



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

**Financial Statements and Federal Single Audit  
Report**

**Skagit County Public Transportation  
Benefit Area  
(Skagit Transit)**

**For the period January 1, 2019 through December 31, 2019**

**Published August 13, 2020**

**Report No. 1026741**





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

August 13, 2020

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,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Skagit Transit January 1, 2019 through December 31, 2019

### 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 each of its major federal programs.

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

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

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit Cluster – Federal Transit Formula Grants
20.526	Federal Transit Cluster – Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs

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

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

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

None reported.

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

None reported.

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

**Skagit Transit  
January 1, 2019 through December 31, 2019**

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, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated August 6, 2020.

As discussed in Note 11 to the 2019 financial statements, in February 2020 a state of emergency was declared that could have a negative financial effect on the Transit. Management's plans in response to this matter are also described in Note 11.

**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.

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Pat McCarthy

State Auditor

Olympia, WA

August 6, 2020



**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  
January 1, 2019 through December 31, 2019**

Board of Directors  
Skagit Transit  
Burlington, Washington

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

We have audited the compliance of the Skagit Transit, 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, 2019. 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, 2019.

## **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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

August 6, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Skagit Transit** **January 1, 2019 through December 31, 2019**

Board of Directors  
Skagit Transit  
Burlington, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Skagit Transit, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 16.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2019, 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.

## **Matters of Emphasis**

As discussed in Note 11 to the 2019 financial statements, in February 2020 a state of emergency was declared that could have a negative financial effect on the Transit. Management's plans in response to this matter are also described in Note 11. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 as a whole. 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 August 6, 2020 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.

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Pat McCarthy

State Auditor

Olympia, WA

August 6, 2020

## **FINANCIAL SECTION**

### **Skagit Transit January 1, 2019 through December 31, 2019**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2019

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

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

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019



# Skagit Transit

## *Management Discussion & Analysis*

### Overview

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 using accounting methods similar to those used by private sector companies.

The Statement of Net Position presents information on all 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 Transit is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position present information showing how the Transit'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 Transit, and earned but unused vacation leave).

This MD&A should be viewed along with the attached Financial Statements.

### Comparative Analysis

#### Summary Statement of Net Position

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets	\$14,296,698	\$16,502,976
Capital Assets	<u>27,642,184</u>	<u>24,814,668</u>
Total Assets	41,938,881	41,317,644
Liabilities		
Current Liabilities	710,408	660,149
Noncurrent Liabilities	<u>282,029</u>	<u>260,655</u>
Total Liabilities	992,437	920,805
Net Position		
Investment in Capital Assets	27,642,184	24,814,668
Unrestricted	<u>13,304,261</u>	<u>15,582,171</u>
Total Net Position	<u>\$40,946,444</u>	<u>\$40,396,839</u>

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

	2019	2018
Operating Revenues:		
Passenger Fares	\$935,050	\$909,834
Non-Operating Revenues		
Sales Tax	13,092,314	13,055,020
Interest	169,765	157,437
Grants	2,217,135	646,508
Gain (loss) on Disposition of Assets	(388,056)	44,521
Other Non-operating Revenues	610,971	87,021
<b>Total Revenues</b>	<b>15,702,129</b>	<b>13,990,507</b>
Operating Expenses		
Operations	8,997,813	8,180,142
Maintenance	2,551,832	2,585,527
Administration	3,180,979	3,437,885
Depreciation/Amortization	2,283,833	2,446,808
<b>Total Expenses</b>	<b>17,014,457</b>	<b>16,650,362</b>
Net Income (loss) Before Contributions	(377,278)	(1,750,021)
Capital Contributions	707,022	1,893,828
<b>Increase (decrease) in net position</b>	<b>329,744</b>	<b>143,807</b>
Prior Period Adjustment	219,861	10,010
<b>Net Position - Beginning of period</b>	<b>40,396,839</b>	<b>40,243,023</b>
<b>Net Position - End of period</b>	<b>\$40,946,444</b>	<b>\$40,396,839</b>

### Financial Highlights

- Total Net Position as of December 31, 2019 was \$40,946,444. This is how much Assets exceeded Liabilities. Of this total, \$13,304,261 may be used to meet ongoing obligations to provide services to the public, as well as the purchase or construction of capital assets.
- Total Net Position increased by \$549,605 from the prior year
- Sales tax revenues increased by \$37,294 or .28%
- Passenger Fares increased by \$25,216 or 2.77%. An extensive community outreach and public process was completed resulting in Board approval of a fare implementation for the Paratransit program and fare rate increases for the Fixed Route, Commuter, and Vanpool programs.
- Capital Assets increased by \$2,827,516 after depreciation. Most of this increase was due to the purchase of six (6) diesel buses for the Fixed and Commuter routes, 12 Vanpool vehicles, and Architecture and Engineering costs for the new Maintenance, Operations, and Administrations (MOA2) facility.

- The Transit received a total of \$2,217,135 in federal, state, and local grants that was used for both operating and capital expenses.
- Skagit Transit remained free of long-term debt during the period.

## **Financial Analysis**

Skagit Transit's overall financial condition remains unchanged from the prior year. Revenues from sales taxes and passenger fares were fairly consistent. Skagit Transit was successful in pursuing Grants in 2019, and will continue to pursue available state, federal, and local grants to supplement its operations.

### **Operating Revenues**

Operating revenues from fares increased by \$25,216 during 2019. Fixed route service had a revenue increase of \$11,278 or 3%, Paratransit had an increase of \$1,533, or 16% and Vanpool had an increase of \$12,624, or 3%. Fixed route ridership decreased by 3.3% and Vanpool ridership increased by 3.4%. Paratransit ridership increased by 13%. For all modes, there were 896,230 unlinked passenger trips in 2019. Fares are structured so that commuter routes are two times the local fixed route fare and paratransit is operated fare free.

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

ADA Paratransit service is scheduled through a dispatch center.

Vanpool service was initiated in June 2002. The Skagit Transit Vanpool program remained fairly consistent throughout 2019 with an average of 47 active vanpool groups. The Vanpool program accrued a total of 1,069,171 revenue miles in 2019, ending the year with over 325 participants. As always, expansion is a sought after goal. Yet to sustain active groups, support and assistance remains a primary focus. The program will continue to provide an affordable and environmentally friendly option for long distance commuting.

### **Non-Operating Revenues**

Revenues from the transit portion of the sales tax increased by \$37,294 or 0.28% over 2018. Skagit Transit receives 4/10 of 1% of Sales Taxes collected within the Public Transportation Benefit Area (PTBA) from a voter approved proposition in 2008.

Interest income was \$169,765 in 2019. It increased in 2019 by 7.8% compared to the \$157,437 received in 2018.

Grant revenues were derived from thirteen (13) federal, state and local grants for use in capital and operating expenditures.

## **Operating Expenses**

Operating expenses increased by 2.2% in 2019.

### Operating Expenses by Department

Operations – \$8,997,813 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$2,551,832 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$3,180,979 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation/Amortization - \$2,283,833 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total Operating Expenses were \$17,014,457.

## **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 April 2010 through July 2019, the county population grew at 10.5% rate compared to 13.2% for the state.

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 8.7% in 2016 over 2015, 5.9% in 2017 over 2016, 10.9% in 2018 over 2017, and 0.29% in 2019 over 2018.

Skagit County's average unemployment rate in 2019 was 5.4% compared to 4.3% for the state.

Grant applications are submitted for identified agency needs where there is a funding shortage. Federal Transit Administration (FTA) or US Department of Transportation (USDOT) Grant capital funding is actively being sought for the phase II construction of the new Maintenance, Operations and Administrations Building (MOA2).

Skagit Transit management has made a commitment to meeting the needs of the public in a financially sound manner.

## **COVID-19 Pandemic**

The pandemic emerged during the early part of fiscal year 2020 and is expected to have a material effect on the financial position of Skagit Transit for fiscal year 2020. Skagit Transit has taken certain actions to respond to this situation including the suspension of fares, implementation of social distancing guidelines and reducing services consistent with the decreased ridership. Skagit Transit expects a significant decrease in its sales tax collections starting in May 2020, which is expected to continue throughout the year. Skagit Transit will utilize federal stimulus funds in order to supplement its operations.

## **Request for Information**

This financial report is designed to provide a general overview of the Transit'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, 2019**

**ASSETS**

Current Assets:		
Cash	\$	5,112,847
Investments		6,270,495
Taxes receivables		2,258,197
Accounts receivable (net of allowance for uncollectibles)		30,921
Due from other governments		239,021
Inventory		385,216
Total Current Assets		<u>14,296,698</u>
Noncurrent Assets:		
Capital assets not being Depreciated		
Land		5,935,314
Right of way		850,000
Construction in Progress		1,855,902
Capital assets being Depreciated/Amortized		
Buildings		8,899,771
Improvements other than buildings		6,262,567
Vehicles		17,915,188
Intangible Assets		1,056,529
Equipment & Furnishings		2,025,914
<i>Less: Accumulated Depreciation/Amortization</i>		
Buildings		(3,249,966)
Improvements other than buildings		(1,689,392)
Vehicles		(10,022,634)
Equipment & Furnishings		(1,347,118)
Intangible Assets		(849,891)
Total Net Capital Assets		<u>27,642,184</u>
Total Noncurrent Assets		<u>27,642,184</u>
<b>Total Assets</b>		<b><u>41,938,881</u></b>

**LIABILITIES**

Current Liabilities:		
Accounts payable		79,413
Compensated Absences		56,530
Wages & Leave Payable		348,798
Benefit payable		98,082
Taxes and other payables		127,585
Total Current Liabilities		<u>710,408</u>
Noncurrent liabilities:		
Compensated Absences		282,029
Total Noncurrent Liabilities		<u>282,029</u>
<b>Total Liabilities</b>		<b><u>992,437</u></b>

**NET POSITION**

Net Position:		
Net Investment in Capital Assets		27,642,184
Unrestricted		13,304,261
<b>Total Net Position</b>	<b>\$</b>	<b><u>40,946,444</u></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, 2019**

Operating Revenues:	
Passenger Fares	\$ 935,050
Total Operating Revenues	935,050
Operating Expenses:	
Operations	8,997,813
Maintenance	2,551,832
Administration	3,180,979
Depreciation/Amortization	2,283,833
Total Operating Expenses	17,014,457
Operating Income (Loss)	(16,079,407)
Non-Operating Revenues (Expenses):	
Sales Tax	13,092,314
Interest	169,765
Grants	2,217,135
Gain (loss) on Disposition of Assets	(388,056)
Other Non-operating Revenues (Expenses)	610,971
Total Non-Operating Revenues (Expenses)	15,702,129
Income(loss) before contributions, gains, losses, other revenues and expenses	(377,278)
Capital Contributions	707,022
Increase (decrease) in net position	329,744
Prior Period Adjustment	\$ 219,861
Net Position - Beginning of period	\$ 40,396,839
Net Position - End of period	\$ 40,946,444

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, 2019**

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 917,538
Cash Payments to Suppliers for Good & Services	(3,208,614)
Cash Payments to Employees for Services	(11,452,146)
Other Cash Receipts	612,601
Net Cash Provided (Used) by Operating Activities	<u>(13,130,621)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	13,095,220
Federal, State and Local Assistance Received	2,192,637
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>15,287,857</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(4,891,488)
Capital Grants and Contributions	799,427
Proceeds from Sale of Equipment	(388,536)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,480,596)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(168,615)
Proceeds from Investment Transfer to Savings	2,685,000
Interest on Investments	168,615
Net Cash Provided (Used) by Investing Activities	<u>2,685,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>361,639</u>
Cash and Cash Equivalents, Beginning	4,751,208
Cash and Cash Equivalents, Ending	<u><u>\$ 5,112,847</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 Deceember 31, 2019**

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (16,079,407)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation/Amortization on Capital Assets	2,283,833
Nonoperating Expenses/Misc Nonoperating Revenue	612,601
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(17,512)
Decrease (Increase) in Inventories	(1,768)
Increase (Decrease) in Accounts Payable	41,385
Increase (Decrease) in Wages & Benefits Payable	30,247
Total Adjustments	<u>2,948,786</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (13,130,621)</u></u>

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

**SKAGIT TRANSIT**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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

The financial statements of Skagit Transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

**A. Reporting Entity**

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 Agency is a special purpose government and provides public transportation to the general public within Skagit County and is supported primarily through local sales tax. The agency is governed by an elected nine member board. 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. Measurement Focus, Basis of Accounting**

Skagit Transit's statements 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 non-operating items. 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 the cost of sales and services, administrative expenses, and depreciation on capital assets, for example. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Assets, Liabilities, and Net Position**

1) Cash and Cash Equivalents

It is Skagit Transit's policy to invest all temporary cash surpluses. At December 31, 2019, the Agency was holding \$5,112,847 in short-term residual investments of surplus cash. This amount is classified in the financial statements as Cash and Cash Equivalents.

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.

2) Investments See Note 2 – Deposits and Investments

3) Receivables

Taxes receivable at December 31, 2019 consist of \$2,258,197 in sales tax receivable for November and December 2019 and sales tax interest receivable of \$3,385.

Total Accounts Receivable at December 31, 2019 was \$30,921, which consists of Vanpool payments, fare purchases, and customer leases/rentals.

4) Amounts Due From Other Governments

Amounts due from other governments include 4<sup>th</sup> quarter 2019 Fuel Tax refund from the Washington State Department of Licensing for \$8,047. The Fuel Tax refund is for taxes paid on fuel purchases from Skagit Transit's gas and diesel vendor, which is then refunded by the DOL after the Agency applies quarterly.

Grants receivable at December 31, 2019 consist of \$159,675 due from the Federal Transportation Administration and \$67,914 due from the Washington State Department of Transportation.

5) Inventories

Inventory consists of consumable repair parts and supplies used in the maintenance and repair of vehicles and facilities. 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, 2019, Skagit Transit carried an inventory valued at \$385,216.

6) Restricted Assets and Liabilities

Skagit Transit has no restricted assets and liabilities.

7) Capital Assets – See Note 3 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 one year. Depreciation and Amortization is recorded on all depreciable capital assets on a straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	Not Depreciated
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	5-7 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

8) 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 \$56,530 as of December 31, 2019 and noncurrent liability was \$282,029.

**Note 2 – Deposits & Investments**

**A. Deposits**

Cash on hand at December 31, 2019 was \$5,112,847. The Bank Balance was \$5,109,444.

Skagit Transit has established direct banking services with Banner Bank. Skagit Transit's 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).

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the LGIP and Skagit Treasurer's office. The LGIP and the Treasurer's assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

**B. Investments**

As of December 31, 2019, the transit held the following investments at amortized cost:

Type of Investment	Maturities	Transit's own investments	Investments held by Transit as an agent for others	Total
WA State Local Government Investment Pool	Less Than One Year	\$6,270,495	\$0	\$6,270,495
<b>Total</b>		<b>\$6,270,495</b>	<b>\$0</b>	<b>\$6,270,495</b>

Investments are subject to the following risks:

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest will adversely affect the fair market value of an investment. Skagit County Treasurer and state pool policies state that safety of funds is the number one priority in all investment decisions. The LGIP and the County Treasurer investment policy requires a 90-day maximum on the weighted average maturity. Thus, all investments held are considered to have a low interest rate risk.

#### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Funds currently held at the LGIP and the County Treasurer have minimal to no risk. The investment policy for those limits the types of securities available for investment to obligations of the U.S. Government or its agencies, bankers' acceptance, commercial paper, certificate of deposit, or obligations of the state of Washington.

#### Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the LGIP and Skagit Treasurer's office. The LGIP and the Treasurer's assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

### **Note 3 – Capital Assets & Related Depreciation/Amortization**

Capital Assets activity for the year ended December 31, 2019 was as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
<b>Capital Assets not Being Depreciated</b>				
Land	\$5,935,314	\$ -	\$ -	\$5,935,314
Right of Way	850,000	-	-	850,000
Construction/Work in Progress	457,962	\$1,397,940	-	1,855,902
Total Assets not Being Depreciated	<u>\$7,243,276</u>	<u>\$1,397,940</u>	<u>\$ -</u>	<u>\$8,641,216</u>
<b>Capital Assets Being Depreciated/Amortized</b>				
Buildings	\$8,895,588	\$7,724	\$ (3,541)	\$8,899,771

Improvements other than buildings	6,216,851	45,715	-	6,262,567
Vehicles	15,446,151	3,735,426	(1,266,389)	17,915,188
Equipment & Furnishings	1,876,791	171,394	(22,272)	2,025,914
Intangible Assets	1,056,529	-	-	1,056,529
Total Assets Being Depreciated/Amortized	<u>\$33,491,910</u>	<u>\$3,960,260</u>	<u>\$(1,292,201)</u>	<u>\$36,159,969</u>

**Less Depreciation/Amortization for:**

Buildings	\$3,094,992	\$368,427	\$(213,453)	\$3,249,966
Improvements other than buildings	1,535,137	164,023	(9,768)	1,689,392
Vehicles	9,281,633	1,569,381	(828,380)	10,022,634
Equipment & Furnishings	1,233,695	136,513	(23,090)	1,347,118
Intangible Assets	775,060	75,799	(968)	849,891
Total Assets Being Depreciated/Amortized	<u>\$15,920,518</u>	<u>\$2,310,295</u>	<u>\$(1,071,812)</u>	<u>\$17,159,001</u>

Total Capital Assets, Being Depreciated/Amortized, Net	\$17,571,392	\$19,000,968
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Total Net Capital Assets	<u>\$24,814,668</u>	<u>\$27,642,184</u>
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**Note 4 – Defined Contribution Plan**

Effective January 1, 1998, the Board of Directors approved Resolution No. 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

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, 2019, there were 138 current employees and 106 former employees participating in the plan.

Plan balances and contributions for FY 2019 and FY 2018 were as follows:

	<u>FY 2019</u>	<u>FY 2018</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	6,828,014	6,945,242
Employee 401(a) Contributions	402,016	416,990
SKAGIT TRANSIT 401(a) Contributions	402,016	368,883
Loan Issuances	(142,995)	(125,328)
Loan payments	124,400	140,481
Distributions	(572,301)	(716,649)
Adjustments	828,824	(287,711)
Earnings	<u>78,096</u>	<u>86,106</u>
Total Ending Fund Balances	<u><u>\$7,948,069</u></u>	<u><u>\$6,828,014</u></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 5 – Health and Welfare**

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, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

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

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards



Board (“GASB”). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor’s office.

**A. Dental and Vision insurance**

Skagit Transit pays 100% of the Premium for Dental and Vision insurance. Dental coverage is through Delta Dental of Washington. Vision insurance is through VSP.

**B. Life Insurance**

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

**C. 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 6 – Risk Management**

Skagit Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25-member self-insurance program located in Olympia, Washington. WSTIP supplies Skagit Transit auto liability, general liability, public officials liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2019, Skagit Transit retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Skagit Transit has a \$5,000 deductible for public official’s liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving six-month’s notice and at the end of the fiscal year. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the WSTIP Board of Directors. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP’s assets were to be exhausted, members would be responsible for WSTIP’s liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Government Entities Mutual, Munich Reinsurance America, Lloyds of London, and Hallmark Specialty Insurance Company for the liability lines; Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley Cyber Services for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

Skagit Transit has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Here is a summary of coverage provided in 2019:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
<b>GENERAL LIABILITY:</b> Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$25 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$25 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0 <sup>1</sup>
<b>PUBLIC OFFICIALS LIABILITY</b>	\$25 million	Per occurrence and aggregate	\$5,000
<b>PROPERTY COVERAGE</b> All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit
<b>AUTO PHYSICAL DAMAGE</b> Auto Physical Damage (below \$250,000 in value)	Fair market value	Limited to \$1,350,000 any one vehicle	\$5,000

<sup>1</sup> Each member selects the modes which uninsured motorist coverage is applied to. To review your selection of UIM, please refer to Exhibit attached.

Auto Physical Damage for all vehicles with a model year of 2008 or later and valued over \$250,000	Replacement Cost	Limited to \$1,350,000 any one vehicle	\$5,000
<b>BOILER AND MACHINERY</b>	\$100 million		\$250,000 or \$350,000 depending on size of boiler
<b>CRIME / PUBLIC EMPLOYEE DISHONESTY</b> including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000
<b>CYBER LIABILITY</b>			
Third Party Liability	\$2 million	Maximum limit	\$100,000*
Breach Response Costs	\$500,000	Limit increases to \$1 million if carrier's nominated service providers are utilized	
<b>FIRST PARTY LOSS</b>			
Business Interruption			
<i>Resulting from Security Breach</i>	\$2 million	Limit of Liability	
<i>Resulting from System Failure</i>	\$500,000	Limit of Liability	
Dependent Business Loss			
<i>Resulting from Security Breach</i>	\$750,000	Limit of Liability	
<i>Resulting from System Failure</i>	\$100,000	Limit of Liability	
Cyber Extortion Loss	\$2 million	Limit of Liability	
Data Recovery Costs	\$2 million	Limit of Liability	
<b>LIABILITY</b>			
Data & Network Liability	\$2 million	Limit of Liability	
Regulatory defense and penalties	\$2 million	Limit of Liability	
Payment Card Liabilities & Costs	\$2 million	Limit of Liability	
Media Liability	\$2 million	Limit of Liability	
<b>eCRIME</b>			
Fraudulent Instruction	\$75,000	Limit of Liability	
Funds Transfer Fraud	\$75,000	Limit of Liability	

Telephone Fraud	\$75,000	Limit of Liability	
CRIMINAL REWARD	\$25,000	Limit	
*However, if covered loss exists, WSTIP's general liability policy also includes a \$50,000 limit of coverage with no deductible. As of July 1, 2019, the deductible was lowered to \$5,000.			

### **Note 7 – 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 as of December 31, 2019.

The agency participates in a number of Federally 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 8 – Commitments & Leases**

#### **Commitments:**

At December 31, 2019 Skagit Transit had the following in effect:

#### **2019 Commitments – Contracts over \$50,000** **(Excluding Lease Agreements)**

<b>Contractor</b>	<b>Contract No. &amp; Title</b>	<b>Initial Contract Term</b>	<b>Final Term Expiration</b>	<b>Contract Amount</b>
Delerrok	19-006 / Mobile Ticketing	8-1-19 – 6-30-22	2022	\$ 223,936
Associated Petroleum Products	15-020-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/15 – 11/30/18	2022	\$ 482,307
Associated Petroleum Products	14-015-F / ULSD Fuel Delivery	2/1/15 – 1/31/20	2022	\$1,916,046
Cummins, Inc.	16-001 / Diesel Engine Replacements	5/1/16 – 4/30/21	None	\$50,408
Frontline Cleaning Services Corp.	15-015-P / Janitorial Services	11/1/15 – 10/31/18	10/31/2020 Option Yr 2	\$222,090
Gillig, LLC	14-019-F / Fixed Route Transit Coaches	7/1/15 – 6/30/20	None	\$4,805,938
Duo-Gard Industries	19-0001-F / Bus Shelters	2/1/19 – 1/31/22	2022	\$243,228
Langabeer & Traxler	13-013 / General Counsel Legal Services	12/1/18 – 11/30/23	2023	\$95,124

Mortenson Signs	19-005 / Vehicle Graphics	8/1/19 – 7/31/22	2022	\$125,000
Les Schwab	19-003-F / Tires & Related Services	9/1/19 – 8/31/22	2022	\$250,000
Seaside Auto Body	14-014 / Auto Body Services	2/1/15 – 1/31/22	2022	\$97,602
Ferrell Gas (DES) State of WA	Autogas Propane Services	2/1/19 – 4/30/27	2027	State Contract
Zonar Systems	19-009-F / Inspection Devices	8/21/19	2020	\$71,691
USAT Corp	19-012 / Wireless Routers	8/21/19	2020	\$113,216
KBA	19-013-F / Construction Management	1/15/20	2020	\$241,000
Trapeze	19-017 / IVR Server Migration GVP8	9/18/19	2020	\$101,861

### **Operating Leases:**

As of December 31, 2019, Skagit Transit leases some office equipment and other equipment under non-cancelable operating leases. Total 2019 cost for such leases was \$30,749. The future minimum lease payments are as follows:

<u>Year</u>	<u>Annual Cost</u>
2020	22,709
2021	22,480
2022	10,359
2023	4,931
2024	7,468

### **Note 9 – Reserve Accounts**

The Skagit Transit Board of Directors established a reserve account by Resolution No. 50. 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, 2019, the account balances were:

Capital Reserve:	
Facilities	400,000
Capital Replacement	2,372,567
Undesignated Reserve	1,287,117
Operating Reserve	<u>2,210,810</u>
Total:	\$6,270,495

### **Note 10 – Prior Period Adjustment**

A Prior Period Adjustment of \$219,861 was made in order to correct an overstatement to Accumulated Depreciation. During the prior year audit of the Financial Statements by the

Washington State Auditor's Office, it was determined that Accumulated Depreciation was over reported by \$214,616. The remainder of the amount is due to a correction for an expense accrual.

### **Note 11 – Subsequent Events**

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges, cancelling public events, and limiting gathering sizes.

The Agency continues to respond to the COVID-19 pandemic as an essential service to the community. Management has taken the following actions as part of its response:

- Reduced service to a level consistent with the reduced ridership effective April 6, 2020
- Suspended the collection of fares effective March 19, 2020

Potential future actions / financial impacts subsequent to the report date include:

- Material decrease in sales tax revenue commencing with May 2020 receipts
- Utilize federal stimulus funds for operations

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

**Skagit County Public Transportation Benefit Area  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Expenditures							Passed through to Subrecipients	Note
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total			
<b>Federal Transit Cluster</b>									
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA - 2019-060	-	1,754,921	1,754,921	-	1,2,3	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2019-008	-	38,087	38,087	-	1,2,3	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2018-009	-	72,226	72,226	-	1,2,3	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2019-019	-	133,976	133,976	-	1,2,3	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2017-036- 01	-	391,498	391,498	-	1,2,3	
			<b>Total CFDA 20.507:</b>	-	<b>2,390,708</b>	<b>2,390,708</b>	-		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	WA-2019-059	-	60,000	60,000	-	1,2,3	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	WA-2019-019	-	47,423	47,423	-	1,2,3	
			<b>Total CFDA 20.526:</b>	-	<b>107,423</b>	<b>107,423</b>	-		
			<b>Total Federal Transit Cluster:</b>	-	<b>2,498,131</b>	<b>2,498,131</b>	-		

The accompanying notes are an integral part of this schedule.

**Skagit County Public Transportation Benefit Area  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	GCB2626 B	16,647	-	16,647	-	1,2,3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0058 A	26,352	-	26,352	-	1,2,3
<b>Total CFDA 20.509:</b>				<b>42,999</b>	<b>-</b>	<b>42,999</b>	<b>-</b>	
<b>Transit Services Programs Cluster</b>								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB2626 A	16,012	-	16,012	-	1,2,3
<b>Total Transit Services Programs Cluster:</b>				<b>16,012</b>	<b>-</b>	<b>16,012</b>	<b>-</b>	
<b>Total Federal Awards Expended:</b>				<b>59,011</b>	<b>2,498,131</b>	<b>2,557,142</b>	<b>-</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.

#### **NOTE 3 - INDIRECT COST RATE**

The Skagit Transportation Benefit District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. All amounts expended for both capital and operating projects are direct costs only.

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## 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>	
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