



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

# Skagit County Public Transportation Benefit Area (Skagit Transit)

For the period January 1, 2015 through December 31, 2015

Published September 15, 2016

Report No. 1017456





## Washington State Auditor's Office

September 15, 2016

Board of Directors  
Skagit Transit  
Burlington, Washington

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

Please find attached our report on the Skagit Transit's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Skagit Transit

### Skagit County

January 1, 2015 through December 31, 2015

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Skagit Transit 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 basic financial statements in accordance with accounting principles generally accepted in the United States of America (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 Transit.

### 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 Transit’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 program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit_Formula Grants

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

The Transit qualified 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**

**Skagit Transit  
Skagit County  
January 1, 2015 through December 31, 2015**

Board of Directors  
Skagit Transit  
Burlington, 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 Skagit Transit, Skagit County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated September 8, 2016.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

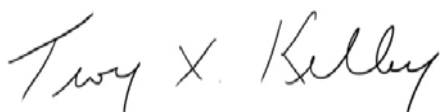
## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Transit's financial statements are free from material misstatement, we performed tests of the Transit'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 Transit'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 Transit'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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 8, 2016

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

**Skagit Transit  
Skagit County  
January 1, 2015 through December 31, 2015**

Board of Directors  
Skagit Transit  
Burlington, Washington

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

We have audited the compliance of the Skagit Transit, Skagit County, Washington, 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 Transit's major federal programs for the year ended December 31, 2015. The Transit'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 Transit'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 Transit'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 Transit's compliance.

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

In our opinion, the Transit 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, 2015.

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

Management of the Transit 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 Transit'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 Transit's internal control over compliance.

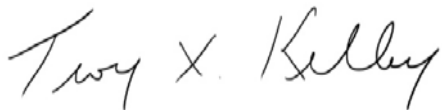
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 8, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

**Skagit Transit**

**Skagit County**

**January 1, 2015 through December 31, 2015**

Board of Directors  
Skagit Transit  
Burlington, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Skagit Transit, Skagit County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 14.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 Transit'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 Transit'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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Skagit Transit, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

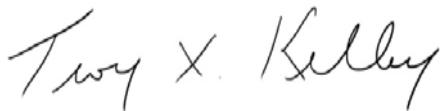
### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit's basic financial statements. The accompanying 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). This schedule is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 September 8, 2016 on our consideration of the Transit'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 Transit's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 8, 2016

## **FINANCIAL SECTION**

**Skagit Transit  
Skagit County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

# 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, 2015. 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, 2015, by \$37,448,063. Of this amount, \$14,347,393 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 position increased by \$1,418,000 in 2015. The overall financial condition of Skagit Transit as of December 31, 2015 was considered to have improved. At year-end, the budget was balanced with Skagit Transit projected to remain in the black for operating expenses throughout 2016.
- Passenger Fares decreased by \$47,006 between 2014 and 2015.
- Skagit Transit remained free of long-term debt during the period.

### **Summary Statement of Net Position**

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets	\$14,953,099	\$18,602,619
Capital Assets	<u>23,100,670</u>	<u>18,159,380</u>
Total Assets	38,053,769	36,761,999
Liabilities		
Current Liabilities	404,001	527,262
Noncurrent Liabilities	<u>201,706</u>	<u>204,674</u>
Total Liabilities	605,707	731,936
Net Position		
Investment in Capital Assets	23,100,670	18,159,380
Unrestricted	<u>14,347,393</u>	<u>17,870,683</u>
Total Net Position	<u>\$37,448,063</u>	<u>\$36,030,063</u>

## Summary Statement of Revenues, Expenses and Changes in Fund Net Position

	2015	2014
Operating Revenues:		
Passenger Fares	\$ 946,168	\$ 993,174
Non-Operating Revenues		
Sales Tax	10,233,474	9,587,215
Interest	27,469	23,258
Grants	2,158,524	2,182,771
Gain (loss) on Disposition of Assets	61,626	5,741
Other Non-operating Revenues	39,568	49,902
Total Revenues	13,466,829	12,842,061
Operating Expenses		
Operations	6,168,579	6,041,118
Maintenance	2,209,430	2,202,158
Administration	2,534,230	2,482,542
Depreciation	1,784,819	1,794,555
Total Expenses	12,697,059	12,520,373
Net Income (loss) Before Contributions	769,769	321,689
Capital Contributions	572,948	488,452
Increase (decrease) in net position	1,342,717	810,141
Prior Period Adjustment	75,283	(189,790)
Net Position - Beginning of period	36,030,063	35,409,713
Net Position - End of period	37,448,063	36,030,063

### 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 Position presents information on all the PTBA's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 Position present information showing how the PTBA's net position changed during the fiscal year. All changes in net positions 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 Position**

For the year ending December 31, 2015, assets exceeded liabilities by \$37,448,063. Transit is a capital-intensive enterprise, and 61.69 % of Skagit Transit's net assets are invested in capital assets.

Skagit Transit ended 2015 with \$23,100,670 in Capital Assets. See Note 3 for further information.

During 2015 Capital Assets increased by \$4,941,289. Skagit Transit purchased new property and five (5) new Fixed Route and Paratransit buses, one (1) staff vehicle, and thirteen (13) vanpool vans in 2015.

Inventory levels increased by \$48,134 during 2015. It is expected that inventory levels will be maintained at appropriate levels to match our service levels.

Cash and cash equivalents were decreased by \$3,774,418 in 2015 from 2014. Skagit Transit used local funds to purchase the new property for the main office.

Skagit Transit was successful in receiving state and federal grants to fund most of the capital project such as new vehicles, bus shelter seating. Skagit Transit continues to aggressively seek all available grants.

### **Operating Revenues**

Operating revenues for fares decreased by \$47,006 during 2015. Fixed Route service had a revenue decrease of \$27,902 or 5.7%, Paratransit had an increase of \$77, or 1% and Vanpool had a decrease of \$19,181, or 3.8%. Fixed Route ridership decreased by 2.7%. The ridership for Paratransit and Vanpool were about the same as 2014. For all modes, there were 1,003,092 unlinked passenger trips in 2015. Fares are structured so that commuter routes are two times the local fixed route fare and paratransit is operated fare free.

## **Non-Operating Revenues**

Revenues from the transit portion of the sales tax increased by \$646,259 or 6.7% over 2014. 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 \$27,469 in 2015. It increased in 2015 by 18.1 % from \$23,258 received in 2014.

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 2015 as a result of increase in salaries, wages, and benefits and inflation.

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 has seen steady growth over the year and supported 50 vanpool groups in 2015. Many large employers have increased subsidies to make it advantageous to use vanpools. The program will continue to target new markets to expand the program in 2016.

### Operating Expenses by Department

Operations – \$6,168,579 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$2,209,430 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$2,534,230 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation - \$1,784,819 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total Operating Expenses were \$12,697,059.

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 July 2010 through July 2015, the county population grew at 4.2% rate compared to 6.6% 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 been recovering in 2015.

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 6% in 2012 over 2011, 5% in 2013 over 2012, 2.3% in 2014 over 2013, and 6.7% in 2015 over 2014.

The county's average unemployment rate in 2015 was 6.7% compare to 5.7% for the state.

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 have been 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.

## **Capital Assets**

Skagit Transit's investment in capital assets as of December 31, 2015, amounted to \$23,100,670 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 approximately 27.2% during the year. In 2015, Skagit Transit purchased five (5) new Fixed Route and Para Transit buses, one (1) staff vehicle, and thirteen (13) vanpool vans. Skagit Transit also acquired 7.4 acre property that includes 68,230 sf building. Skagit Transit is planning to remodel this property and use it as the main office building for Maintenance, Operations, and Administration in the future.

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 Position**  
**December 31, 2015**

**ASSETS**

Current Assets:	
Cash	\$ 4,094,777
Investments	8,527,275
Taxes receivables	1,774,456
Accounts receivable (net of allowance for uncollectibles)	26,432
Due from other governments	170,432
Inventory	359,728
Total Current Assets	14,953,099
Noncurrent Assets:	
Capital assets not being depreciated	
Land	4,927,556
Right of way	850,000
Capital assets being depreciated	
Buildings	8,190,278
Improvements other than buildings	6,111,570
Vehicles	12,024,650
Intangible Assets	808,817
Equipment & Furnishings	1,298,097
<i>Less: Accumulated depreciation</i>	
Buildings	(2,236,042)
Improvements other than buildings	(1,063,225)
Vehicles	(6,361,690)
Equipment & Furnishings	(990,934)
Intangible Assets	(458,407)
Total Net Capital Assets	23,100,670
Other noncurrent assets:	
Total Other Noncurrent Assets	
Total Noncurrent Assets	23,100,670
<b>Total Assets</b>	<b>38,053,769</b>

**LIABILITIES**

Current Liabilities:	
Accounts payable	91,089
Compensated Absences	44,566
Benefit payable	78,703
Taxes and other payables	189,643
Total Current Liabilities	404,001
Noncurrent liabilities:	
Compensated Absences	201,706
Total Noncurrent Liabilities	201,706
<b>Total Liabilities</b>	<b>605,707</b>
Net Position:	
Net Investment in Capital Assets	23,100,670
Unrestricted	14,347,393
<b>Total Net Position</b>	<b>\$ 37,448,063</b>

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

**Skagit Transit**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For Fiscal Year Ended December 31, 2015**

Operating Revenues:	
Passenger Fares	946,168
Total Operating Revenues	946,168
Operating Expenses:	
Operations	6,168,579
Maintenance	2,209,430
Administration	2,534,230
Depreciation	1,784,819
Total Operating Expenses	12,697,059
Operating Income (Loss)	(11,750,891)
Non-Operating Revenues (Expenses):	
Sales Tax	10,233,474
Interest	27,469
Grants	2,158,524
Gain (loss) on Disposition of Assets	61,626
Other Non-operating Revenues (Expenses)	39,568
Total Non-Operating Revenues (Expenses)	12,520,660
Income(loss) before contributions, gains, losses, other revenues and expenses	769,769
Capital Contributions	572,948
Increase (decrease) in net position	1,342,717
Prior Period Adjustment	75,283
Net Position - Beginning of period	36,030,063
Net Position - End of period	37,448,063

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, 2015**

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 942,858
Cash Payments to Suppliers for Good & Services	(2,842,517)
Cash Payments to Employees for Services	(8,244,088)
Other Cash Receipts	52,803
Net Cash Provided (Used) by Operating Activities	<u>(10,090,944)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	10,156,733
Federal, State and Local Assistance Received	2,124,682
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>12,281,415</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(6,664,222)
Capital Grants and Contributions	610,076
Proceeds from Sale of Equipment	73,500
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,980,646)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(15,757)
Interest on Investments	15,757
Net Cash Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,790,175)</u>
Cash and Cash Equivalents, Beginning	7,884,952
Cash and Cash Equivalents, Ending	<u><u>\$ 4,094,777</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, 2015**

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	(11,750,892)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation on Capital Assets	\$ 1,784,819
Nonoperating Expenses/Misc Nonoperating Revenue	52,803
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(3,310)
Decrease (Increase) in Inventories	(48,133)
Increase (Decrease) in Accounts Payable	(117,831)
Increase (Decrease) in Wages & Benefits Payable	(8,400)
Total Adjustments	1,659,948
Net Cash Provided (Used) by Operating Activities	\$ (10,090,944)

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



## Notes to Financial Statements December 31, 2015

### **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 position (or balance sheets). Their reported fund net position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. 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).

Skagit Transit 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 Skagit Transit'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 Skagit Transit 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.

**c) Assets, Liabilities, and Net Position**

**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, vanpool charges and local sales tax collected. Total accounts receivable was \$26,432 and local sales tax receivable was \$1,774,456.

**c) Amounts Due From Other Governments**

Amounts due from other governments include grant reimbursements of \$161,449 and fuel and property tax refund of \$8,983.

**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 December 31, 2015, Skagit Transit carried an inventory valued at \$359,728 for

consumable parts and supplies used in the maintenance and repair of vehicles and facilities.

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 \$5,000 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	3-5 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 \$44,566 as of December 31, 2015 and noncurrent liability was \$201,706.

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	\$ 45,266	\$ 204,674	\$ 249,940
Leave Earned	114,913	487,040	601,953
Leave Paid	115,613	490,008	605,621
Ending Balance	44,566	201,706	246,272

h) Fund Reserves & Designations – See Note 10

i) There were no material violations of finance related legal or contractual provisions during FY 2015.

**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, 2015, Skagit Transit had the following investments:

Investment	Cost	Fair Value
Local Governmental Investment Pool	\$8,527,275	\$8,527,275
<b>Total</b>	<b>\$8,527,275</b>	<b>\$8,527,275</b>

**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 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 \$5,000 or more per unit. Items that are sensitive in nature and whose acquisition cost is less than \$5,000 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, 2015, and again at December 31, 2015. Depreciation for 2015 includes \$75,283 prior period adjustment (See Note 11) and are as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
<b>Capital Assets not Being Depreciated</b>				
Land	\$3,323,563	\$ 1,603,993	\$ -	\$4,927,556
Right of Way	850,000	-	-	850,000
Construction/Work in Progress	-	-	-	-
Total Assets not Being Depreciated	4,173,563	1,603,993	-	5,777,556
<b>Capital Assets Being Depreciated</b>				
Buildings	4,604,066	3,588,669	2,457	8,190,278
Improvements other than buildings	6,131,779	-	20,208	6,111,570
Vehicles	11,962,338	1,192,554	1,130,242	12,024,650
Equipment & Furnishings	1,303,230	124,659	129,792	1,298,097
Intangible Assets	538,734	270,083	-	808,817
Total Assets Being Depreciated	24,540,147	5,175,965	1,282,699	28,433,412
<b>Less Depreciation for:</b>				
Buildings	2,055,123	183,377	2,457	2,236,042
Improvements other than buildings	1,025,588	166,122	128,486	1,063,225
Vehicles	6,148,881	1,332,035	1,119,226	6,361,690
Equipment & Furnishings	991,774	70,550	71,393	990,933

Intangible Assets	332,962	125,941	496	458,407
Total Assets Being Depreciated	10,554,329	1,878,025	1,322,058	11,110,298
Total Capital Assets, Being Depreciated, Net	\$13,985,818			\$17,323,114
Total Net Capital Assets	\$18,159,380			23,100,670

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	3-5 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

**Note 4 – Prepaid Rent – Skagit Station**

Skagit Transit had no prepaid rent at year end 2015.

**Note 5 – Qualified Retirement**

Effective January 1, 1998, the Board of Directors approved Resolution#64 declaring Empower-Retirement (formally Great-West Retirement Services) as Skagit Transit’s third party administrator for the Skagit Transit 401(a) and 457 plans. All of Skagit Transit’s employees have the opportunity to participate in a 401 (a) Defined Contribution Plan.

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. As of December 31, 2015, there were 121 current employees and 55 former employees participating in the plan.

Plan balances and contributions for FY 2015 and FY 2014 were as follows:

	<u>FY 2015</u>	<u>FY 2014</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	5,265,603	\$4,726,544
Employee 401(a) Contributions	336,075	374,664
SKAGIT TRANSIT 401(a) Contributions	285,646	267,915
Loan Issuances	(57,163)	(164,692)
Loan payments	132,677	123,593
Distributions	(741,083)	(292,504)
Adjustments	(71,146)	130,176
Earnings	<u>97,914</u>	<u>99,907</u>
Total Ending Fund Balances	<u>\$5,248,521</u>	<u>\$5,265,603</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. Skagit Transit 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, 2014, 263 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 insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through 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. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims. Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the 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 the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC. The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office. Other insurances are paid 100% 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-five (25) 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, 2015 coverage includes:**

<u>Risk</u>	<u>Coverage</u>
-------------	-----------------

General Liability:

Bodily Injury/Property Damage	\$20,000,000 per occurrence
Personal Injury/Advertising Injury	\$20,000,000 per each offense
Vanpool Driver medical Expense Protection	\$35,000 per each occurrence
Underinsured Motorists Coverage	\$60,000 per each occurrence

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>

Public Officials Liability:

\$20,000,000 per occurrence & Aggregate  
limits of Liability  
*(Deductible - \$5,000 per occurrence)*

**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, 2015.

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, 2015 Skagit Transit had the following in effect:

**2015 Commitments – Contracts over \$25,000**

**(Excluding Lease Agreements)**

<b>Contractor</b>	<b>Contract No. &amp; Title</b>	<b>Initial Contract Term</b>	<b>Additional Terms or Option Yrs</b>	<b>Contract Amount</b>
Americaneagle.com	11-024 / Website Enhancement & Hosting Svcs	3/1/12 – 2/28/17	2 Option Years until 2019	YTD (5/6/16) <b>\$110,500</b>
Associated Petroleum	15-020-F / Card Lock Fueling	12/1/15 – 11/30/18	2 Option Years until 2022	YTD (5/6/16) <b>\$196,785.64</b>
Associated Petroleum	14-015-F / ULSD Fuel Delivery	2/1/15 – 1/31/20	2 Option Years until 2022	YTD (5/6/16) <b>\$491,870.98</b>
Duo-Gard Industries	12-007-F / Bus Shelters	12/1/12 – 11/30/17	N/A	YTD (5/6/16) <b>\$93,908.94</b>
Evolve, Inc.	15-001-F / Security Cameras	4/1/15 – 3/31/17	N/A	YTD (5/6/16) <b>\$15,566.50</b>
Firstline Communications	14-006-P / Unified Communications & Contact Ctr	11/1/14 – 10/31/15	4 Option Years until 2019	YTD (5/6/16) <b>\$156,748.23</b>
Frontline Cleaning	15-015-P / Janitorial Services	11/1/15 – 10/31/18	2 Option Years until 2020	YTD (5/6/16) <b>\$21,905.00</b>
G4S Secure Solutions (USA)	14-001-F / Security Guard Services	4/1/14 – 5/31/16	3 Option Years until 2019	YTD (5/6/16) <b>\$212,435.00</b>
Garner's Northwest	12-001 / Landscape Maintenance Services	9/1/12 – 8/31/15	2 Option Years until 2017	YTD (5/6/16) <b>\$177,697.79</b>
Langabeer & Traxler	13-013 / General Counsel Legal Services	12/1/13 – 11/30/18	2 Optional 5-YR Terms	YTD (5/6/16) <b>\$25,065.25</b>
Mortenson Signs	14-004 / Vehicle Graphics	6/1/14 – 5/31/17	2 Option Years until 2019	YTD (5/6/16) <b>\$11,493.52</b>
Pat Rimmer Tire Center	14-008 / Tires & Related Services	9/1/14 – 8/31/16	3 Option Years until 2019	YTD (5/6/16) <b>\$135,018.08</b>
Perteet, Inc.	11-006 / On-Call Engineering Services	8/1/11 – 7/31/14	2 Option Years until 2016	YTD (5/6/16) <b>\$469,031.66</b>
Seaside Auto Body	14-014 / Auto Body Services	2/1/15 – 1/31/20	2 Option Years until 2022	YTD (5/6/16) <b>\$52,225.66</b>

**Operating Leases:**

As of December 31, 2015, Skagit Transit leases some office equipment. Total 2015 cost for lease expense was \$22,514. The future lease payments are as follows:

<u>Year</u>	<u>Annual Cost</u>
2016	22,072
2017	20,240
2018	9,940
2019	6,850
2020	4,822

**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, 2015, the account balances were:

Capital Reserve:	
Facilities	400,000
Capital Replacement	3,862,852
Undesignated Reserve	2,167,989
Operating Reserve	<u>2,096,434</u>
Total:	\$ 8,527,275

**Note 11 – Prior Period Adjustment**

A prior period adjustment was made to decrease accumulated depreciation by \$75,283. The adjustment was made to correct calculation method that had been applied incorrectly to calculate depreciation expense for buildings, improvements other than buildings, intangible assets & furnishings, restating Net position at December 2014 from \$36,030,063 to \$36,105,346.

**Skagit County Public Transportation Benefit Area  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency) Federal Transit Cluster	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X094	-	5,408	5,408	-	1,2
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X597	-	1,645,601	1,645,601	-	1,2
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X555	-	185,848	185,848	-	1,2
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X058	-	51,568	51,568	-	1,2
Federal Transit Administration (fta), Department Of Transportation (via Washington State Department of Transportation)	Bus and Bus Facilities Formula Program	20.526	GCB1858	184,925	-	184,925	-	1,2
		<b>Total CFDA 20.507:</b>		-	<b>1,888,425</b>	<b>1,888,425</b>	-	
		<b>Total Federal Transit Cluster:</b>		<b>184,925</b>	<b>1,888,425</b>	<b>2,073,350</b>	-	
<b>Transit Services Programs Cluster</b>								
Federal Transit Administration (fta), Department Of Transportation (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB2111	428	-	428	-	1,2
Federal Transit Administration (fta), Department Of Transportation (via Washington State Department of Transportation)	New Freedom Program	20.521	GCB1634-A&B	50,021	-	50,021	-	1,2
		<b>Total Transit Services Programs Cluster:</b>		<b>50,449</b>	-	<b>50,449</b>	-	
		<b>Total Federal Awards Expended:</b>		<b>235,374</b>	<b>1,888,425</b>	<b>2,123,799</b>	-	

The accompanying notes are an integral part of this schedule.

## **Skagit Transit, Washington**

### **Notes to the Schedule of Expenditures of Federal Awards**

#### **NOTE 1 - BASIS OF ACCOUNTING**

This schedule is prepared on the same basis of accounting as the Skagit Transit's financial statements. The Skagit Transit uses the accrual basis of accounting.

#### **NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs, after program income has been removed. Entire program costs, including the Skagit Transit's portion, are more than shown.

## 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.

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
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<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>