Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Clallam County Public Transportation Benefit Area

(Clallam Transit System)

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012707

Washington State Auditor
Troy Kelley

September 29, 2014

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY

STATE AUDITOR

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Federal Summary

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The results of our audit of the Clallam Transit System are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

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 deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Authority.

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 Authority's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Authority qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. The Authority's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.

Background

Board members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Authority to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the Authority's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal controls that when taken together, represent a material weakness:

- Although the Authority has a review process for the prepared financial statements, the review is not effective or sufficiently detailed to ensure the financial statements are accurate and complete.
- Staff responsible for reviewing the financial statements did not have sufficient technical knowledge of financial reporting requirements.
- The Authority did not have procedures in place to ensure supporting documentation for financial statement balances was properly maintained.

Cause of Condition

The Authority experienced turnover in the finance administrator's position responsible for financial reporting. The Authority relied on a consultant to produce their financial statements. The consultant and Authority management discovered the information in the general ledger lacked support, and current accounting personnel did not know the history for some of the transactions reported in the general ledger.

Effect of Condition

The Authority's financial statements contained misstatements which were not detected by Authority management that in the aggregate were material to the financial statements. The following misstatements were identified in the audit:

- Capital grant revenues were overstated by $554,146. This resulted from the Authority recording transfers from reserve accounts to the capital grant proceeds account as revenue.

- Depreciation expense were likely understated by $663,750. The Authority did not retain support for their depreciation calculation. As a result, we could not determine whether the amount reported on the Statement of Revenue, Expenses and Changes in Net Position was accurate.

- Ending unrestricted net position was understated by $476,558. The Authority reported a prior period adjustment in fiscal year 2013 on the Statement of Revenue, Expenses and Changes in Net Position for a misstatment that previously was corrected in the fiscal year 2012 audited financial statements.

- The Authority changed its method for calculating depreciation on vehicles to straight-line in fiscal year 2013. The change in accounting estimate resulted in a $1,788,788 change to beginning net position. The Authority did not disclose a change in accounting estimate and the effect the change had on beginning net position in the notes to the financial statements.

- The Authority did not prepare a Schedule of Funding Progress for their Other Post Employment Benefits (OPEB) liability, as required per Government Accounting Standards (GASB 45).

- Compensated absences were likely understated by $26,000. The Authority did not include an amount for FICA, social security and retirement contributions that will be paid as part of leave buyouts in their calculation of compensated absences. In addition, compensated absences were not properly classified between current and long-term on the Statement of Net Position.

Most of the misstatements noted above were subsequently corrected by the Authority, with the exception of the depreciation and compensated absences misstatements which were likely misstatments. The uncorrected likely misstatements are not material to the financial statements, and did change our opinion on the financial statements.

Recommendation

We recommend Authority management take action to establish ongoing, consistent internal controls over its financial accounting and reporting, to include the following:

- Establish an effective review process of the financial statements by a person knowledgeable of Generally Accepted Accounting Principles (GAAP) and Budgeting, Accounting and Reporting Systems (BARS) reporting requirements to ensure accurate preparation and reporting of the Authority's financial statements.

- Provide adequate training to staff responsible for financial accounting and reporting, and adequately research and seek technical guidance for transactions to ensure compliance with reporting requirements.

- Establish and implement monitoring and oversight procedures to ensure general ledger balances are accurate, complete and adequately supported.

Authority's Response

Calendar year 2013 was a time of change with the retiring General Manger, incoming new General Manager from an external recruitment and the separation of the Finance Administrator with a long term service record (5/13/2003 to 12/13/2013). The Interim Finance Administrator entered his position during the holiday payroll period and W-2/ I-9s. The Interim position was at a great challenge to learn the financial system software and to make up for lost time for entering FleetNet records. Much of the general ledger entries were not maintained which is a true stop gap for year- end net position. CTS hired a retired state auditor from the Olympic Peninsula region to be on site and help prepare the 2013 Financial Statement. CTS also relied upon a peer agency Finance Manager to re-construct the general ledger, depreciation of assets, compensated absences and imparted several other FleetNet training topics. All three of these knowledgeable accountants struggled to arrive at a net position and develop a responsive and representational financial statement.

By the state deadline, the CTS financial statement, notes and MD&A were submitted in good faith of its representation. The changes over the prior year were visibly obvious. CTS management presented the complete unaudited statement to the Board and pointed out the change in depreciation, other discrepancies and the areas of note simplification. At CTS, we appreciate the auditor examination, the fresh eyes and opportunity to learn through the single and accountability audit. The 2013 Financial Statement has been corrected and has changed the net end position by approximately $63,252. Moreover the financial statement correction process during the week of 9/15/14 allowed for a reconciliation process to have a clean slate for calendar year 2014. The following corrective action response identifies a list of tasks from GASB update training for the Interim and/or Permanent Finance Administrator to procedure development for the niche account liability of OPEB and compensated absences.

Auditor's Remarks

We thank the Tranist for their commitment to addressing this issue in a timely fashion. We will review the Authority's corrective action during our next schedule audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2007 Revision - Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

a. Significant deficiency: 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.

b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction, all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budget Accounting and Reporting System (BARS) manual - Part 3 Accounting Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

> Management and the governing body are responsible for the government's performance, compliance, and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management
>
> Significant deficiency. 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.

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

Clallam Transit System
Clallam County
January 1, 2013 through December 31, 2013

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clallam Transit System, Clallam County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 22, 2014. The Authority has omitted the information on postemployment benefits other than pensions that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Authority'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

AUTHORITY'S RESPONSE TO FINDINGS

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Clallam Transit System
Clallam County
January 1, 2013 through December 31, 2013

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Clallam Transit System, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority 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, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR

September 22, 2014

Independent Auditor's Report on Financial Statements

Clallam Transit System
Clallam County
January 1, 2013 through December 31, 2013

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clallam Transit System, Clallam County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clallam Transit System, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the information on postemployment benefits other than pensions that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

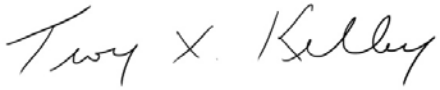
Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

September 22, 2014

Financial Section

Clallam Transit System
Clallam County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

CLALLAM TRANSIT SYSTEM
MANAGEMENT DISCUSSION & ANALYSIS
for the Year Ended December 31, 2013

This section of the Annual Financial Report presents management's overview and analysis of Clallam Transit System's (the System) financial performance for the fiscal year ended December 31, 2013. This section should be read in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

During 2013, the System's financial position increased by $2,023,564, as the capital contributions of $2,820,369 were greater than the non-cash depreciation of $1,292,792 and the non-cash OPEB cost of $339,900 (see Note 10), as sales tax collections increased by $328,345 over the prior year.

While System's Board has designated a portion of cash and investments for certain purposes (see Note 2), there exist no outside restrictions, commitments, or other limitations that significantly affect the availability of fund resources (i.e. unrestricted net assets) for future use.

Passenger fares decreased 6% in the amount of ($66,747) for the year commensurate with lower passenger counts. No service changes occurred in 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Clallam Transit System's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. These statements offer short and long-term financial information about its activities.

The Statement of Net Position presents information on all of the System's assets, liabilities, deferred outflows of resources, and deferred inflows of resources with the difference between these financial elements reported as net position. Over time, given that the System is very capital intensive, the increases and decreases in net position may serve as a useful indicator of whether the System's infrastructure is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the System's net assets changed during the fiscal year. All changes in net position 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 the State but not yet remitted to Clallam Transit, and earned but unused vacation leave).

The Statement of Cash Flows presents information on the System's cash receipts, cash payments, and net changes in cash and cash equivalents. Generally accepted accounting principles require that cash flows be classified into one of four categories:

Cash flows from operating activities

Cash flows from non-capital financing activities

Cash flows from capital and related financing activities

Cash flows from investing activities

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided within the financial statements.

FINANCIAL ANALYSIS

The following Summary of Financial Statements compares performance of the System across two years and draws from the financial statements prepared for this year and the previous year. The Summary is part of the Management Discussion and Analysis to provide a useful reference for the discussion that follows regarding the impact of activities in the current year in the context of the System's financial status in the previous year.

Clallam Transit System's financial statements, summarized below, present the status of its assets, liabilities to others, and net worth of the System (see the Statement of Net Position), how the System was able to cover its costs of operation and capital investment (see the Statement of Revenue, Expenses, and Changes in Net Position), and how funds were received and disbursed during the period (see Statement of Cash Flows).

SUMMARY OF FINANCIAL STATEMENTS POSITION:

Summary Statement for Net Assets

	2013	2012	Net increase (decrease) 2013 vs. 2012
ASSETS:			
Current Assets			
Cash and Cash Equivalents	$ 2,019,664	$ 2,283,657	$ (263,993)
Other Current Assets	2,804,833	2,531,490	273,343
Capital Assets (net)	26,911,002	24,607,858	2,303,144
Total Assets	$ 31,735,499	$ 29,423,005	$ 2,312,494
LIABILITIES:			
Current Liabilities	$ 492,291	$ 355,107	$ 137,184
Noncurrent Liabilities	1,687,228	1,535,482	151,746
Total Liabilities	$ 2,179,519	$ 1,890,589	$ 288,930
NET POSITION			
Net Invested in Cap. Assets	$ 26,911,002	$ 24,607,858	$ 2,303,144
Unrestricted Net Assets	2,644,978	2,924,558	(279,580)
Total Net Position	$ 29,555,980	$ 27,532,416	$ 2,023,564

For the year ended December 31, 2013, assets exceed liabilities by $29,555,980.

A majority of the Transit’s net position (85%) represents its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the position balance is not available for future spending.

Summary Statement of Revenues, Expenses and Changes in Net Position

	2013	2012	Increases (Decreases) Change	
Operating Revenue	$ 1,106,267	$ 1,170,067	$ (63,800)	-5%
Operating Expenses	9,047,359	9,672,646	(625,287)	-6%
Operating Loss	(7,941,092)	(8,502,579)	561,487	-7%
Subsidies	7,071,065	6,066,682	1,004,383	17%
Other Nonoperating Rev (net)	73,222	55,163	18,059	33%
Income (loss) before contributions, Extraordinary and special items	(796,805)	(2,380,734)	1,583,929	-67%
Capital contributions	2,820,369	1,328,718	1,491,651	112%
Inc (Dec) in Net Position	2,023,564	(1,052,016)	3,075,580	-292%
Beginning Net Position	27,532,416	28,584,432	3,093,639	11%
Ending Net Position	$ 29,555,980	$ 27,532,416	6,151,160	22%

OPERATING ACTIVITY

Operating Revenue fell $63,800 from 2012 to 2013 but was more than offset by the decrease in Operating Expense of $625,287 allowing for a decrease in the operating loss by $561,487.

OPERATING GRANTS

A significant source of funding for the System is operating assistance in the form of grants, which are either appropriated on a formula basis or obtained through competitive grant application processes. Non operating revenue increased $18,059 or 33% over 2012.

CAPITAL CONTRIBUTIONS

Capital contributions increased by $1,491,651 or 112% in 2013 over 2012.

The Statement of Cashflows details sources and uses of cash.

Summary Statement of Cashflows

CASH FLOWS FROM:	2013	2012	Increases (Decreases) Change
Operating Activities	$ (6,332,466)	$ (6,162,945)	$ (169,521)
Non Capital Financing Activities	6,913,397	6,099,915	813,482
Capital Financing Activities	(848,749)	22,957	(871,706)
Investing activities	3,825	1,349,997	(1,346,172)
Net increase in cash and cash equivalents	$ (263,993)	$ 1,309,924	$ (1,573,917)

The Systems revenue streams are detailed below:

Revenues by Source

	2013	2012	Increases (Decreases) Change	
Passenger Fares	$ 1,089,546	$ 1,156,293	$ (66,747)	-6%
Advertising	16,721	13,774	2,947	21%
Sales Tax	5,953,490	5,625,145	328,345	6%
Operating & Capital Grants	3,937,945	441,537	3,496,408	792%
Investment Income	15,622	19,246	(3,624)	-19%
Miscellaneous Income	57,600	35,917	21,683	60%
Total Revenues	$ 11,070,924	$ 7,291,912	$ 3,779,012	52%

Expenses by department are summarized below:

Operating Expenses by Department

	2013	2012	Difference	
Operations	$ 5,469,143	$ 5,370,520	$ 98,623	2%
Maintenance	1,423,540	1,595,499	(171,959)	-11%
Administration	861,884	702,919	158,965	23%
Depreciation	1,292,792	2,003,708	(710,916)	-35%
Total Expenses	$ 9,047,359	$ 9,672,646	$ (625,287)	-6%

Economic Factors and Future Outlook

Clallam Transit relies on county-wide sales tax receipts at .06 of 1-percent as its primary source of revenue. Sales tax for 2013 increased by 5.8 percent over 2012 and is considered a very moderate return of sales tax activity compared to other state-wide Public Transportation Benefit Authority (PTBA) areas. Sales tax returns showed an increase right around the time of a substantial highway capacity improvement, a two year project managed by the WSDOT. Clallam Transit is watching carefully artificial blips in sales tax growth that could be unsustainable. In connection with steady sales tax growth, is population and unemployment rates. County population has increased over the last three year census period by only 1.3-percent. While unemployment is marginally improving, the average annual county-wide unemployment rate for 2013 was 9.2-percent. The county's percentage of persons below poverty level of 13.5-percent continues to hover over the

statewide statistic of 12.9-percent. Peninsula Community College enrollment is expected to slightly diminish as more jobs are available in the local community.

A secondary source of revenue for Clallam Transit System is the state and federal operating dollars provided to our Rural PTBA per formula and also competitively based on needs. In the 2013-2015 biennium, Clallam Transit received $1.3 million operating dollars to be distributed over the two-year period. We have mapped the distribution of these funds in accordance to the State's ability to release the funds and also in a moderate way to represent consistent financial reports throughout the period. Currently, the State is in the process of sending us a partial reimbursement request for fourth quarter 2013. We receive fewer operating dollars than many rural PTBAs while producing more revenue miles. With the understanding we should not become reliant on grant operating dollars, we are supporting the continuation of the federal highway trust funds and the state legislative budget which supports WSDOT distributing transportation funds to transit agencies. Sometimes we receive sales tax equalization funds or rural mobility funds from Washington State as we received $127,000 in 2013. These funds are a small contribution to Clallam's overall revenue plan and are seemingly an unexpected announcement. We do not plan for these dollars in future years. When Clallam is awarded federal grant funds, we have the option to start the project or make the purchase concurrent with the processing of the grant. MAP-21, the new federal transportation act and sequestration upon the Federal Transit Administration, slowed down the processing of grants to such a degree that the projects were completed in 2013 and the funds anticipated to be received in the next fiscal year. The future outlook of another new federal transportation act could make receiving federal funds in the same fiscal year nearly impossible.

Throughout the next six years, Clallam's strategic goals as they directly pertain to the economic outlook are to become more efficient with the current revenue levels and to make better connections with local and commuter service. We have an opportunity with the Peninsula College to receive revenue based on enrollment and increase ridership. Service changes in the re-alignment of routes to facilitate local and regional connections are low cost methods to increase fare revenue. In the next six years, we do not anticipate raising the sales tax receipts percentage by a transit purpose tax measure or the increase of fares by a public hearing. We are focused on the large and growing senior population which is 25.4-percent of the population comparatively to 13.2-percent state-wide. Clallam Transit's complimentary paratransit services extend beyond the federal ADA parameters and are serving the entire county. The cost per mile for these out of ADA boundaries has the possibility to increase. We are actively encouraging seniors to take fixed route buses and providing them opportunities to purchase a Regional Reduced Fare Permit which is honored throughout the Olympic Peninsula and Puget Sound.

Another concern to the financial stability of Clallam Transit is the price and availability of ultra low sulfur diesel and liquid propane. In 2013, Clallam Transit underwent a shift in purveyors of fuel which placed a crimp in the vanpool program. Pettit Fuel filed for bankruptcy, closed facilities, and terminated local employees. Fortunately, Clallam Transit for the sake of deadhead miles in very rural areas had other fuel contracts in place and had recently purchased commuter vans fueled by propane. Clallam Transit was able to maintain the same level of service with an extremely small financial impact. We are suspended in our concerns for the acceptance of propane as a state recognized alternative fuel. The benefits of propane in Clallam County and within the fleet are very positive.

Clallam Transit management has survived the recession with one fare increase, attrition, a hiring freeze, re-tooling of bus routes, and outward thinking for contracted service with non-profits and Tribal Nations. In 2013, Clallam Transit was able to increase designated operating reserves by $100,000. The Board approved target has not been met, but with the commitment to meeting public transit needs of Clallam County in a fiscally responsible manner, the reserve fund can steadily increase and provide for fluctuations in the local economy.

Requests for Information

This financial report is designed to provide a general overview of Clallam Transit System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

General Manager
Clallam Transit System
830 W. Lauridsen Blvd.
Port Angeles, WA 98363

CLALLAM TRANSIT SYSTEM
STATEMENT OF NET POSITION
As of December 31, 2013

	2013
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	$ 2,019,664
Investments	1,270,756
Accounts Receivable	27,564
Due from Other Governments	325,000
Taxes Receivable	1,030,729
Inventory	150,784
Total Current Assets	4,824,497
LONG-TERM ASSETS (Capital Assets, net of Depreciation)	
Land	4,100,000
Construction in Progress	-
Buildings and Grounds	14,146,049
Shelters and Improvements	90,220
Vehicles and Related Equipment	7,850,214
Computers and Related Equipment	26,907
Major Capital Improvements	697,612
Total Long-Term Assets	26,911,002
TOTAL ASSETS	$ 31,735,499
LIABILITIES	
CURRENT LIABILITIES:	
Accounts/Warrants Payable	$ 186,414
Employee Leave Benefits (Current Portion)	146,887
Payroll & Related Expensed Payable	158,990
Total Current Liabilities	492,291
NONCURRENT LIABILITIES:	
Employee Leave Benefits	199,046
CTS Post-employment Healthcare Insurance Credits	130,950
Other Post-employment Benefit Programs (PEBB Retiree Heathcare Insurai	1,357,232
Total Noncurrent Liabilities	1,687,228
TOTAL LIABILITIES	$ 2,179,519
NET POSITION	
Invested in capital assets	$ 26,911,002
Unrestricted Net Assets	2,644,978
TOTAL NET POSITION	**$ 29,555,980**

The notes to financial statements are an integral part of this statement.

CLALLAM TRANSIT SYSTEM
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2013

	2013
OPERATING REVENUE	
Passenger Fares	
Fixed Route	$ 677,603
Special Services	85,131
Vanpool	289,861
Paratransit	36,951
Advertising	16,721
Total Operating Revenue	1,106,267
OPERATING EXPENSES	
Operations	3,584,189
Vanpool	304,241
Paratransit	1,580,713
Maintenance	1,423,540
Administration and Public Education	861,884
Depreciation	1,292,792
Total Operating Expenses	9,047,359
OPERATING INCOME (LOSS)	**$ (7,941,092)**
NONOPERATING INCOME	
Sales Tax Revenues	5,953,490
Operating Grant Reimbursements	1,117,575
Interest Revenue	15,622
Gain/(Loss) on Disposition of Assets	8,959
Other Nonoperating Revenues	48,641
Total Nonoperating Revenue	7,144,287
CONTRIBUTIONS (GRANTS)	
Capital Grant Reimbursements and Transfers	2,820,369
Total Contributions	2,820,369
CHANGE IN NET POSITION	**$ 2,023,564**
Net Position at Beginning of Year	27,532,416
NET POSITION (End of Year)	**$ 29,555,980**

The notes to financial statements are an integral part of this statement.

CLALLAM TRANSIT SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

	2013
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	1,113,603
Payments to suppliers	(1,971,106)
Payments to employees	(5,474,963)
Net cash provided (used) by operating activities	**(6,332,466)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Sales Tax Received	5,996,286
Operating Support Grant Funding Received	868,921
Other Nonoperating Income	48,190
Net cash provided by noncapital financing activities	**6,913,397**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Grant Funding Received	2,823,370
Proceeds from Asset Sales & Related Revenue	8,959
Payments to acquire capital assets	(3,681,078)
Net cash (used)/provided by capital financing activities	**(848,749)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment interest income	15,622
Sale/(Purchase) of investments	(11,797)
Net Cash provided by investing activities	**3,825**
Net increase in cash and cash equivalents	**(263,993)**
Cash and cash equivalents at beginning of year	2,283,657
Cash and cash equivalents at end of year	**2,019,664**

Reconciliation of Operating (Loss) to Net Cash (Used) by Operating Activities

Net Operating Loss	**(7,955,428)**
Non-cash transactions which affect assets or liabilities:	
Depreciation Expense (decrease Net Capital Assets)	1,292,792
Change in assets:	
Decrease Change in Receivables, net	7,336
Decrease Change in Inventory	7,447
Decrease Change in Prepaids & Hedge A/R	12,121
Change in liabilities:	
Decrease in Accounts/Warrants Payable	(65,531)
Increase in Accrued Wages/Expenses	72,706
Decrease in Employee Leave	(47,759)
Increase in Accrued Post-Empl HC Ins Credit	329,514
Total adjustments	**1,608,626**
Net cash used in operating activities	**(6,346,802)**

The notes to financial statements are an integral part of this statement.

Clallam Transit System
NOTES TO FINANCIAL STATEMENTS
for the Year Ended December 31, 2013

These notes are an integral part of the accompanying financial statements and are presented to assist the reader in interpreting the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clallam County Public Transportation Benefit Area, d/b/a Clallam Transit System was formed on July 29, 1979, when the voters authorized a 0.3 percent increase in the sales tax for a transit system.

Clallam Transit System ("the System") is a municipal corporation formed pursuant to Chapter 36.57A of the Revised Code of Washington (RCW) to provide public transportation services in Clallam County, and is governed by an nine member board composed of two county commissioners, two city council members from each of the three incorporated cities within the county and a non-voting labor representative in accordance with RCW 36.57A.050.

A. Reporting Entity for Financial Reporting Purposes

The reporting entity for Clallam Transit includes only the System. No other entity exists for which Clallam Transit System exercises oversight responsibility or has a special financing arrangement, nor does any other entity have a similar scope of service. Oversight responsibility was evaluated based on financial independency, selection of governing authority, designation of management, the ability to significantly influence management, and accountability for fiscal matters. During the period, the System has not engaged in material related party transactions, nor participated in any joint ventures.

B. Basis of Accounting and Reporting

The System's accounting policies and financial statements conform to generally accepted accounting principles applicable to governmental units (without application of Financial Accounting Standards Board guidance issued after November 30, 1989) , based on Statements of the Governmental Accounting Standards Board (GASB), which is the standard setting body for governmental accounting and financial reporting principles. Clallam Transit uses the Budgeting, Accounting, and Reporting System (BARS) for Transit Districts in the State of Washington (as prescribed by the State Auditor under the authority of Chapter 43.09 RCW) which requires that the System's operations be reported as an enterprise fund.

The System measures its cost of services for financial reporting purposes on a calendar year basis (ending December 31). The Statement of Net Position shows all assets and liabilities associated with the System, with the net position shown as invested in capital assets, restricted for specific purposes (none at this time), or unrestricted. Capital contributions received after January 1, 2001, are recognized as revenue. The Statement of Revenue, Expenses and Changes in Net Position present the results of operations and include depreciation and the annual OPEB cost (net of contributions) as operating costs. The Statement of Cash Flows presents the operating, noncapital financing, capital, financing, and investing activities of the Transit.

The System defines income received as a direct result of providing transportation services (fares and advertising fees) as operating revenue, grant related reimbursements as capital contributions, and all other sources of income (such as Sales Tax collections, investment income, sale of surplus items, etc.) as non operating revenue. The cost of operating and maintaining vehicles and the transit infrastructure, administering the System, informing and educating the public, as well as the amortization of the acquisition cost of capital assets (see Note 3) are considered operating expense. Non-operating expenses (such as gain or loss on the disposition of assets) are immaterial.

The System uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred except in cases where the anticipated receipts or expenditures would not differ significantly in amounts or timing from the actual cash revenues or expenses. All assets and liabilities, current and noncurrent, with determinable value are recorded. Revenue items subject to accrual include: special transportation services billed to

organizations and grants representing reimbursement of expenditures which are recorded as assets at year-end. Expenditures accrued as of year-end include: salary, wages and payroll benefits earned but not paid, and goods and services received (accounts payable) for which payment is not due until the next month.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents - See Note 2 (Deposits and Investments)

All temporary cash surpluses and funds designated for specific uses are invested, except for compensating balances maintained with certain banks in lieu of payments for services rendered. In the Statement of Cash Flows, Clallam Transit System considers all highly liquid investments (with a maturity of three months or less when purchased) and demand deposits to be cash equivalents.

2. Receivables

Accounts Receivable consist of amounts owed from private individuals or organizations for special services, rentals, fares or other charges, and include amounts owed for such as of December 31, regardless of when the billings were prepared. Also included are amounts billed to other governmental agencies under various grant agreements.

Accrued Taxes Receivable consist of the System's 0.6 percent sales tax collected in Clallam County during November and December of the reporting year and remitted to the Clallam Transit System by the State Department of Revenue in January and February of the following year.

3. Amounts Due to and From Other Governments

Sales tax receivable due from the Department of Revenue is reflected in Accrued Taxes Receivable. Other receivables (primarily grant expenditures) due from other governmental agencies are included in Accounts Receivables. Payables due to other governmental units (due to payroll taxes and joint operating agreements) are reflected in Accounts/Warrants Payable or Accrued Expenses.

4. Inventories

Inventories consist of bus parts and diesel fuel, valued using the average cost method, which approximates the market value. Records are adjusted based on an annual physical inventory.

5. Compensated Absences

Compensated Absences are earned by employees for vacation, sick, and personal time off. Based upon provisions of their contract, bargaining unit employees accumulate general leave at the rate of 18 to 33 days per year based on longevity. The non represented transit employees are covered by their own compensation plan and receive similar benefits. Employees may accumulate up to 960 hours of paid time off. The System records the liquidated value of this time as an expense and liability when incurred, and revalues the accumulated leave balance every month for changes in compensation rates.

Under provisions of the contract and compensation plans employees may elect to use up their paid time off according to certain schedules and limitations. At termination, the cash value of any remaining leave balance is transferred to the employee's VEBA Heathcare Account for their benefit.

6. Capital Assets and Depreciation - See Note 3 (Capital Assets and Depreciation)

7. Current and Noncurrent Liability for Compensated Absences and other Employee Benefit Programs

The System pays premiums or contributions for employee retirement, insurance, and healthcare reimbursement accounts when incurred to third parties that administer the plans except for the Post-employment Healthcare Benefits (see Notes 9 & 10) which is funded on a pay as you go basis.

Noncurrent liabilities for compensated absences, the System's Post-Employment Healthcare Insurance Credits (see Note 9E), and Other Post-employment Benefit Programs (see Note 10) are obligations of the system that are not expected to be extinguished within the next year.

8. Accrued Expenses

This consists primarily of accrued wages, fringe benefits, and payroll taxes payable within 1 month.

9. Change in Accounting Estimates

In 2013 the system changed its estimate for calculating depreciation for vehicles from the mileage method to straight-line depreciation. The change resulted in a beginning net position increase of $1,788,788.

NOTE 2. DESIGNATED FUNDS, DEPOSITS AND INVESTMENTS

DESIGNATED FUNDS

The System's Board has designated a portion of its liquid assets for certain purposes. These set-asides are targeted to maintain service levels in the face of short-term fluctuations in revenue or operating costs, and to assure funding for employee leave benefits, replacement of vehicles, van pools, and the local match for major grant projects, as well as major repairs and maintenance of facilities.

Balances as of December 31	**2013**	**2012**
Cash and Cash Equivalents & Investments	$ 3,290,420	$ 3,542,616
Designated Funds for:		
Maintaining Service Levels	1,600,000	1,500,000
Employee Leave & CTS Post-Employment Healthcare Benefits	476,883	520,692
Vehicle Replacement	312,000	636,000
Vanpool Replacement	13,000	54,000
Major Projects	78,400	210,000
Facility Maintenance	87,600	54,000
Total Designated Funds	2,567,883	2,974,692
Undesignated Funds used for Working Capital	$ 722,537	$ 567,924

DEPOSITS & INVESTMENTS

All deposits and certificates are covered by federal depository insurance (FDIC and FSLlC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) and are invested according to an Investment Policy approved by the Board and certified by the Washington State Treasurer's Association. This policy addresses types of investments and custodial risk.

All deposits and investments of the system's funds (except as noted below) are obligations of the State Treasurer's Investment Pool or deposits with Washington State banks and/or savings and loans.

As of December 31, 2013, the following deposits and investments were insured through WPDPC or the FDIC, registered or held by the System or the State Treasurer and thus not subject to custodial credit risk:

Balances as of December 31		**2013**		**2012**
Cash and Cash Equivalents & Investments	$	3,290,420	$	3,542,616
Designated Funds for:				
Maintaining Service Levels		1,600,000		1,500,000
Employee Leave & CTS Post-Employment Healt		476,883		503,814
Vehicle Replacement		312,000		731,558
Vanpool Replacement		13,000		54,000
Major Projects		78,400		210,000
Facility Maintenance		87,600		54,000
Total Designated Funds		2,567,883		3,053,372
Undesignated Funds used for Working Capital	$	722,537	$	489,244
Demand Deposits				
Deposits in State Banks	$	943,359	$	1,256,786
State Treasurer's Local Gov't Investment Pool		1,076,305		1,026,871
Total Cash and Cash Equivalents		2,019,664		2,283,657
Investments maturing in less than 1 year:				
Certificates of Deposit in State Banks		765,186		753,908
Notes and Bonds of Federal Agencies		-		-
Investments maturing in one year or more (but less than 5 years):				
Certificates of Deposit in State Banks		505,570		505,051
Notes and Bonds of Federal Agencies		-		-
Total Investments	$	1,270,756	$	1,258,959

The book value of deposits does not differ materially from the bank balance of deposits. Investments are stated at cost plus accrued interest, net of amortized premium or discount, which approximates market. Management intends to hold time deposits until maturity.

NOTE 3. CAPITAL ASSETS and DEPRECIATION

Expenditures over $5,000 for individual pieces of equipment and over $100,000 for infrastructure and building improvements, including major repairs that increase useful lives, are capitalized if they have a useful life over one year. Purchases of small equipment items are expensed but may be tagged for tracking purposes. There were no capital leases.

Capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair market value on the date donated. When a capital asset is sold or disposed the original cost and related accumulated depreciation is removed from the ledger and the net gain or loss on disposition is credited or charged to income.

Clallam Transit has acquired certain assets with funding provided by federal and state financial assistance programs. Because the System has sufficient legal interest to control the use of these assets, their value is included in the applicable account. Title to vehicles purchased under these programs is retained by the granting agency for a specified period (generally the expected useful life of 12 years for large buses and from 4 to 7 years for other vehicles) and then transferred to the System.

Depreciation expense is charged to operations to allocate the cost of capital assets (except land and construction in progress) over their estimated useful lives, computed on a straight-line basis to each asset's estimated salvage value, based on guidelines set by the Federal Transit Administration and the System's capital depreciation policy as follows:

Buildings and major components 10 to 50 years
Improvements (Equipment) 5 to 20 years
Vehicles 5 to 12 years

Accumulated depreciation on assets at December 31, 2013 is as follows:

Accumulated Depreciation		
Land	$	-
Buildings		4,030,959
Vehicles & Related Equipment		5,158,957
Major Fixed Capital Improvements		779,427
Total	$	9,969,343

The following is a summary of changes in capital assets during the year ended December 31, 2013:

Changes in Capital Assets

	12/31/2012 Ending Balance	Additions	Retirements	12/31/2013 Ending Balance
Land	$ 4,100,000	$ -	$ -	$ 4,100,000
Buildings and Grounds	18,065,000	112,008	-	18,177,008
Shelters and Improvements	-	90,220	-	90,220
Vehicles & Related Equipment	11,437,537	3,445,564	1,796,342	13,086,759
Computers and Related Equipment	-	26,907	-	26,907
Major Fixed Capital Improvements	1,470,660	6,379	-	1,477,039
Construction in Progress	-	-	-	-
	$ 35,073,197	$ 3,681,078	$ 1,796,342	$ 36,957,933

NOTE 4. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The System had no pending lawsuits or claims as of year-end that would have a material effect on its assets. New claims against the System based on operation events are pending in rising to the level of a lawsuit. WSTIP's legal representation is prepared to represent the System. There have been no material violations of finance-related legal or contractual provisions.

NOTE 5. RETIREMENT PLANS

Substantially all Clallam Transit System 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised 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 members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the

member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007, through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the

employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the System and the employees made the required contributions. The System's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2013	$6,342	$264,682	$20,320
2012	$5,544	$238,615	$14,166
2011	$3,955	$206,290	$10,482

NOTE 6. LEASES AND LONG-TERM CONTRACTS

Leases/contracts are reported as liabilities when services are received. The System has no material leases for vehicles or property. The System has vacated its operations from the Port of Port Angeles leased property and is using the property for vehicle storage. In 2013, the System Board took action to surplus the building improvements and not extend the lease beyond June 2014.

A. Port of Port Angeles -- for land at 2417 West 19th Street, Port Angeles. In November 2009, the System negotiated a new lease with two five-year renewal options. The monthly rate has increased from $475 to $525 in July 2013.

NOTE 7. RISK MANAGEMENT

The Clallam Transit System is a founding member of the Washington State Transit Insurance Pool (WSTIP), formed in 1989 by an Interlocal Agreement, pursuant to Chapters 48.62 and 39.34 RCW.

The current membership consists of the following Washington public transportation systems: Asotin, Ben Franklin, Clallam, Columbia, Community, C-Tran, Grant, Grays Harbor, Everett, lntercity, Island, Jefferson, Kitsap, Link, Mason, Pacific, Pierce, Pullman, River Cities, Skagit, Spokane, Twin, Valley, Whatcom, and Yakima.

WSTIP was formed to provide member transit systems pooled self-insurance, better access to insurance and enable hiring of personnel to provide risk management, claims handling, and administrative services.

The pool provides liability insurance covering claims arising from the negligent or other tortuous conduct, or any error or omission on the part of the member transit systems, their officers, employees, or agents. Coverage for Public Dishonesty, Crime, Boiler and Machinery, and Property and Auto Physical was added in January 1991. After the initial 36-month period, a member transit system may withdraw at the end of any pool fiscal year. A member must give the pool 12 months' written notice of its intent to withdraw from the pool. Any member who withdraws will not be allowed to rejoin the pool for a period of 36 months.

WSTIP's equity (which enables the Pool to fund losses without requiring additional contributions from its members) has grown every year because claims and costs have been less than premiums.

During 2013, Clallam Transit had $13,476 in deductible claim costs under WSTIP insurance policies. Insurance settlements did not exceed insurance coverage in any of the past three years.

NOTE 8. SHORT-TERM and LONG-TERM DEBT

Changes in Long-Term Liabilities
During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

		1	2	3	4
ID No.	**Description**	**Beginning Balance 1/1//2013**	**Additions**	**Reductions**	**Ending Balance 12/31/2013**
259.11	Compensated absences non current	$376,814		$177,768	199,046
263.98	Clallam Transit Retiree Health Insurance Benefit	127,000	3,950		130,950
263.93	OPEB Liability HCA Implicit Retiree Subsidy	1,031,668	339,900	14,336	1,357,232
TOTAL LIABILITIES		**$1,535,482**	**$343,850**	**$192,104**	**$1,687,228**

NOTE 9. EMPLOYEE BENEFIT INSURANCE

A. Unemployment Insurance - the System remained self-insured for unemployment compensation. During 2013, no benefits were paid to former employees.

B. Industrial Insurance - provided by the Washington State Department of Labor & Industries Program. During 2013, the system paid $201,234 in insurance premiums to the Program.

C. Medical, Dental, Vision and Life Insurance - From February 1, 2004, the Clallam Transit System has covered its employees and their dependents (partially funded by employee contributions) through the Washington State Public Employees Benefit Board (PEBB) Health Care Authority (HCA). The System provides $25,000 of life insurance per employee. Employees are able to purchase supplemental insurance for themselves and their family members at their own cost.

The System paid **$**1,042,291 in net premiums for medical, dental, vision, and life plans in 2013.

D. Long-term Disability Insurance - provided through PEBB HCA (employees pay the premium cost for coverage beyond the $400 per month basic coverage). Coverage after 90 days of disability is for 60% of basic monthly earnings to a maximum of $5,000.

The System paid for the basic $400 per month long-term disability coverage as part of its medical premiums in 2013.

E. Post-employment Healthcare Insurance Credits - the System adopted a program in 2007 to assist eligible employees with the cost of obtaining healthcare insurance, reimbursing a maximum of $300 per month toward the cost of the employee's individual healthcare coverage. The benefit is earned at the rate of one month of insurance credit for every six months of service after January 1, 2007 if the employee has a minimum of 10 years of continuous service with the System. Employees who retire after they become Medicare eligible are limited to reimbursement at the value of PEBB's Medicare Supplement Plan F coverage (**$**109.10 by age, 2013). The System benefit is contributed to their secondary VEBA HRA account upon proof of the employee's individual healthcare coverage costs.

The amount of the liability for each employee who qualifies is certain upon separation, thus determining the employee's credits in the program. The liability as of December 31 is based on the months of service of currently active employees, reduced by historical turnover rates for employees with less than 10 years of service, and adjusted for those employees who will not achieve 10 years of service before they become Medicare eligible. The program participants at December 31, 2013 included two retired employees and 23 active vested employees together with the 33 employees with less than 10 years of service; the liability at year-end was $130,950.

The System accrued $3,950 for this program as a noncurrent liability during 2013.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLANS

PEBB Plan Description - the System participates in the Public Employees Benefit Board (PEBB) health plan administered by the State of Washington Health Care Authority. It is a multiple employer plan which provides both active employee benefits and elective post employment benefits. System retirees and their surviving spouses who meet the retirements of their respective PERS Plans (see Note 5) are eligible to participate in PEBB group plans on a self-pay basis so long as the System maintains its PEBB insurance coverage.

Medical and Dental Benefits - upon retirement under PERS. members are eligible to continue their healthcare insurance benefits. Retirees pay the following for medical and dental coverage (no aging factors have been applied these rates):

Monthly UMP Medical & UDP Dental Coverage Rates	2013	2012	2011
Retiree (Individual) < 65	$ 592.17	$ 531.11	$ 509.63
Retiree + Spouse or Domestic Partner < both 65	1,178.16	1,056.69	1,013.02
Medicare Eligible Individual	262.58	213.87	194.13

The PEBB Funding Policy is based upon pay-as-you go financing requirements - Group premium rates are established by the PEBB and paid on a monthly basis by the System based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis. The PEBB blends the retiree and active employee rates as part of its rate setting process, which creates an implicit rate subsidy and future post-employment benefit liability. The PEBB determines how this future liability will be funded when it sets the rates that employer

groups pay for current insurance coverage. Historically, the PEBB has set rates to recover its costs only for the current plan year, thus not funding the future benefit liability of current and potential future retirees who may elect to participate in the PEBB's post-employment insurance plans. A tool developed by the State Actuary was used to determine CTS's share of this unfunded benefit liability - which approximates the present value of the future cost of post-employment benefits provided to CTS retirees (and indicates the size of the fee that the PEBB may have to charge n the future to cover these benefits).

Following GASB Statement No. 45, the System has recorded its share of this unfunded Net OPEB Obligation (NOO) in its financial statements beginning with the year ended December 31. 2009.

OPEB Measurement Method - The System has used the alternative measurement method permitted under GASB Statement No.45 for employers with fewer than one hundred plan members to determine the Actuarial Accrued Liability (AAL). A single retirement age of 62.2 years was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the Public Employer Retirement System Plan 2 rates used in the June 30, 2007, actuarial valuation report issued by the Office of the State Actuary (OSA). Heathcare costs and trends were determined by Mercer and used by OSA in the state-wide PEBB study performed in 2008. The results were based on group data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Annual OPEB Cost	2013	2012
Annual Required Contribution	$ 358,295	$ 274,965
Net OPEB Obligation Interest	41,266	35,413
Net OPEB Obligation Amortized	(59,661)	(48,311)
Annual OPEB Cost	$ 339,900	$ 262,067
Net OPEB Obligation (NOO)		
Starting NOO	$ 1,031,668	$ 786,955
Annual OPEB Cost	339,900	262,066
Contributions	(14,336)	(17,353)
Net OPEB Obligation (NOO)	$ 1,357,232	$ 1,031,668

NOTE 11. DERIVATIVE INSTRUMENTS

Clallam Transit entered into a Fuel Risk Management agreement with five Washington State transit agencies for the purpose of entering into a fuel price "hedge" contract to mitigate .the variability of fuel prices by providing predictable and stable pricing over a set period time. Parties to the Interlocal Agreement include Link Transit, Ben Franklin Transit, Clallam Transit, Grant Transit (until 2012), Jefferson Transit, and Valley Transit. Clallam Transit System's participation in the Interlocal Agreement terminated in 2012.

MCAG NO. 0118

Clallam County Public Transportation Benefit Area

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Federal Transit_Capital Investment Grants	20.500	GCB-1196	1,976,000		1,976,000	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Federal Transit_Capital Investment Grants	20.500	GCB-1318(A)	384,000		384,000	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Federal Transit_Capital Investment Grants	20.500	GCB-1318(B)	9,370		9,370	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Federal Transit_Capital Investment Grants	20.500	GCB-1700	346,000		346,000	1,2
			Total CFDA 20.500	**2,715,370**	**0**	**2,715,370**	
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Rural Areas	20.509	GCA-5706	19,774		19,774	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Rural Areas	20.509	GCA-6590	12,873		12,873	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Rural Areas	20.509	GCB-1596(B)	650,000		650,000	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Rural Areas	20.509	GCA-6811(B)	25,000		25,000	1,2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Rural Areas	20.509	Training and Travel	9,842		9,842	1
			Total CFDA 20.509	**717,489**	**0**	**717,489**	
			Total Federal Awards Expended:	**3,432,859**	**0**	**3,432,859**	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

The following notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule:

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the System's financial statements (full accrual).

Note 2 - Program Costs and Income

Amounts shown above represent only the federal portion of the program costs. Total program costs are funded by a combination of local, state and federal funding according to the match requirements of each grant.

Corrective Action Plan for Findings Reported Under OMB Circular A-133

Clallam Transit System
Clallam County
January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Clallam Transit System.

Finding ref number: 1	**Finding caption:** The Transit's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.
Name, address, and telephone of auditee contact person: Doug Ahmann 830 W Lauridsen Blvd. Port Angeles WA, 98363 360-417-1353	
Corrective action the auditee plans to take in response to the finding: *A) Complete G/L closeout for 2014 no later than March 1, 2015.* *B) After studying the GASB, devise a new tool for compensated absences that is commensurate with the risk of material weakness in long-term liabilities. This agency has had too many spreadsheets lying outside of the financial software. Seek a uniform software solution and compare with other peer agencies.* *C) If available, hire Jim Huff (reviewer to Jefferson Transit and Mason Transit) to review the draft unaudited 2014 financial statement and build upon the great gain of knowledge of this agency from the former year.* *D) Save all email communication between Finance Administrator, Consultant and Management as proof of a collaborative process.* *E) Fine tune the FleetNet program for Accounts Receivable balance with 2014 technical support hours and devise a new status for "Due from Other Governmental Agencies".* *F) Formally rescind the Capital Depreciation Policy in lieu of no policy. Complete a procedure sheet for calculating depreciation consistent with the approved surplus policy.* *G) Seek opportunities for GASB and BARS update training for the most appropriate staff member.*	
Anticipated date to complete the corrective action: May 31, 2015	

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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