



Office of the Washington State Auditor

Pat McCarthy

Exit Conference: Skagit Transit

The Office of the Washington State Auditor's vision is increased public trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following reports:

- Accountability audit for January 1, 2024, through December 31, 2024 – see draft report.
- Financial statement and federal grant compliance audit for January 1, 2024, through December 31, 2024 – see draft report.

Recommendations not included in the Audit Reports

Exit Items

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Financial Statement Audit Communication

We would like to bring the following to your attention:

- We didn't identify any material misstatements during the audit.
- There were no uncorrected misstatements in the audited financial statements.
- The audit addressed the following risks, which required special consideration:
 - Due to the possibility that management may be able to circumvent certain controls, standards require the auditor to assess the risk of management override.
 - The Transit adopted new accounting guidance by implementing provisions of GASB statement No. 101, which establishes standards for accounting for compensated absences. The implementation of these provisions changed the presentation and disclosure of compensated absences. This change necessitated the auditor to assess the risk related to the implementation of this accounting standard this accounting guidance.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via email in a .pdf file. We also offer a subscription service that notifies you by email when audit reports are released or posted to our website. You can sign up for this convenient service at www.sao.wa.gov/about-sao/sign-news-alerts.

Management Representation Letter

We have included a copy of representations requested of received from management.

Audit Cost

At the entrance conference, we estimated the cost of the audit to be \$57,500. Actual audit costs will reflect a one-time increase of approximately \$8,000 due to additional risks identified during our planning and other audit procedures requiring additional audit work.

Your Next Scheduled Audit

Your next audit is scheduled to be conducted in 2026, and will cover the following general areas:

- Accountability for Public Resources
- Financial Statement
- Federal Programs

The estimated cost for the next audit based on current rates is \$57,500 plus travel expenses. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally, this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local

governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at Center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Accountability Audit Report

Skagit County Public Transportation Benefit Area

(Skagit Transit)

For the period January 1, 2024 through December 31, 2024

Published (Inserted by OS)

Report No. 1038728



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

Issue Date – (Inserted by OS)

Board of Directors
Skagit Transit
Burlington, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Transit operations. This information is valuable to management, the governing body and public stakeholders when assessing the government’s stewardship of public resources.

Attached is our independent audit report on the Transit’s compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Transit operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of Skagit Transit from January 1, 2024 through December 31, 2024.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Transit's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2024, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Tracking and monitoring of theft sensitive assets, such as computers, tools, equipment, and fuel
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress
- Annual report submission – timeliness and completeness

RELATED REPORTS

Financial

Our opinion on the Transit's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the Transit's financial statements. That report is available on our website, <https://portal.sao.wa.gov//ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Transit's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE TRANSIT

Skagit County Public Transportation Benefit Area has been providing public transportation services to the citizens of Skagit County since 1993. Transit, which does business as Skagit Transit, provides fixed route, para transit, vanpool and park and ride services to approximately 900,000 customers each year.

A nine-member Board of Directors governs the Transit. The Board appoints the Chief Executive Officer to oversee the Transit's daily operations as well as its approximately 170 employees. The Transit is primarily funded through local sales tax revenue, but also receives state and federal grants and fare revenue. During fiscal year 2024, Transit had approximately \$24.6 million in operating expenses.

Contact information related to this report	
Contact:	Chris Arkle, Finance Accounting Manager
Telephone:	(360) 757-8801
Website:	www.skagittransit.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Skagit Transit at <https://portal.sao.wa.gov//ReportSearch>.

ABOUT THE STATE AUDITOR’S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor’s Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

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- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



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Financial Statements and Federal Single Audit Report

Skagit County Public Transportation Benefit Area

(Skagit Transit)

For the period January 1, 2024 through December 31, 2024

Published (Inserted by OS)

Report No. 1038740



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

Issue Date – (Inserted by OS)

Board of Directors
Skagit Transit
Burlington, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on 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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Skagit Transit

January 1, 2024 through December 31, 2024

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of 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).

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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>ALN</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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Skagit Transit January 1, 2024 through December 31, 2024

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2023 to December 31, 2023	Report Ref. No.: 1036039	Finding Ref. No.: 2023-001
Finding Caption: The Transit did not have adequate internal controls ensuring accurate reporting of its financial statements.		
Background: The Transit began participating in state sponsored pension plans in 2023, which required the implementation of pension accounting standards. Although the Transit has a financial statement preparation and review process, its controls were inadequate for ensuring financial reporting for pensions was complete, accurate and in accordance with GAAP.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Skagit Transit has corrected the errors surrounding the pension reporting and has established improved internal controls to ensure accurate reporting of its financial statements for pensions.</i>		

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INDEPENDENT AUDITOR’S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Skagit Transit January 1, 2024 through December 31, 2024

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 Skagit Transit, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Transit’s basic financial statements, and have issued our report thereon dated December 12, 2025.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or

significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Pat McCarthy, State Auditor
Olympia, WA
December 12, 2025

INDEPENDENT AUDITOR’S REPORT

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, 2024 through December 31, 2024

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Skagit Transit, with the types of compliance requirements identified as subject to audit 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, 2024. The Transit’s major federal programs are identified in the auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Transit and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the Transit's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Transit's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Transit's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Transit's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Transit's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Transit's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Transit's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.



Pat McCarthy, State Auditor

Olympia, WA

December 12, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Skagit Transit January 1, 2024 through December 31, 2024

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Skagit Transit, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Skagit Transit, as of December 31, 2024, 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.

Basis for Opinion

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

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2024, the Transit adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 101, Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transit’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary 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 supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2025 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 the effectiveness of the Transit’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit’s internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

December 12, 2025

FINANCIAL SECTION

Skagit Transit

January 1, 2024 through December 31, 2024

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion & Analysis – 2024

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2024

Statement of Revenues, Expenses and Changes in Fund Net Position – 2024

Statement of Cash Flows – 2024

Notes to the Financial Statements – 2024

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability (Asset) – PERS 1, PERS 2/3 – 2024

Schedule of Employer Pension Contributions – PERS 1, PERS 2/3 -- 2024

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2024

Notes to the Schedule of Expenditures of Federal Awards – 2024

Preliminary Draft - Please do not duplicate, distribute, or disclose.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD

December 12, 2025

Office of the Washington State Auditor
3200 Capitol Blvd
P.O. Box 40031
Olympia, WA 98504-0031

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of Skagit County Public Transportation Benefit Area for the period from January 1, 2024 through December 31, 2024. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.
2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.

3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations, safeguarding of public resources, and financial reporting, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of compliance with applicable laws and regulations, safeguarding of public resources, and accurate financial reporting.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.
10. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.
11. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
12. The financial statements include financial information of the primary government and all component units, fiduciary and other activity required by generally accepted accounting principles to be included in the financial reporting entity.
13. The financial statements properly classify all funds and activities.
14. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.
15. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
16. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
17. Revenues are appropriately classified by fund and account.

18. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
19. Net position components (net investment in capital assets, restricted and unrestricted) are properly classified and, as applicable, approved.
20. The methods, data and significant assumptions we used in making accounting estimates and related disclosures are appropriate and free from intentional bias.
21. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
 - a. Interfund, internal, and intra-entity activity and balances.
 - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - c. Joint ventures and other related organizations.
 - d. Guarantees under which the government is contingently liable.
 - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements, and other loss contingencies.
22. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
23. We acknowledge our responsibility for reporting supplementary information, such as the Schedule of Expenditures of Federal Awards in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.
24. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
25. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.
26. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.

27. We believe there are no uncorrected misstatements that would be material individually and in the aggregate to each applicable opinion unit.
28. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

Additional representations related to expenditures under federal grant programs:

29. We acknowledge our responsibility for complying, and have complied, with the requirements of 2 CFR § 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.
30. With regards to your audit of federal grant programs, we have made available all relevant and requested information of which we are aware, including:
 - a. All federal awards and related grant agreements (including amendments, if any), contracts with pass-through entities, service organizations and contractors, and correspondence.
 - b. All communications from federal awarding agencies, contractors, service organizations or pass-through entities concerning possible noncompliance.
 - c. All information regarding corrective actions taken and management decisions or follow-up work performed by federal or pass-through agencies on any findings reported in the past.
 - d. All documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - e. Interpretations or other support for any situations where compliance with requirements might be questionable or unclear.
31. We have identified and complied with all direct and material compliance requirements of federal awards.
32. Management is responsible for establishing effective internal control and has maintained sufficient control over federal programs to provide reasonable assurance that awards are managed in compliance with laws, regulations, contracts or grant agreements that could have a material effect on each of our federal awards.
33. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.
34. Copies of federal program reports provided to you are true copies of the reports submitted, or electronically transmitted, to federal agencies or pass-through agencies, as applicable.

35. We are responsible for, and will accurately prepare, the auditee section of the Data Collection Form as required by the Uniform Guidance.

Additional representations related to federal grants passed through to subrecipients:

36. We have advised our subrecipients of requirements imposed on them by Federal laws, regulations, contracts or grant agreements as well as any supplemental requirements we impose as a condition of receiving Federal awards.
37. We have monitored the activities of our subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, contracts or grant agreements.
38. We have determined that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year beginning prior to October 1, 2025 (or \$1,000,000 for fiscal years beginning afterward) have met the audit requirements of 2 CFR § 200.501 for that fiscal year.
39. When applicable, we have issued a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensured that the subrecipient has taken appropriate and timely corrective action.
40. We have considered the results of our subrecipients' audits and made any necessary adjustments to our own accounting records.

CEO Crystle Stidham

Finance/Account Manager Chris Arkle

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 Skagit Transit is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position present information showing how 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 Skagit 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

		2024	2023
Assets			
	Other Assets	\$37,614,514	\$35,672,163
	Capital Assets	40,141,747	33,717,431
	Total Assets	77,756,261	69,389,594
	Deferred Outflows	3,373,535	1,507,661
Liabilities			
	Current Liabilities	2,273,769	1,777,590
	Noncurrent Liabilities	1,627,525	1,221,567
	Total Liabilities	3,901,294	2,999,157
	Deferred Inflows	3,477,431	1,888,749
Net Position			
	Investment in Capital Assets	40,141,747	33,717,431
	Restricted Net Pension Asset	2,557,317	1,540,777
	Restricted	123,839	123,839
	Unrestricted	30,928,169	30,627,302
	Total Net Position	\$73,751,071	\$66,009,349

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

	2024	2023
Operating Revenues:		
Passenger Fares	\$752,411	\$715,809
Non-Operating Revenues		
Sales Tax	17,190,931	17,168,881
Interest	1,203,318	1,068,486
Grants	7,007,231	8,770,718
Gain (loss) on Disposition of Assets	89,887	(8,932)
Other Non-operating Revenues	30,525	113,128
Total Revenues	26,274,303	27,112,282
Operating Expenses		
Operations	13,042,722	13,160,540
Maintenance	4,572,994	4,415,910
Administration	5,308,716	4,602,496
Depreciation/Amortization	2,600,245	2,433,741
Total Expenses	25,524,677	24,612,687
Net Income (loss) Before Contributions	749,626	3,215,404
Capital Contributions	7,056,562	908,367
Increase (decrease) in net position	7,806,188	4,123,771
Net Position - Beginning of period	65,944,883	61,885,578
Accounting Change	-	(64,466)
Net Position - End of period	\$73,751,071	\$65,944,883

Financial Highlights

- Total Net Position as of December 31, 2024 was \$73,751,071. This is how much Assets exceeded Liabilities. Of this total, \$30,928,168, is classified as Unrestricted, meaning this amount may be used to meet ongoing obligations to provide services to the public, as well as the purchase or construction of capital assets. \$123,839 is Restricted for the construction of new Bus Shelters due to the sale of federally funded assets whose federal portion has been allocated to this project. Additionally, \$2,557,317 is restricted towards Skagit's Net Pension Asset.
- Total Net Position increased by \$7,806,188 or 11.8% from the prior year
- Sales tax revenues increased by \$22,050 or .1%
- Passenger Fare revenues increased by \$36,602 or 5.1%.

- Capital Assets increased by \$6,424,316 after depreciation.
- Skagit Transit received a total of \$14,063,793 in federal, state, and local grants that were used for both operating and capital expenses. 45.3% increase from the prior year.
- Skagit Transit remained free of long-term debt during the period.

Financial Analysis

Skagit Transit's overall financial condition continued to improve from the prior year due to the additional federal grants received. This was further supplemented by another annual increase in Sales Tax revenues and investment revenues as compared with prior year increases. Skagit Transit remained consistent in pursuing other grants in 2024, and will continue to pursue available state, federal, and local grants to supplement its operations and purchase future needed capital.

Operating Revenues

Operating revenues from fares increased by \$36,602 during 2024. Fixed route service had a revenue increase of \$20,386 or 6.66% and Vanpool had an increase of \$3,288, or 1.1%. Paratransit service had an increase of \$12,927 or 12.4%. Skagit Transit began charging Paratransit riders a \$2.00 one-way fare in 2020. Additionally, Paratransit riders have the option to ride Fixed routes for free. Fares for Fixed routes are structured so that commuter routes are two times the local fixed route fare. As required under the Climate Commitment Act in June 2022, youth riders 18 and under ride fare free.

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

ADA Paratransit service is scheduled through the Skagit Transit dispatch center .

Skagit Transit's Rideshare service provides a shared ride to work for commuters. COVID has greatly reduced vanpool participation. Changes at the Boeing facility in Everett has greatly impacted the Rideshare program as most of our Rideshare groups are Boeing employees. The number of Rideshare groups decreased from 47 at the end of 2019 to 27 at the end of 2024. As the impacts of the COVID-19 pandemic subside and riders began returning to the office, the need for rideshare groups is increasing. We expect additional Rideshare groups going forward in either 2025 or 2026 or both depending on need.

In February 2020, Skagit Transit started offering on-line reloadable transit passes with the TouchPass System. Riders can make a purchase and reload transit passes on our website and board the bus by showing their smart phone TouchPass QR code. In 2021, TouchPass became known as UMO.

Non-Operating Revenues

Revenues from the transit portion of the sales tax increased by \$22,050 over the prior year. 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 \$1,203,317 in 2024 as compared to \$1,068,486 in 2023. A roughly 12.6% increase from the prior year.

Grant revenues were derived from several federal, state and local grants for use in capital and operating expenditures.

Operating Expenses

Operating expenses changed by 3.7% in 2024.

Operating Expenses by Department

Operations – \$13,042,722 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$4,572,994 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$5,308,716 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation/Amortization - \$2,600,245 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Capital Assets

Capital Assets increased in 2024 by 6,424,316 after depreciation to 40,141,747, an increase of 16%. Of the total capital assets construction in progress makes up roughly 30.8% of the balance at 12,363,513. This construction in progress directly relates to the ongoing MOA 2 project. Vehicles owned and operated by Skagit Transit make up 28% of the total balance at 11,249,051.

Leave & Wages Payable

Leave & Wages Payable as of year-end was 1,836,430 representing roughly 47.1% of total liabilities.

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.

Skagit County's population was estimated to be 132,736 in 2024 according to the US Census Bureau. The county's population expanded 13.6% from 2010 to 2024. This was lower than the statewide population growth rate of 18.35% over the same time period.

Skagit Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. Fiscal year 2024 Sales Tax collections were \$22,050 thousand higher compared to 2023.

Skagit County's unemployment rate in Dec 2024 was 5.2% compared to 4.4% for the state according to U.S. Bureau of Labor Statistics.

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 not actively being sought for the phases II & III construction of the new Maintenance, Operations and Administrations Building (MOA2) and various vehicle, equipment, and information technology purchases.

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

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 Public Information Officer, 600 County Shop Lane, Burlington, WA 98233, telephone 360-757-8801.

Skagit Transit
Statement of Net Position
December 31, 2024

ASSETS

Current Assets:	
Cash	5,960,142
Investments	23,402,493
Taxes receivables	2,950,211
Accounts receivable (net of allowance for uncollectibles)	34,566
Due from other governments	1,777,602
Inventory	771,432
Prepays	160,751
Total Current Assets	35,057,197
Noncurrent Assets:	
Pension Asset	2,557,317
Capital assets not being Depreciated	
Land	5,935,314
Right of way	850,000
Construction in Progress	12,363,513
Capital assets being Depreciated/Amortized	
Buildings	9,018,136
Improvements other than buildings	7,380,066
Vehicles	25,363,286
Intangible Assets - Software	1,383,065
Intangible Assets - Right-to-Use	60,001
Equipment & Furnishings	2,719,948
<i>Less: Accumulated Depreciation/Amortization</i>	
Buildings	(4,819,935)
Improvements other than buildings	(2,632,947)
Vehicles	(14,114,234)
Equipment & Furnishings	(2,159,885)
Intangible Assets	(1,171,516)
Intangible Assets - Right-to-Use	(33,063)
Total Net Capital Assets	40,141,747
Total Noncurrent Assets	42,699,064
Total Assets	77,756,261
Deferred Outflows	3,373,535

LIABILITIES

Current Liabilities:	
Accounts payable	852,172
Compensated Absences	105,353
Wages & Leave payable	384,043
Benefits and Taxes payable	800,739
Lease Payable - Current	11,937
Other payables	119,525
Total Current Liabilities	2,273,769
Noncurrent liabilities:	
Compensated Absences	546,295
Lease Payable	16,212
Pension Liability	1,065,019
Total Noncurrent Liabilities	1,627,525
Total Liabilities	3,901,294
Deferred Inflows	3,477,431

NET POSITION

Net Position:	
Net Investment in Capital Assets	40,141,747
Restricted Net Pension Asset	2,557,317
Restricted	123,839
Unrestricted	30,928,169
Total Net Position	73,751,071

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, 2024

Operating Revenues:	
Passenger Fares	\$752,411
Total Operating Revenues	752,411
Operating Expenses:	
Operations	13,042,722
Maintenance	4,572,994
Administration	5,308,716
Depreciation/Amortization	2,600,245
Total Operating Expenses	25,524,677
Operating (Loss) Income	(24,772,266)
Non-Operating Revenues (Expenses):	
Sales Tax	17,190,931
Interest	1,203,318
Grants	7,007,231
Gain (loss) on Disposition of Assets	89,887
Other Non-operating Revenues (Expenses)	30,525
Total Non-Operating Revenues (Expenses)	25,521,892
Income(loss) before contributions, gains, losses, other revenues and expenses	749,626
Capital Contributions	7,056,562
Increase (decrease) in net position	7,806,188
Prior Year Ending Net Position	\$66,009,349
Accounting Change	(\$64,466)
Net Position - Beginning of period	65,944,883
Net Position - End of period	\$73,751,071

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, 2024

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 739,912
Cash Payments to Suppliers for Good & Services	(5,201,567)
Cash Payments to Employees for Services	(18,133,311)
Other Cash Receipts	31,073
Net Cash (Used) Provided by Operating Activities	<u>(22,563,893)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	17,125,579
Federal, State and Local Assistance Received	9,673,151
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>26,798,730</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(8,960,818)
Capital Grants and Contributions	6,433,096
Proceeds from Sale of Equipment	91,115
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(2,436,607)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(1,149,793)
Proceeds from Investment Transfer to Savings	-
Interest on Investments	1,149,793
Net Cash Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,798,230</u>
Cash and Cash Equivalents, Beginning	4,161,912
Cash and Cash Equivalents, Ending	<u><u>\$ 5,960,142</u></u>

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

SKAGIT TRANSIT

Notes to the Financial Statements For the Year Ended December 31, 2024

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 these standards, 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 the statement of net position (or balance sheet). The Statement of net position is segregated into net investment in capital assets 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. As of December 31, 2024, the Agency was holding \$5,960,142 in short-term residual investments of surplus cash. This amount is classified in the financial statements as Cash and Cash Equivalents.

For the 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 3 – Deposits and Investments

3) Receivables

Taxes receivable as of December 31, 2024, consist of \$2,943,158 in sales tax receivable for November and December 2024, and sales tax interest receivable of \$7,053.

Total Accounts Receivable as of December 31, 2024, was \$34,566, which consists of Vanpool payments, fare purchases, and customer leases/rentals.

4) Amounts Due From Other Governments

Amounts due from other governments include 4th quarter 2024 Fuel Tax refund from the Washington State Department of Licensing for \$4,204. 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 as of December 31, 2024, consist of \$1,773,397 due from the Federal Transportation Administration and 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. As of December 31, 2024, Skagit Transit carried an inventory valued at \$771,432.

6) Restricted Assets and Liabilities.

As of December 31, 2024, Skagit Transit had \$123,839 in Restricted assets for the construction of new Bus Shelters due to the sale of federally funded assets whose federal portion has been allocated to this project. Additionally, \$2,557,317 is restricted towards Skagit's Net Pension Asset.

7) Capital Assets – See Note 4 Capital Assets

Capital Assets, which include property, plant, and equipment and infrastructure assets are reported in the financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life of at least one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions to improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the Straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	Not Depreciated
Land Improvements	15 years
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	4-7 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) Leases – See Note 4 Capital Assets

Lessee: Skagit Transit is a lessee for noncancelable leases. Skagit Transit recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. Skagit Transit recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, Skagit Transit initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis over its useful life.

Key estimates and judgements related to lease include how Skagit Transit determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- Skagit Transit uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, Skagit Transit generally uses its incremental borrowing rate or U.S. Prime rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that Skagit Transit is reasonably certain to exercise.

Skagit transit monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

9) Compensated Absences

Compensated absences are absences for which employees will be paid using general leave. In accordance with GASB 101 the Agency values leave at current pay rates. 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 amount presented for compensated absences is a net amount for current and noncurrent liabilities. The current liability for compensated absences equaled \$97,866 as of December 31, 2024, and noncurrent liability is \$507,473.

Note 2 – Accounting and Reporting Changes

Skagit Transit implemented GASB Statement No. 101, “Compensated Absences” for the year ending December 31, 2024. This statement changed the accounting and financial reporting for the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

	12/31/2023 Net Position/Fund Balance As previously reported	Change in accounting principle	12/31/2023 Net Position/Fund Balance As restated/adjusted
Compensated Absences	66,009,349	(64,466)	65,944,883

Note 3 – Deposits & Investments

A. Deposits

Cash on hand as of December 31, 2024, was \$5,960,142. The Bank Balance was \$6,039,477.

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).

B. Investments

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction that Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of October 2023 the Board of Skagit Transit approved the move of investment funds to the Skagit County Investment Pool (SKIP). There is minimal risk within our investment in the SKIP and Skagit County's Treasurer's office. The SKIP and the Treasurer's assets are allocated in but not limited to U.S. Government-backed obligations, federally insured demand deposits, Washington State's LGIP, municipal debt obligations, and certificates of deposit.

As of December 31, 2024, 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 Skagit County Investment Pool	Less Than One Year	\$23,402,493	\$0	\$23,402,493
Total		\$23,402,493	\$0	\$23,402,493

Investments in Skagit County Investment Pool (SKIP).

Skagit Transit is a voluntary participant in the Skagit County Investment Pool, an external investment pool operated by the Skagit County Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by Skagit County's Treasurer in accordance with RCW's 36.29.020, 36.29.022, and 36.29.024. Investments in the SKIP are reported at amortized cost, which is the same as the value of the pool per share. The SKIP does not impose any restrictions on participant withdrawals.

The Office of the Skagit County Treasurer prepares a stand-alone quarterly financial report for the pool. A copy of the report is available from the Skagit County Treasurer at Skagit County Treasurer,

PO Box 518, Mount Vernon, Washington 98273, and online at www.skagitcounty.net/departments/treasurer/.

Note 3 – Capital Assets & Related Depreciation/Amortization

Capital Assets activity for the year ended December 31, 2024, was as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
Capital Assets not Being Depreciated				
Land	\$5,935,314	\$ -	\$ -	\$5,935,314
Right of Way	850,000	-	-	\$850,000
Construction/Work in Progress	8,023,505	4,382,923	42,915	12,363,513
Total Assets not Being Depreciated	\$14,808,819	\$4,382,923	\$42,915	\$19,148,827
Capital Assets Being Depreciated/Amortized				
Buildings	\$8,945,417	72,719	-	\$9,018,136
Improvements other than buildings	7,349,784	30,282	-	7,380,066
Vehicles	21,175,718	4,467,428	279,860	25,363,286
Equipment & Furnishings	2,649,654	80,150	9,856	2,719,948
Intangible Assets	1,462,452	35,202	54,588	1,443,066
Total Assets Being Depreciated/Amortized	\$41,583,025	\$4,685,781	344,304	\$45,924,502
Less Depreciation/Amortization for:				
Buildings	\$4,550,229	\$269,707		\$4,819,935
Improvements other than buildings	2,421,235	211,712		2,632,947
Vehicles	12,548,161	1,773,187	275,941	14,045,407
Equipment & Furnishings	2,001,024	168,717	9,856	2,159,885
Intangible Assets	1,151,073	113,233	59,727	1,204,579
Total Assets Being Depreciated/Amortized	\$22,671,722	\$2,536,556	\$345,524	\$24,862,753
Total Capital Assets, Being Depreciated/Amortized, Net	\$18,911,303			\$21,061,749
Total Net Capital Assets	\$33,720,122			\$40,210,576

Note 4 – Leases

Skagit Transit leases copier and other equipment and modular buildings under a variety of long term, noncancelable agreements. Right to use assets and lease liabilities are recorded based on the present value of expected payments over the lease terms.

Asset	Vendor	Term(month)	Monthly Payment
Copier Equipment (Finance Dept)	Great America Financial Services	60	\$195.00
Copier Equipment (Operations Dept)	Great America Financial Services	60	\$197.00
Solar Waste Compactor	BigBelly	60	\$864.00

Skagit Transit's right to use lease asset and related accumulated amortization for fiscal year ending December 31, 2024, are as follows:

	Beginning Bal	Adjustment	Increases	Decreases	Ending Bal
Leased Bldgs	\$47,934	\$ -	\$ -	\$47,934	\$ -
Leased Equipment	66,656	-	-	6,655	60,001
Total Capital Lease assets	114,589	-	-	54,589	60,001
Accum. Amortization. Leased Bldgs.	37,110	-	10,823	47,933	-
Accum. Amortization. Leased Equipment	25,817	-	13,901	6,655	33,063
Total Accumulated Amortization	\$62,927	\$ -	\$24,724	\$54,588	\$33,063

As of December 31, 2024, the principal and interest requirements to maturity are as follow:

	Principal	Interest	Total
2024	11,937	795	12,732
2025	12,362	370	12,732
2026	3,850	45	3,895
2027	0	0	0
2028	0	0	0
Total	28,149	1,210	29,359

Note 5 – Defined Contribution Plan

On 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. In 2022 Skagit Transit's Board of Directors voted to replace this retirement system with the PERS and 457 plan offered by DRS. Skagit Transit's employees no longer contribute to these plans effective January 2023.

On July 1, 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.

Contributions made by Skagit Transit vest over a 5-year period, upon the completion of each year of service (10%, 20%, 30%, 40%, 100%). An employee who leaves Skagit Transit is entitled to Skagit Transit contributions plus investment earnings at the vesting level attained.

Plan balances and contributions for FY 2024 and FY 2023 were as follows:

	<u>FY 2024</u>	<u>FY 2023</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	6,251,393	8,182,359
Employee 401(a) Contributions	-	48,191
SKAGIT TRANSIT 401(a) Contributions	-	-
Loan Issuances	(102,890)	(73,130)
Loan payments	83,102	98,878
Distributions	(1,194,361)	(2,529,964)
Adjustments	321,984	451,511
Earnings	<u>60,964</u>	<u>73,548</u>
Total Ending Fund Balances	<u><u>\$5,420,192</u></u>	<u><u>\$6,251,393</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.

As of January 2023, Skagit Transit offers its employees a new 457 defined contribution plan created in accordance with Internal Revenue Code Section 457.

This plan is administered by the Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Note 6 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2024:

Aggregate Pension Amounts - All Plans	
Pension liabilities	(1,065,019)
Pension assets	2,557,317
Deferred outflows of resources	3,373,534
Deferred inflows of resources	(3,477,431)
Pension expense/expenditures	143,820

Substantially all of the Agency’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov

Public Employees’ Retirement System (PERS)

PERS members include elected officials; state employees; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The PERS 1 employer and PERS 2/3 employer and employee contribution rates are developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 2/3 employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plans defined benefit required contribution rates (expressed as a percentage of covered payroll) for the fiscal year were as follows:

Employer Contribution Rates				
	Contribution Rate	PERS 1 UAAL	Admin Fee	Total Employer
January - June	6.36%	2.97%	0.20%	9.53%
July - August	6.36%	2.47%	0.20%	9.03%
September - December	6.36%	2.55%	0.20%	9.11%
Plan	Employee Contribution Rate			
PERS 1	6.00%			
PERS 2	6.36%			
PERS 3	Varies: 5% - 15%			

The Agency’s actual PERS plan contributions were \$0 to PERS Plan 1 and \$754,752 to PERS Plan 2/3 for the year ended December 31, 2024.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2024 with a valuation date of June 30, 2023. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2013-2018 Demographic Experience Study* and the *2023 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2023 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2024. Plan liabilities were rolled forward from June 30, 2023, to June 30, 2024, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2024. The inflation component used to create the table is 2.5% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	19%	2.10%
Tangible Assets	8%	4.50%
Real Estate	18%	4.80%
Global Equity	30%	5.60%
Private Equity	25%	8.60%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents Skagit Transit's proportionate share* of the net pension liability calculated using the discount rate of 7%, as well as what Skagit Transit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

Sensitivity of Net Pension Liability (Asset)			
	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	1,566,616	1,065,019	625,106
PERS 2/3	4,610,051	(2,557,317)	(8,443,726)

At June 30, 2024 Skagit Transit proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share:
PERS 1	0.059939%
PERS 2/3	0.077575%

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Expense

For the year ended December 31, 2024, Skagit Transit recognized pension expense as follows:

Plan	Pension Expense
PERS 1	717,660
PERS 2/3	(573,840)
Total	143,820

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2024, Skagit Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

Ending Deferred Outflows:	PERS 1	PERS 2/3
Differences between expected and actual experience	-	1,453,122
Net difference between projected and actual investment earnings	-	-
Changes of assumptions	-	1,412,155
Changes in proportionate share	-	-
Contributions subsequent to the measurement date	145,763	362,495
Total Deferred Outflows (DR)	145,763	3,227,771

Ending Deferred Inflows:	PERS 1	PERS 2/3
Differences between expected and actual experience	-	(5,921)
Net difference between projected and actual investment earnings	(85,220)	(732,854)
Changes of assumptions	-	(162,031)
Changes in proportionate share	-	(2,491,405)
Total Deferred Inflows (CR)	(85,220)	(3,392,211)

Deferred outflows of resources related to pensions resulting from Skagit Transit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	PERS 1	PERS 2/3
2025	(141,033)	(834,064)
2026	72,456	849,041
2027	(7,672)	216,535
2028	(8,971)	210,436
2029	-	(35,636)
Thereafter	-	(44,887)
Total (DI) / DO	(85,220)	361,425

Note 7 – 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, 2024, more than 268 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, Willamette Dental Group, 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 2024, the AWC Trust HCP purchased medical stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$2 million through United States Fire Insurance Company. 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.

Note 8 – Risk Management

Skagit Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25-member governmental risk pool located in Olympia, Washington. WSTIP supplies Skagit Transit's 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 2024, 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 2024:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY:			
Bodily Injury & Property Damage	\$25 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$25 million	Per offense	\$0
Contractual liability	\$25 million	Per occurrence	\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Transit Rider Medical Expense Protection	\$15,000	Per occurrence	\$0
Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0
Permissive Use of a Member-Owned Motor Vehicle	\$100,000 for property damage and \$300,000 for bodily injury	Per occurrence	\$0
Agency, rental, and personal/private vehicle occupants not covered by workers compensation or transit passengers	\$100,000 for property damage and \$300,000 for bodily injury	Per occurrence	\$0
		Per occurrence	\$0
Endorsement 1: COMMUNICABLE DISEASE LIABILITY:	\$500,000	Per occurrence	\$0
Annual aggregate for all Members or Additional Covered Parties	\$1.5 million		
PUBLIC OFFICIALS LIABILITY	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 2: VIOLATIONS OF WAGE & HOUR LAWS	\$250,000	Per occurrence	\$25,000
Annual aggregate per Member	\$250,000		
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$250,000
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 --	\$35 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit

AUTO PHYSICAL DAMAGE Auto Physical Damage (below \$250,000 in value)	Fair market value		\$5,000
Auto Physical Damage for all vehicles valued over \$250,000 and less than 10 years old	Replacement Cost	Limited to \$1.75 million any one vehicle	\$5,000
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$2 million	Per occurrence	\$10,000
Employee theft	\$2 million	Per occurrence	\$10,000
Forgery or alteration	\$2 million	Per occurrence	\$10,000
Inside the premises – theft of money and securities	\$2 million	Per occurrence	\$10,000
Inside the premises – robbery or safe burglary of other property	\$2 million	Per occurrence	\$10,000
Outside premises	\$2 million	Per occurrence	\$10,000
Computer fraud	\$2 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$2 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$2 million	Per occurrence	\$10,000

CYBER LIABILITY INSURANCE		Coverage	Deductible
Annual Policy and Program Aggregate Limit of Liability for all policy holders (not just WSTIP members)	\$75 million		
Insured/Member Annual Aggregate Limit of Liability	\$2 million		\$5,000
BREACH RESPONSE COSTS	\$500,000	Aggregate for each insured/member (limit is increased to \$1 million if Beazley Nominated Service Providers are used)	
FIRST PARTY LOSS Business Interruption <i>Resulting from Security Breach</i> <i>Resulting from System Failure</i>	\$750,000 \$500,000	Aggregate limit Aggregate limit	
Dependent Business Loss <i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	

<i>Resulting from System Failure</i>	\$100,000	Aggregate limit	
Cyber Extortion Loss	\$750,000	Aggregate limit	
Data Recovery Costs	\$750,000	Aggregate limit	
LIABILITY			
Data & Network Liability	\$2 million	Aggregate limit	
Regulatory defense and penalties	\$2 million	Aggregate limit	
Payment Card Liabilities & Costs	\$2 million	Aggregate limit	
Media Liability	\$2 million	Aggregate limit	
eCRIME			
Fraudulent Instruction	\$75,000	Aggregate limit	
Funds Transfer Fraud	\$75,000	Aggregate limit	
Telephone Fraud	\$75,000	Aggregate limit	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS			
Reputation Loss	\$200,000	Limit of Liability	
Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$200,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	
Cryptojacking	\$50,000	Limit of Liability	

Extra Cyber Limits

In addition to the coverage detailed in the basic Cyber Liability insurance description, Skagit Transit has chosen to purchase additional limits. This limit will be in excess to any limit of the basic cyber liability policy and increases the availability of insurance and/or drop down if the basic policy limits, which are shared with all policy holders, are exhausted. The extra limit is not shared with any other policy holder or WSTIP member. Skagit Transit elected to purchase \$2 million (in excess of \$2 million). The carrier is Palomar Excess & Surplus Insurance Co.

Note 9 – Long Term Liabilities

During the year ended December 31, 2024, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2024	Change	Ending Balance 12/31/2024	Due Within One Year
Compensated Absences	574,902	76,746	651,648	105,353
Total	574,902	76,746	651,648	105,353

Note 10 – Commitments

At December 31, 2024 Skagit Transit had the following in effect (Contracts over \$50,000 excluding lease agreements).

Contractor	Contract No. & Title	Initial Contract Term	Final Term Expiration	Amount Spent 2024
Associated Petroleum Products	20-004-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/2020 – 11/30/2025	2025	\$161,468
Ferrell Gas	Propane (DES 02318)	2/1/2019 – 4/30/2027	2027	\$193,663
5 Star Services Inc.	20-003-P / Janitorial Services	11/1/20–9/30/2024	2024	\$44,864
Buenavista Services	24-023 – Janitorial Services	10/31/2024-3/11/2027	2027	N/A
Kimley-Horn	22-012 – On call engineer	10/31/2022-10/31/2025	2025	\$273,570
Pep Boys	23-008 – Tires	8/1/2024-7/31/2027	2027	\$76,012
S. Yeckley	24-027 – Procurement Consultant	12/20/2024-12/15/2025	2025	N/A
Civic Initiatives	24-028 – Procurement Services	12/16/2024-12/15/2025	2025	\$6,604
NW Technologies	24-029-IT support services and Mgmt	1/1/2025	TBD	\$28,800

Note 11 – 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, 2024, the account balances were:

Capital Reserve:	
Facilities	10,400,000
Capital Replacement	5,707,404
Undesignated Reserve	1,681,676
Operating Reserve	<u>5,613,413</u>
Total:	\$23,402,493

Skagit Transit Public Transportation Benefit Area
Schedule of Proportionate Share of the Net Pension Liability (Asset)
PERS Pension Plans 1, 2, and 3
As of June 30 (plan's measurement date)
For the Year Ended 2024

PERS 1	<u>2023</u>	<u>2024</u>
Employer's proportion of the net pension liability (asset)	0.031154%	0.059939%
Employer's proportionate share of the net pension liability (asset)	\$ 791,385	\$ 1,522,591
Covered payroll	\$ 5,359,679	\$ 4,666
Employer's proportionate share of the net pension liability as a percentage of covered payroll	14.77%	32631.61%
Plan fiduciary net position as a percentage of the total pension liability	80.16%	84.05%
	PERS 2/3	
	<u>2023</u>	<u></u>
Employer's proportion of the net pension liability (asset)	-0.037592%	-0.077575%
Employer's proportionate share of the net pension liability (asset)	\$ (1,762,637)	\$ (3,637,385)
Covered payroll	\$ 5,359,679	\$ 12,005,697
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-32.89%	-30.30%
Plan fiduciary net position as a percentage of the total pension liability	107.02%	105.17%

Note 1. Method of Presentation

The Schedule of Proportionate Share of the Net Pension Liability is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available

Note 2. Fiscal Year

The amounts presented for each fiscal year were determined by the Department of Retirement System (DRS) as of their June 30 year-end that occurred within Skagit Transit's calendar fiscal year.

**Skagit Transit Public Transportation Benefit Area
Schedule of Employer Pension Contributions
PERS Pension Plans 1, 2, and 3
As of June 30 (plan's measurement date)
For the Year Ended 2024**

PERS 1	2023	2024
Statutorily or contractually required contributions	\$ 12,432	\$ 485
Contributions in relation to the statutorily or contractually required contributions	12,432	485.00
Contribution deficiency (excess)	-	-
Covered payroll	\$ 5,359,679	\$ 4,666
Contributions as a percentage of covered payroll	0.23%	10.39%
PERS 2/3	2023	2024
Statutorily or contractually required contributions	\$ 539,945	\$ 1,145,417
Contributions in relation to the statutorily or contractually required contributions	539,945	1,145,417
Contribution deficiency (excess)	-	-
Covered payroll	\$ 5,359,679	\$ 12,005,697
Contributions as a percentage of covered payroll	10.07%	9.54%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.