



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Skagit County Public Transportation Benefit Area

(Skagit Transit)

For the period January 1, 2022 through December 31, 2022

Published January 25, 2024

Report No. 1034029



Scan to see another great way
we're helping advance
#GoodGovernment



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

January 25, 2024

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 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.

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	6
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	8
Independent Auditor's Report on the Financial Statements.....	12
Financial Section.....	16
About the State Auditor's Office.....	44

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Skagit Transit January 1, 2022 through December 31, 2022

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 its major federal program.

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

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit Cluster – Federal Transit Formula Grants
20.507	COVID-19 – Federal Transit Cluster – Federal Transit Formula Grants

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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, 2022 through December 31, 2022

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, 2022, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated January 18, 2024.

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

January 18, 2024

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, 2022 through December 31, 2022

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, 2022. 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, 2022.

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.

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

Pat McCarthy, State Auditor

Olympia, WA

January 18, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Skagit Transit January 1, 2022 through December 31, 2022

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, 2022, 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, 2022, 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 1 to the financial statements, in 2022, the Transit adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. 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 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 January 18, 2024 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.

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

Pat McCarthy, State Auditor

Olympia, WA

January 18, 2024

Skagit Transit
January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022

Statement of Revenues, Expenses and Changes in Net Position – 2022

Statement of Cash Flows – 2022

Notes to Financial Statements – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2022

Notes to the Schedule of Expenditures of Federal Awards – 2022

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

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets	\$31,444,490	\$25,697,749
Capital Assets	<u>32,340,006</u>	<u>31,738,181</u>
Total Assets	63,784,496	57,435,930
Liabilities		
Current Liabilities	1,543,920	1,079,043
Noncurrent Liabilities	<u>559,760</u>	<u>390,107</u>
Total Liabilities	2,103,680	1,469,150
Net Position		
Investment in Capital Assets	32,340,006	31,738,181
Unrestricted	<u>29,340,810</u>	<u>24,228,599</u>
Total Net Position	<u>\$61,680,816</u>	<u>\$55,966,780</u>

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

	2022	2021
Operating Revenues:		
Passenger Fares	\$674,632	\$591,780
Non-Operating Revenues		
Sales Tax	16,797,225	15,271,069
Interest	269,617	11,777
Grants	8,153,912	6,317,407
Gain (loss) on Disposition of Assets	3,650	221,160
Other Non-operating Revenues	45,012	121,698
Total Revenues	25,944,048	22,534,891
Operating Expenses		
Operations	10,998,934	9,210,640
Maintenance	3,423,658	2,921,732
Administration	3,888,446	3,148,675
Depreciation/Amortization	2,498,063	2,702,745
Total Expenses	20,809,101	17,983,792
Net Income (loss) Before Contributions	5,134,947	4,551,098
Capital Contributions	579,089	1,523,899
Increase (decrease) in net position	5,714,036	6,074,997
Net Position - Beginning of period	55,966,780	49,891,783
Net Position - End of period	\$61,680,816	\$55,966,780

Financial Highlights

- Total Net Position as of December 31, 2022 was \$61,680,816. This is how much Assets exceeded Liabilities. Of this total, \$29,340,810, 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.
- Total Net Position increased by \$5,714,036 or 10.2% from the prior year
- Sales tax revenues increased by \$1,526,156 or 10%
- Passenger Fare revenues increased by \$82,852 or 14%.
- Capital Assets increased by \$601,825 after depreciation.
- Skagit Transit received a total of \$8,733,001 in federal, state, and local grants that were used for both operating and capital expenses. 11.4% 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 resulting from the federal stimulus packages. This was further supplemented by a relatively significant increase in Sales Tax revenues as compared with prior year increases. Skagit Transit remained consistent in pursuing other grants in 2022, 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 \$82,852 during 2022. Fixed route service had a revenue increase of \$57,964 or 25.3% and Vanpool had an increase of \$6,677, or 2.3%. Paratransit service had an increase of \$18,211 or 25.7%. Skagit Transit began charging Paratransit riders a \$2.00 one way fare in 2020. Fares for Fixed routes are structured so that commuter routes are two times the local fixed route fare. 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 a dispatch center.

Skagit Transit's Vanpool 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 Vanpool program as most of our Vanpool groups are Boeing employees. The number of Vanpool groups decreased from 47 at the end of 2019 to 28 at the end of 2022. As the impacts of the COVID-19 pandemic subside and riders began returning to the office, the need for rideshare groups is increasing.

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 \$1,526,156 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 \$269,617 in 2022 as compared to \$11,777 in 2021.

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

Operating Expenses

Operating expenses increased by 15.7% in 2022.

Operating Expenses by Department

Operations – \$10,998,934 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$3,423,658 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$3,888,446 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation/Amortization - \$2,498,063 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

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 131,179 in 2022 according to the US Census Bureau. The county's population expanded 12.2 % from 2010 to 2022. This was lower than the statewide population growth rate of 15.8 % 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. Sales Tax revenues showed a decrease during the first few months of COVID but started to recover during the second half of 2020. Fiscal year 2022 Sales Tax collections were \$1.5 million higher compared to 2021.

Skagit County's unemployment rate in Dec 2022 was 5.6% compared to 4.5% 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 actively being sought for the phase 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 Chief Financial Officer, 600 County Shop Lane, Burlington, WA 98233, telephone 360-757-8801.

Skagit Transit
Statement of Net Position
December 31, 2022

ASSETS

Current Assets:	
Cash	5,923,158
Investments	21,206,775
Taxes receivables	2,783,825
Accounts receivable (net of allowance for uncollectibles)	24,875
Due from other governments	939,677
Inventory	562,611
Prepays	3,569
Total Current Assets	31,444,490
Noncurrent Assets:	
Capital assets not being Depreciated	
Land	5,935,314
Right of way	850,000
Construction in Progress	6,129,505
Capital assets being Depreciated/Amortized	
Buildings	8,932,049
Improvements other than buildings	6,652,699
Vehicles	20,261,502
Intangible Assets - Software	1,225,198
Intangible Assets - Right-to-Use	133,827
Equipment & Furnishings	2,502,025
<i>Less: Accumulated Depreciation/Amortization</i>	
Buildings	(4,279,182)
Improvements other than buildings	(2,219,286)
Vehicles	(10,903,212)
Equipment & Furnishings	(1,820,732)
Intangible Assets	(1,016,853)
Intangible Assets - Right-to-Use	(42,848)
Total Net Capital Assets	32,340,006
Total Noncurrent Assets	32,340,006
Total Assets	63,784,496

LIABILITIES

Current Liabilities:	
Accounts payable	182,942
Compensated Absences	71,175
Wages & Leave payable	481,328
Benefits and Taxes payable	181,135
Lease Payable - Current	45,544
Other payables	581,797
Total Current Liabilities	1,543,920
Noncurrent liabilities:	
Compensated Absences	509,554
Lease Payable	50,206
Total Noncurrent Liabilities	559,760
Total Liabilities	2,103,680

NET POSITION

Net Position:	
Net Investment in Capital Assets	32,340,006
Unrestricted	29,340,810
Total Net Position	61,680,816

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, 2022

Operating Revenues:	
Passenger Fares	\$674,632
Total Operating Revenues	_____
Operating Expenses:	
Operations	10,998,934
Maintenance	3,423,658
Administration	3,888,446
Depreciation/Amortization	2,498,063
Total Operating Expenses	_____
Operating Income (Loss)	(20,134,469)
Non-Operating Revenues (Expenses):	
Sales Tax	16,797,225
Interest	269,617
Grants	8,153,912
Gain (loss) on Disposition of Assets	3,650
Other Non-operating Revenues (Expenses)	45,012
Total Non-Operating Revenues (Expenses)	_____
Income(loss) before contributions, gains, losses, other revenues and expenses	_____
Capital Contributions	579,089
Increase (decrease) in net position	5,714,036
Net Position - Beginning of period	\$55,966,780
Net Position - End of period	\$61,680,816

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, 2022

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 675,739
Cash Payments to Suppliers for Good & Services	(4,085,919)
Cash Payments to Employees for Services	(13,653,730)
Other Cash Receipts	45,009
Net Cash Provided (Used) by Operating Activities	<u>(17,018,901)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	16,605,537
Federal, State and Local Assistance Received	8,465,621
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>25,071,158</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(3,099,888)
Capital Grants and Contributions	637,626
Proceeds from Sale of Equipment	3,650
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,458,612)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(269,617)
Proceeds from Investment Transfer to Savings	(4,000,000)
Interest on Investments	269,617
Net Cash Provided (Used) by Investing Activities	<u>(4,000,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,593,645</u>
Cash and Cash Equivalents, Beginning	4,329,512
Cash and Cash Equivalents, Ending	<u><u>\$ 5,923,158</u></u>

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

Skagit Transit
Reconciliation Operating Loss / Operating Activities
For Fiscal Year Ended Deceember 31, 2022

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (20,134,469)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation/Amortization on Capital Assets	2,498,063
Nonoperating Expenses/Misc Nonoperating Revenue	45,012
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	1,107
Decrease (Increase) in Inventories	(63,142)
Increase (Decrease) in Accounts Payable	470,096
Increase (Decrease) in Wages & Benefits Payable	164,432
 Total Adjustments	 <u>3,115,568</u>
 Net Cash Provided (Used) by Operating Activities	 <u>\$ (17,018,901)</u>

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

SKAGIT TRANSIT
Notes to Financial Statements
For the Year Ended December 31, 2022

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

Skagit Transit was authorized on November 3, 1992 and operates under the laws of the State of Washington applicable to a Public Transportation Benefit Area (PTBA). The Agency is a special purpose government and provides public transportation to the general public within Skagit County and is supported primarily through local sales tax. The Agency is governed by an elected nine member board. A review of other units of local government, using the criteria set forth in GAAP, indicates there are no additional entities or funds for which the PTBA has reporting responsibilities. Based on the standards set by GASB-14, there are no component units of Skagit Transit.

B. Measurement Focus, Basis of Accounting

Skagit Transit's statements are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on 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. At December 31, 2022, the Agency was holding \$5,923,158 in short-term residual investments of surplus cash. This amount is classified in the financial statements as Cash and Cash Equivalents.

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

2) Investments See Note 2 – Deposits and Investments

3) Receivables

Taxes receivable at December 31, 2022 consist of \$2,783,825 in sales tax receivable for November and December 2022, and sales tax interest receivable of \$5,989.

Total Accounts Receivable at December 31, 2022 was \$24,875, 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 2022 Fuel Tax refund from the Washington State Department of Licensing for \$4,515. The Fuel Tax refund is for taxes paid on fuel purchases from Skagit Transit's gas and diesel vendor, which is then refunded by the DOL after the Agency applies quarterly.

Grants receivable at December 31, 2022 consist of \$935,162 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. At December 31, 2022, Skagit Transit carried an inventory valued at \$562,611.

6) Restricted Assets and Liabilities.

Skagit Transit has no restricted assets and liabilities.

7) Capital Assets – See Note 3 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
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	5-7 years
Shop Equipment	10 years
Route Improvements	20 years
Furniture & Fixtures	10 years
Intangible Assets	5-10 years
Computer Equipment	5 years
Vehicle Improvements	3-5 years

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

All compensated absences that are unused at the end of each year are listed on the balance sheet as a liability. The current liability for compensated absences equaled \$71,175 as of December 31, 2022 and noncurrent liability is \$509,554.

Note 2 – Accounting and Reporting Changes

Skagit Transit implemented GASB Statement No. 87, “Leases” for the year ending December 31, 2022. This statement changed the accounting and financial reporting for lease arrangements and applies to contracts that convey the right to use an underlying non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessee arrangements now recognize a right to use lease asset related lease liability.

Note 3 – Deposits & Investments

A. Deposits

Cash on hand at December 31, 2022 was \$5,923,158. The Bank Balance was \$5,989,627.

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 the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the

LGIP and Skagit Treasurer’s office. The LGIP and the Treasurer’s assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

As of December 31, 2022, the transit held the following investments at amortized cost:

Type of Investment	Maturities	Transit’s own investments	Investments held by Transit as an agent for others	Total
WA State Local Government Investment Pool	Less Than One Year	\$21,206,775	\$0	\$21,206,775
Total		\$21,206,775	\$0	\$21,206,775

Investments in Local Government Investment Pool (LGIP)

Skagit Transit is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Note 4 – Capital Assets & Related Depreciation/Amortization

Capital Assets activity for the year ended December 31, 2022 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	4,000,000	\$2,200,830	71,327	6,129,505
Total Assets not Being Depreciated	\$10,785,315	\$2,200,830	\$71,327	\$12,914,819
Capital Assets Being Depreciated/Amortized				
Buildings	\$8,905,849	26,201	-	\$8,932,049
Improvements other than buildings	6,581,372	71,327		\$6,652,699
Vehicles	20,014,846	615,780	369,124	\$20,261,502
Equipment & Furnishings	2,384,727	117,298		\$2,502,025

Intangible Assets	1,219,245	139,779		1,359,025
Total Assets Being Depreciated/Amortized	\$39,106,040	\$970,385	369,124	\$39,707,300
Less Depreciation/Amortization for:				
Buildings	\$3,983,616	\$295,565		\$4,279,182
Improvements other than buildings	2,034,063	185,223		2,219,286
Vehicles	9,534,844	1,737,493	369,124	10,903,212
Equipment & Furnishings	1,645,452	175,280		1,820,732
Intangible Assets	955,200	104,501		1,059,701
Total Assets Being Depreciated/Amortized	\$18,153,175	\$2,498,062	\$369,124	\$20,282,113
Total Capital Assets, Being Depreciated/Amortized, Net	\$20,952,866			\$19,425,187
Total Net Capital Assets	\$31,738,181			\$32,340,006

Note 5 – Leases

Skagit Transit leases copier and other equipment and modular buildings under a variety of long term, noncancelable agreements. In accordance with GASB statement NO. 87, 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
Modular Building (IT Dept)	Design Space Modular Bldgs.	36	\$784.52
Modular Building (New Maint. Oper & Admin Bldg.)	Pacific Mobile Structures	24	\$382.73
Modular Building (New Maint. Oper & Admin Bldg.)	Pacific Mobile Structures	24	\$1,232.00

Skagit Transit's right to use lease asset and related accumulated amortization for fiscal year ending December 31, 2022 are as follows:

	Beginning Bal	Increases	Decreases	Ending Bal
Leased Bldgs		\$69,524		\$69,524
Leased Equipment		64,303		64,303
Total Capital Lease assets	-	133,827	-	133,827
Accum. Amortization. Leased Bldgs.		32,636		32,636
Accum. Amortization. Leased Equipment		10,212		10,212
Total Accumulated Amortization	-	\$42,848	-	\$42,848

As of December 31, 2022, the principal and interest requirements to maturity are as follow:

	Principal	Interest	Total
2023	45,544	2,852	48,396
2024	23,919	1,450	25,369
2025	11,853	879	12,732
2026	12,333	399	12,732
2027	2,101	66	2,167
Total	95,751	5,646	101,396

Note 6 – Defined Contribution Plan

Effective January 1, 1998, the Board of Directors approved Resolution No. 64 declaring Empower-Retirement (formally Great-West Retirement Services) as Skagit Transit’s third-party administrator for the Skagit Transit 401(a) and 457 plans. All of Skagit Transit’s employees have the opportunity to participate in a 401(a) Defined Contribution Plan.

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

401(a) Defined Contribution Plan (mandatory)
 5.00% by Skagit Transit
 5.00% by the employee

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

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

Plan balances and contributions for FY 2022 and FY 2021 were as follows:

	<u>FY 2022</u>	<u>FY 2021</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	9,205,349	9,038,287
Employee 401(a) Contributions	487,361	415,170

SKAGIT TRANSIT 401(a) Contributions	487,570	415,170
Loan Issuances	(69,974)	(95,659)
Loan payments	104,183	113,821
Distributions	(1,196,446)	(1,497,626)
Adjustments	(909,733)	743,768
Earnings	74,049	72,418
Total Ending Fund Balances	<u>\$8,182,359</u>	<u>\$9,205,349</u>

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

There are no other post-employment benefits.

Note 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, 2022, 262 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.

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, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account.

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

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

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 2022, 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 2022:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$25 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$25 million	Per offense	\$0
Contractual liability	\$25 million	Per occurrence	\$0
Vanpool Driver Medical Expense Protection	\$35,000	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

Endorsement 1: COMMUNICABLE DISEASE LIABILITY	\$500,000	Per occurrence	\$0
Annual aggregate for all members or Additional covered parties	\$2 million		
PUBLIC OFFICIALS LIABILITY	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 1: 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	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit
AUTO PHYSICAL DAMAGE Auto Physical Damage (below \$250,000 in value)	Fair market value		\$5,000
Auto Physical Damage for all vehicles with a model year of 2010 or later and valued over \$250,000	Replacement Cost	Limited to \$1.5 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:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000

Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

CYBER LIABILITY INSURANCE		Coverage	Deductible
Annual Policy and Program Aggregate Limit of Liability for all policy holders (not just WSTIP members)	\$40 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>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$500,000	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	\$100,000	Limit of Liability	
Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	

Computer Hardware Replacement Costs	\$100,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	

CYBER LIABILITY INSURANCE		Coverage	Deductible
Breach Response Costs	\$500,000	Limit increases to \$1 million if carrier's nominated service providers are utilized	\$5,000
FIRST PARTY LOSS			
Business Interruption <i>Resulting from Security Breach</i>	\$2 million	Limit of Liability	
<i>Resulting from System Failure</i>	\$500,000	Limit of Liability	
Dependent Business Loss <i>Resulting from Security Breach</i>	\$750,000	Limit of Liability	
<i>Resulting from System Failure</i>	\$100,000	Limit of Liability	
Cyber Extortion Loss	\$2 million	Limit of Liability	
Data Recovery Costs	\$2 million	Limit of Liability	
LIABILITY			
Data & Network Liability	\$2 million	Limit of Liability	
Regulatory defense and penalties	\$2 million	Limit of Liability	
Payment Card Liabilities & Costs	\$2 million	Limit of Liability	
Media Liability	\$2 million	Limit of Liability	
eCRIME			
Fraudulent Instruction	\$75,000	Limit of Liability	
Funds Transfer Fraud	\$75,000	Limit of Liability	
Telephone Fraud	\$75,000	Limit of Liability	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS	\$50,000	Limit of Liability	
Reputation Loss			
Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$75,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	
Cryptojacking	\$25,000	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 increase 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. The carrier is Great American Fidelity Insurance Company. Skagit Transit has a \$50,000 deductible per cyber incident.

Note 9 – Contingent Liabilities

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

Based on the above criteria Skagit Transit has no unresolved claims against it as of December 31, 2022.

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

Note 10 – Commitments

Commitments:

At December 31, 2022 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 2022
Associated Petroleum Products	20-004-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/20 – 11/30/23	2023	\$ 169,015
Associated Petroleum Products	ULSD Fuel Delivery (DES 8721)	1/01/2022 – 1/31/25	2025	\$242,973
Ferrell Gas	Propane (DES 02318)	2/1/2019 – 4/30/2027	4/30/2027	\$143,564
5 Star Services Inc.	20-003-P / Janitorial Services	11/1/20– 10/31/25	10/31/2025 2 Year Options	\$47,750
Les Schwab	19-003-F / Tires & Related Services	9/1/19 – 8/31/23	8/31/2023	\$143,672
Ferrell Gas State of WA (DES 02318)	Autogas Propane Services	2/1/19 – 4/30/27	4/30/2027	\$143,564
KBA	19-013-F / Construction Management (MOA 2)	12/30/2020	In negotiations	\$193,654

TCF	17-013-F / A&E Design Services (MOA 2)	3/2018	In Negotiations	\$103,953
Kaeka Group	20-001-F / Security Guard Services	5/01/2020-5/31/2023	5/31/2023 Terminated	\$336,149
HB Hansen	19-014-F/ Construction MOA2 Phase 1	6/1/2021 (180 days)	In Negotiations	\$1,239,578

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, 2022, the account balances were:

Capital Reserve:	
Facilities	10,400,000
Capital Replacement	4,195,706
Undesignated Reserve	1,524,196
Operating Reserve	<u>5,086,873</u>
Total:	\$21,206,775

**Skagit County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Cluster								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	-	-	177,699	177,699	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	-	-	941,757	941,757	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	-	-	6,612,792	6,612,792	-	127
				Total ALN 20.507:	7,732,248	7,732,248	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	-	-	80,719	80,719	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	-	-	174,917	174,917	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	WA-2021-057	67,960	-	67,960	-	127
			Total ALN 20.526:	67,960	255,636	323,596	-	
			Total Federal Transit Cluster:	67,960	7,987,884	8,055,844	-	

The accompanying notes are an integral part of this schedule.

**Skagit County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0286	60,946	-	60,946	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0367	239,543	-	239,543	-	127
Total ALN 20.509:				300,489	-	300,489	-	
Total Federal Awards Expended:				368,449	7,987,884	8,356,333	-	

The accompanying notes are an integral part of this schedule.

Skagit Transportation Benefit District, Washington

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 - INDIRECT COST RATE

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

NOTE 7 - PROGRAM COSTS

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

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

- [Find your audit team](#)
- [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