pay all known or pending claims.

Based on the above criteria Skagit Transit has no unresolved claims against it at December 31, 2011.

The agency participates in a number of Federal assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement by grantor agencies for expenses disallowed under the terms of the grant. Skagit Transit management believes that such disallowance, if any, will be immaterial.

Note 9 – Commitments & Leases

Commitments

At December 31, 2011 Skagit Transit had the following in effect:

Contractor	Contract No. & Title	Contract Term (Incl. Current Option Year Extension)	Status Notes
Americaneagle.com	11-024 / Website Enhancement & Hosting Services	3/1/12 – 2/28/17	5-YR term + 2 Option Years until 2019
Associated Petroleum	10-008-F / Card Lock Fueling	11/1/10 – 10/31/12	2-YR term + 3 Option Years until 2015
Associated Petroleum	09-020-F / ULSD Fuel Delivery	2/1/10 – 1/31/12	2-YR term + 3 Option Years until 2015
Cummins NW	10-010-F / Diesel Engine Overhaul Services	2/1/11 – 1/31/13	2-YR term + 3 Option Years until 2016
Diversint	08-013-F/ IT Support Services	9/1/08 – 8/31/12	1-YR Term + 4 Option Years until 2013 Amendment #3 extends to 8/31/12
Garner's Northwest	07-001-F-P / Landscaping Services	7/1/07 – 6/30/12 (New RFP issued 4/11/12)	2-YR Term + 3 Option Years until 2012 Amendment #5 extends to 6/30/12
Geiger's Custom Cleaning	10-006-F-P / Janitorial Services	11/1/10 – 10/31/12	2-YR Term + 3 Option Years until 2015
GreyHawk Technologies	09-001-F / MDT-AVL System & Support Services	3/30/09 – 3/29/13	1-YR Term + 4 Option Years until 2014 Amendment #4 extends to 3/29/13
Langabeer & Tull	08-016-F / Legal Services	12/1/08 – 11/30/12	3-YR Term + 2 Option Years until 2013 Amendment #1 extends to 3/29/12
Mortenson Signs	08-022-F / Vehicle Graphics & Installation	3/1/09 – 2/28/13	2-YR Term + 3 Option Years until 2014 Amendment #4 extends to 2/28/13
Olympic Security Services	08-017-F / Security Guard Services	3/1/09 – 2/29/13	1-YR Term + 4 Option Years until 2014 Amendment #4 extends to 2/29/13
Pat Rimmer Tire Center	09-007-F / Tire Services	9/1/09 – 8/31/12	3-YR Term + 2 Option Years until 2014
Perteet, Inc.	11-006 / On-Call Engineering Services	8/1/11 – 7/31/14	3-YR Term + 2 Option Years until 2016
Seaside Autobody	09-021-F / Autobody Repair Services	2/1/10 – 1/31/13	3-YR Term + 2 Option Years until 2015

Operating Leases

As of December 31, 2011, Skagit Transit leases some office equipment. Total 2011 cost for lease expense was \$6,700. The future lease payments for noncancellable leases are as follows:

<u>Year</u>	<u>Annual Cost</u>
2012	\$6,700
2013	4,784
2014	4,401
2015	734

Note 10 – Reserve Accounts

The Skagit Transit Board of Directors by Resolution No. 50 established a reserve account. In subsequent action, the Board separated the account into three distinct categories. All action within these accounts, not including usual interest receipts, is required to be Board approved. As of December 31, 2011, the account balances were:

Capital Reserve:	
Facilities	400,000
Capital Replacement	2,082,329
Undesignated Reserve	2,154,270
Operating Reserve	<u>1,211,749</u>
Total:	\$ 5,848,348

Note 11 – Self-funded insurance

On January 1, 2009, Skagit Transit established a self-insured dental plan. Based on actuary information, Skagit Transit set aside reserve amount to cover claims that could arise in the self-insured plan. Skagit Transit has contracted with The Guardian Life Insurance Company of America, a third-party administrator, to provide administrative services for this dental program. As of December 31, 2011 and 2010, assets of \$54,084 and \$37,064 were in account, respectively. The estimated liability for outstanding claims at December 31, 2011 and 2010 was \$3,473 and \$10,063, respectively. Skagit Transit made a decision to end the self-insured dental plan at the end of 2011.

Note 12 – Other Disclosures

Labor Negotiations

On February 21, 2007, the Skagit Transit Board approved a contract with Local 176T of the Washington State Council of County and City Employees affiliated with the American Federation of State, County and Municipal Employees, AFL-CIO. AFSCME

represents the Fixed Route and Dial-a-Ride operators at Skagit Transit. The current two-year contract was signed on April 20, 2011 and expires on December 31, 2012.

In Feb 2011, the machinist union members voted to dissolve the International Association of Machinists (IAM) District Lodge 160 which was established on August 20, 2008.