Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Island County Public Transportation Benefit Area

(Island Transit)

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

Published October 27, 2014

Report No. 1012844

Washington State Auditor
Troy Kelley

October 27, 2014

Board of Directors
Island Transit
Coupeville, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

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Federal Summary

Island Transit
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The results of our audit of the Island Transit 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 no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued a qualified opinion on the Transit's compliance with requirements applicable to its major federal program, CFDA 20.525 State of Good Repair Grants Program.

We reported 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
20.525	State of Good Repair Grants Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $316,814.

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

Schedule of Federal Audit Findings and Questioned Costs

Island Transit
Island County
January 1, 2013 through December 31, 2013

1. The Transit's internal controls were inadequate to ensure compliance with the requirements of the State of Good Repair Grants Program.

CFDA Number and Title:	20.525 State of Good Repair Grants Program
Federal Grantor Name:	Federal Transit Administration, U.S. Department of Transportation
Federal Award/Contract Number:	WA-04-0073
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Known Questioned Costs:	$94,517
Likely Questioned Costs:	$36,704

Background

In 2013 the Transit spent $10,217,511 from the State of Good Repair Grants Program, funded by the Department of Transportation, Federal Transit Administration.

The purpose of the federal program is to assist in financing the planning, acquisition, construction and improvement of facilities and equipment in public transportation services. Island Transit used the funds to build a new administration and operations building, maintenance facility, bus washing station and fueling facility.

Description of Condition

Allowable costs/cost principles
Our audit identified the Transit did not have adequate controls to ensure costs charged to the grant were allowable under program requirements. In order for the costs to be allowable, the Transit must take reasonable steps to ensure and document that costs serve the purpose of the grant, which is to construct the new transit facilities. Our audit found the following:

- The Transit spent federal funds on preventative maintenance items and grounds maintenance equipment, such as a tractor, tires and other maintenance supplies, which are unallowable, and two gazebos, which the Transit could not demonstrate were part of the building and should have been included in the project. These items resulted in known questioned costs of $69,692 and likely questioned costs of $36,704 based on similar vendor purchases in 2013 and 2014.

- The Transit claimed more payroll than actually paid by the Transit by using hourly rates and not limiting the hourly rate charges to actual salaried payroll amounts. This resulted in known questioned costs of $13,423.

Matching

The grant requires the Transit to provide a matching contribution of 20 percent, of which a minimum of 18 percent can be provided from cash contributions and a maximum of two percent can be for in-kind activities. Although the Transit may over match (pay more than the 20 percent), the Transit cannot substitute between cash contributions and in-kind activities. Our audit found the Transit substituted in-kind activities for cash contribution in the amount of $24,825, which includes the $13,423 in over claimed payroll noted above. The $24,825 is reported as known questioned costs.

Equipment management

Grantees that purchase equipment with federal funds are required to keep equipment records that track the federal source of funding and demonstrate that equipment is used for grant purposes. If a grantee decides to transfer the equipment to another party or a different use or dispose of the asset, the grantee is required to follow specific procedures, including reimbursing the federal agency for its share. The Transit did not adequately track all equipment purchased with federal funds and could not provide a complete list of equipment purchased for the project when first requested. Through available records we were able to determine at least $1.5 million in equipment purchases in 2013, which is material to the program.

Suspension and Debarment

When entering into contracts $25,000 or greater governments are required to have processes in place to ensure it does not make payments to parties barred from participation in federally funded projects. Typically, this requirement is met by including a clause in the contract with the contractor and/or vendor, obtaining a stand-alone certification, or by checking the "Excluded Parties List System" (EPLS), prior to making any payments. The Transit could not demonstrate compliance with this requirement for two vendors that were paid a total of $1,043,927 for the project in 2013. The Transit was not aware it had a responsibility to verify vendors paid through state contracts were not suspended or debarred. The Transit paid a vendor through a state contract $772,682 for the project in 2013.

Davis-Bacon Act

For Federally funded construction projects that exceed $2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. In addition, contracts for these projects must contain language notifying the contractor and subcontractors must comply with the Davis-Bacon Act in construction contracts. The Act also requires recipients of federal funds to obtain weekly certified payrolls for all contractors and subcontractors to ensure prevailing wages are paid.

The Transit relied on the general contractor to provide weekly certified payroll reports and did not ensure all weekly certified payroll reports were obtained on a timely basis. We confirmed the Transit did not obtain all certified payroll reports for 20 subcontractors in a timely manner. While our auditors were onsite, the Transit was able to obtain the missing reports.

Cause of Condition

The Transit did not fully understand federal grant requirements or establish adequate controls and monitoring to ensure only allowable costs were charged to the grant, matching requirements did not exceed allowable limits, all equipment was adequately tracked, suspension and debarment requirements were met, and weekly certified payroll was obtained for all subcontractors on a timely basis. We consider the control deficiency over the Davis-Bacon Act to be a significant deficiency, and control deficiency over equipment management and suspension and debarment to be material weaknesses.

Effect of Condition and Questioned Costs

Allowable costs/cost principles/matching
The Transit charged $69,692 in unallowable costs and $36,704 in projected questioned costs in 2013 and 2014. The Transit also over claimed payroll costs that resulted in $13,423 questioned costs. We are also questioning the costs associated with the Transit substituting in-kind activities for cash contributions in the amount of $24,825, which also includes the $13,423 over-claimed payroll costs already noted.

Noncompliance with grant requirements may require the Transit to return all or a portion of this money to the grantor.

Equipment management
Failure to comply with federal property record requirements increases the risk that federally funded equipment may be lost, misappropriated or used for unallowable purposes.

Suspension and debarment
Without proper controls, the Transit increases the risk of spending funds with vendors that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with federal requirements may jeopardize the Transit's eligibility for future federal assistance.

We were able to verify the vendors were not suspended or debarred; therefore, we will not question these costs.

Davis-Bacon Act
The Transit did not obtain certified weekly payrolls for all subcontractors on a timely basis. Without adequate internal controls, the Transit cannot ensure the subcontractors

paid workers prevailing wage. The Transit could be liable for paying additional wages if prevailing wage was not paid.

Recommendation

We recommend the Transit dedicate the necessary resources to:

- Ensure only allowable costs are charged to the grant and matching requirements are adequately tracked

- Establish a tracking method for all equipment purchased with federal funds that follows the federal guidelines

- Provide adequate training to staff to ensure they are aware of all applicable program requirements

We also recommend the Transit work with the Federal Transit Administration to determine whether any portion of these costs should be repaid.

Transit's Response

1. *Island Transit acknowledges there was a misunderstanding regarding allowable costs and match percentage requirements of the State of Good Repair Grant. Island Transit will ensure staff will be properly trained so future grants are adequately tracked and managed. Island Transit is working with FTA for resolution of these items.*

2. *Island Transit has developed an inventory of equipment purchased with federal funds. The necessary resources have been identified and a tracking method has been established to meet the requirements of the federal guidelines.*

3. *When made aware of the suspension and debarment requirement for two vendors, Island Transit checked the Excluded Parties List System to verify these vendors had not been suspended or debarred to confirm that payments were not made to parties barred from participation in federally funded projects. Island Transit will ensure the necessary processes are in place and staff is properly trained to meet future grant requirements.*

4. *During construction of the facilities project, Island Transit conducted random 'spot check' wage surveys of on-site laborers. Wages were documented and checked to verify prevailing wage requirements were met. Island Transit acknowledges some certified payroll reports were not received in a timely manner; however, these items were identified by Island Transit and obtained from the contractor. During the audit process, Island Transit conducted a spot check of the weekly certified payroll reports to verify that subcontractors paid workers prevailing wages.*

Auditor’s Remarks

We appreciate the steps the Transit is taking to resolve the issues. We will review the condition during our next audit.

Applicable laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300, states in part:

> The auditee shall:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Section 500, states in part:

> (a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> **4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> **Material weakness.** A deficiency, or a 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.

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.

U.S. Office of Management and Budget Circular A-87, 2 CFR 225, *Cost Principles for State, Local, and Indian Tribal Governments*, Appendix A, General Principles for Determining Allowable Costs, states in part:

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards under the provisions of this Circular.

j. Be adequately documented.

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received

b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E.

U.S. Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* [Title 49 CFR 18.32 Equipment], states in part:

d. Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of

the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

(4) Adequate maintenance procedures must be developed to keep the property in good condition.

(5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

e. Disposition. When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a federal agency, disposition of the equipment will be made as follows:

(1) Items of equipment with a current per-unit fair market value of less than $5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.

(2) Items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency share of the equipment.

(3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person if allowed by this rule; or

(c) Adding a clause or condition to the covered transaction with that person.

Title 29, Code of Federal Regulations, Section 5.5, *Contract provisions and related matters*, states in part:

> (a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided,* That such modifications are first approved by the Department of Labor) . . .
>
> (8) *Compliance with Davis-Bacon and Related Act requirements.* All rulings and interpretations of the Davis-Bacon and Related Acts contained in 29 CFR parts 1, 3, and 5 are herein incorporated by reference in this contract.

Title 29, Code of Federal Regulations, Section 3.3, *Weekly statement with respect to payment of wages*, states in part:

> (b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this title during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on the back of Form WH 347, "Payroll (For Contractors Optional Use)" or on any form with identical wording. Copies of Form WH 347 may be obtained from the Government contracting or sponsoring agency or from the Wage and Hour Division Web site at *http://www.dol.gov/esa/whd/forms/wh347instr.htm* or its successor site.

United States of America, Department of Transportation, Federal Transit Administration, Grant Agreement, Project No: WA-04-0073-00 states in part:

Percentage of Federal participation are based on amounts included in the Approved Project Budget.

Project Budget:

	Local Amount	FTA Amount	Total Eligible Costs
Construct- Admin/Main Facility	3,776,447	16,784,209	20,560,656
Project Administration	448,000	0	448,000
Construct- Misc. Equipment	255,553	1,135,791	1,391,344

Schedule of Audit Findings and Responses

Island Transit
Island County
January 1, 2013 through December 31, 2013

2. The Transit's financial condition has impacted current service levels and puts it at risk of not being able to meet financial obligations.

Description of Condition

The Transit's expenditures have exceeded revenues, requiring the Transit to reduce staff and service to the public, and obtain debt to cover obligations. The table below shows operating expenses exceeding revenue related to operations for the past three years, and through July 2014.

	2011	2012	2013	July 30, 2014*
Total Revenue Related to Operations	9,641,466	10,194,009	10,756,237	6,644,203
Total Operating Expenses without Depreciation	10,614,847	11,153,469	11,878,527	6,811,497
Excess/(Deficit)	(973,381)	(959,460)	(1,122,290)	(167,294)

*2014 figures were not audited and were obtained from the Transit's general ledger.

The Transit also has had significant capital expenses over this time period. The Transit was awarded approximately $17.92 million in federal funding to build a new transit facility, which required the Transit to match approximately $4.48 million in local funds.

The Transit's operational deficits, combined with its $4.48 million contribution for the new transit facility to meet the federal requirement, have depleted cash and investments balances and required the Transit to obtain a $1.5 million bond in 2013 and an $850,000 tax and revenue anticipation note in 2014 to cover operations. The Transit's ending cash and investment balances since 2009 were:

Fiscal Year	Ending Cash and Investments
2009	$ 6,227,053
2010	$ 5,744,075
2011	$ 4,785,101
2012	$ 2,241,822
2013	$ 123,072
July 30, 2014	$ 247,123

Cause of Condition

The Board and management did not effectively monitor the financial activity of the Transit to ensure revenues were adequate to cover increased operational and capital expenditures.

The Board relied on the financial information the Executive Director presented to them. Although the Board received several monthly reports, such as budget-to-actual revenues and expenditures; the Board did not receive comprehensive reports that compared monthly, or year-to-date, revenues to expenditures or monthly cash and investment balances.

Effect of Condition

The Transit's financial condition has resulted in it reducing staffing levels and bus service. Additionally the Transit had to obtain debt financing to meet its financial obligations.

Although the Transit is taking steps to improve its financial condition, repayment of debt will continue to have an effect on the District's future cash flow and may inhibit the Transit's ability to continue funding general operating expenses, bus replacement, and restoring service to its former level.

Recommendation

We recommend the Transit Board and management take an active role to:

- Establish a formal financial plan to address cash flow issues and monitor and evaluate actual results compared to the plan to ensure its financial condition improves.
- Closely monitor and evaluate the financial activities to ensure the plan is being followed and the desired results achieved, and revise the plan if expected improvements are not achieved.
- Ensure timely and accurate financial information is provided to the Board in order to facilitate informed decision making.
- Take prompt action to manage operations within available resources.

Transit's Response

1. *Island Transit has created a formal financial plan to schedule and monitor the cash flow of the organization by creating a seven year plan detailing expected revenues, expenses, and cash balances during this term. We have hired a CPA to act as our Financial Analyst, who, with the guidance of our Finance Committee and Executive Director, will review monthly financial results to verify that actual*

results match our formal financial plan. The agency's current actual results show our planned improvement in financial condition.

2. *Island Transit has taken steps to ensure that our financial activities are monitored and evaluated. The Executive Director reviews and signs the agency's monthly cash flow analysis and reconciliation. Island Transit's Board of Directors has created a finance committee, composed of two Board members and the Financial Analyst, who will now review cash flow, disbursements, and budget-actual performance on a monthly basis. The Island Transit Board will make any necessary changes to its formal financial plan through the budgeting process to maintain the health and stability of the organization.*

3. *Island Transit's financial reporting has been enhanced to facilitate informed decision-making. The Island Transit's Board members now receive a monthly reconciled cash statement and a budget actual report to assess monthly and yearly financial progress. The Board also receives related, monthly operational and economic information to guide decision-making.*

4. *Island Transit has taken swift action to operate within available resources. The agency reduced service during July, August, and September of 2014 so that we are now in a financial position where monthly revenues exceed monthly expenses in alignment with our financial plan.*

Auditor's Remarks

We appreciate the steps the Board is taking to increase its oversight and monitoring of the Transit's financial operations. The State Auditor's Office will review the corrective action taken during our next audit.

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*

Island Transit
Island County
January 1, 2013 through December 31, 2013

Board of Directors
Island Transit
Coupeville, 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 Island Transit, Island County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated October 24, 2014. Our report includes information about the status of the Transit's financial condition. This information is more fully described in Finding 2 in the Schedule of Audit Findings and Responses. The Transit's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

TRANSIT'S RESPONSE TO FINDINGS

The Transit's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Transit'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 Transit's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

October 24, 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

Island Transit
Island County
January 1, 2013 through December 31, 2013

Board of Directors
Island Transit
Coupeville, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Island Transit, Island 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 Transit'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 Transit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on CFDA 20.525 State of Good Repair Grants Program

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the Transit did not comply with requirements regarding its CFDA 20.525 State of Good Repair Grants Program for equipment and real property management, and suspension and debarment. Compliance with such requirements is necessary, in our opinion, for the Transit to comply with the requirements applicable to the program.

Qualified Opinion on CFDA 20.525 State of Good Repair Grants Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Transit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFDA 20.525 State of Good Repair Grants Program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures also disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

Transit's Response to Findings

The Transit's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Transit's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Transit is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Transit's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Transit's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1 to be a significant deficiency.

Transit's Response to Findings

The Transit's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Transit's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 X. Kelley

TROY KELLEY
STATE AUDITOR

October 24, 2014

Independent Auditor's Report on Financial Statements

Island Transit
Island County
January 1, 2013 through December 31, 2013

Board of Directors
Island Transit
Coupeville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Island Transit, Island County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 26.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Island Transit, 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.

Matter of Emphasis Regarding Fiscal Sustainability

As discussed in Note 10 to the financial statements and described in Finding 2 on the Schedule of Audit Findings and Responses, the Transit's financial condition has declined significantly since 2011. The Transit has had to reduce services and staff and obtain debt to pay for operations and to address cash flow shortage. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 27 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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.

Transit's Response to Finding

The Transit's response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The Transit'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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR

October 24, 2014

Financial Section

Island Transit
Island County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013
Statement of Revenues, Expenses and Changes in Net Position – 2013
Statement of Cash Flows – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

This section of Island Transit's Annual Financial Report presents management's overview and analysis of the PTBA's financial performance for the fiscal year ended December 31, 2013. This section should be read in conjunction with the financial statements and notes to the financial statements that follow this section.

Financial Highlights

The net position of Island Transit as of December 31, 2013 increased in comparison to the 2012 net position due to the addition of the new Whidbey Base Facilities Project. However, the overall financial condition was not improved as all facility and operating reserves were exhausted by May of 2013 due to the federal match requirements and in-kind contributions for the Whidbey Project, funded through the FTA State of Good Repair Federal Grant. This necessitated borrowing a $1.37 million bond in 2013 and an additional tax and revenue anticipation note of $850,000 in 2014.

In 2014, the Transit has implemented both staffing and service level reductions to increase cash and build reserves. Island Transit's management has made a commitment to meeting the needs of the public in a financially sound manner and re-building the reserves/available cash as identified in the Transit's six year development plan.

The long and short term liabilities Island Transit has are accounts payable, vacation/sick leave accruals, a 2013 General Obligation Bond to meet the final match requirements for the federally funded facilities project, and a Tax and Revenue Anticipation Note.

Other highlights:

- The assets of Island Transit exceeded its liabilities at the close of December 31, 2013 by $32,903,671.
- Net gain for 2013 was $7,490,186
- Island Transit's capital outlays for the year were $12,907,996
- During the 2013 year, Island Transit expended $10,500,714 in federal grant revenues and $3,219,342 in Washington State revenues.

Net Position

	2013	2012
Capital Assets	34,084,727	23,232,876
Other Assets	1,683,557	4,726,097
Total Assets	35,768,284	27,958,973
Long-Term Liabilities	1,997,245	620,307
Other Liabilities	867,366	1,925,181
Total Liabilities	2,864,611	2,545,488
Invested in Capital Assets, Net of Related Debt	34,084,727	23,232,876
Unrestricted Net Position	(1,181,054)	2,180,609
Total Liabilities and Net Position	$35,768,284	$27,958,973

OPERATING STATEMENT

OPERATING REVENUES:	2013	2012
Operating Revenues	511,268	520,657
Non Operating Revenues	20,913,591	18,270,953
Total Revenues	21,424,859	18,791,610
OPERATING EXPENSES:		
Operations:	8,924,709	8,676,552
Maintenance	1,461,236	1,250,370
General Administration and Other	1,492,582	1,226,547
Depreciation/Amortization	2,056,146	1,533,510
Total Operating Expenses	13,934,673	12,686,979
CHANGE IN NET POSITION;	7,490,186	6,104,631

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the PTBA report information about the PTBA using accounting methods similar to those used by private sector companies.

The Statement of Net Position presents information on all the PTBA's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the PTBA is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the PTBA's net position 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, interest revenue earned but yet remitted to the PTBA, and earned but unused vacation leave).

This MD&A should be viewed along with the attached financial statements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements. The notes to the financial statements can be found in this report.

Financial Analysis

Net Position

For the year ending December 31, 2013, assets exceeded liabilities by $32,903,671. Island Transit is a capital-intensive enterprise, and all of its net position are invested in capital assets.

Island Transit ended 2013 with $34,084,727 in Net Capital Assets. See Note 3 and Note 4 for further information.

Island Transit received G.O. Bond revenues of $1,376,272, the debt is related to the completion of the Whidbey Island Facilities.

During 2013, net Capital Assets increased by $10,851,851. Major capital purchases in 2013 included the completed construction of the Whidbey Facility including furnishings and technology costs. Also purchased were three 27-passenger buses and nine vans.

The Net Position for Island Transit is $32,903,673 as of December 31, 2013.

Operating Revenues

Fares collected from vanpool services during 2013 was almost 2% lower than 2012 and equaled $511,268.

Non-Operating Revenues

Revenues from the transit portion of the sales tax increased by 8.2% in 2013 compared to 2012.

Grant revenues were derived from ten federal and state grants.

Operating Expenses

Operating Expenses by Department

Operations: $8,924,709 –Responsible for all on-street services, including operators, dispatchers, schedulers, safety, customer services and marketing, information systems, and facilities maintenance including fueling, cleaning, and facility upkeep. Fuel cost is included.

Maintenance: $1,461,236 – Responsible for all maintenance of vehicles, including parts and servicing.

Administration: $1,492,582 – Responsible for all other functions including executive direction, planning, marketing, purchasing, finance, human resources and vanpool program activities.

Depreciation: $2,056,146 – This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total expenses equaled $13,934,673

Economic Factors and Future Outlook

Island County is comprised of Whidbey Island and Camano Island, which are located at the north end of the Puget Sound, forty miles north of Seattle, Washington. The Whidbey Island Naval Air Station, just north of Oak Harbor, employs over 10,000 military and civilian employees and is a major economic force in the County. Other primary economic activities include light manufacturing, education, banking, retail, farming, fishing, tourism, and a growing retirement population.

According to the 2010 census, population for Island County in the year 2010 was 78,506. The projected population for Island County in the year 2013 is 78,800, which represents an increase of 0.3%. The number of individuals over 65 continues to increase dramatically, currently ranking Island County fourteenth among counties statewide. Although Island County is the second smallest of the 39 Counties in Washington, in 2008 it was ranked 14th in terms of population.

Island Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. During 2013, this sales tax revenue increased by 8.2%. Current transit sales tax is set at .09%, the legal limit for transit agencies in Washington State.

Island Transit's revenues were severely cut in 2000 when the Motor Vehicle Excise Tax (MVET) was removed. This caused a system-wide reorganization to include service modifications and reductions. In May of 2000, a measure was passed to increase the amount of local sales tax generated for transit from 3/10th of 1% to 6/10th of 1%. In August of 2009, a measure was passed to increase the local sales tax generated for transit from 6/10 of 1% to 9/10 of 1% to make up for the more recent shortfalls in sales tax revenue.

Island Transit's management is committed to sound financial management and to rebuilding the cash and facilities reserves as part of their six year development plan.

Requests for Information

This financial report is designed to provide a general overview of the PTBA's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Administration and Finance Manager, P.O. Box 1735, Coupeville, WA 98239 or phone 360-678-7771.

STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013

ASSETS		
Current Assets:		2013
Cash and Cash Equivalents (Note 1)	$	123,397
Investments (Note 2)		0
Inventory (Note 1)		347,088
Interest Receivable (Note 1)		
Due from Other Governmental Units		1,213,072
TOTAL CURRENT ASSETS		1,683,557
NonCurrent Assets:		
Capital Assets		
Nondepreciable Assets		
Construction in Progress (Note 4)		118,358
Land		1,815,573
Total Nondepreciable Assets		1,933,931
Depreciable Assets (Net of Accumulated Depreciation) (Note 3)		32,150,796
TOTAL NONCURRENT ASSETS		34,084,727
TOTAL ASSETS	$	35,768,284
LIABILITIES		
Current Liabilities:		
Accounts/Vouchers Payable	$	867,366
TOTAL CURRENT LIABILITIES		867,366
Non-Current Liabilities:		
G.O. Bond Debt		1,376,272
Compensated Absences (Note 1)		620,973
TOTAL NON-CURRENT LIABILITIES		1,997,245
TOTAL LIABILITIES		2,864,611
NET POSITION		
Net Assets Invested in Capital Assets, Net of Related Debt		34,084,727
Restricted		0
Unrestricted Net Position		(1,181,054)
TOTAL NET POSITION		32,903,673
TOTAL LIABILITIES AND NET POSITION	$	35,768,284

See Accompanying Notes to Financial Statements

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUES:		2013
Other Transit Fares	$	511,268
OPERATING EXPENSES:		
Operations:		
General Operations		7,533,129
Cost of Fuel		1,391,580
Maintenance		1,461,236
Customer Services & Marketing		5,376
General Administration		1,474,128
Depreciation/Amortization		2,056,146
Total Operating Expenses		13,921,595
OPERATING INCOME (LOSS)		(13,410,327)
NONOPERATING REVENUES (EXPENSES)		
Operating Assessments and Tax Levies		7,134,148
Federal Grant Revenue		10,494,764
State Grant Revenue		3,216,842
Other Grant Revenue		8,450
Interest Revenue		1,827
Other Nonoperating Income		57,560
Nonoperating Revenue		20,913,591
Non-Operating Expense		(13,078)
Nonoperating Revenue Net of Expense		20,900,513
INCREASE (DECREASE) IN NET POSITION		7,490,186
NET POSITION , January 1		25,413,485
NET POSITION, December 31	$	32,903,671

See Accompanying Notes to Financial Statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Fares	511,268
Payments for Operating Expenses	(12,961,564)
Net Cash Provided (Used) by Operating Activities	(12,450,296)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Receipts from Sales Tax	7,134,148
Receipts from Grants	3,212,004
Receipts from Other Sources	57,590
Net Cash Provided (Used) by Non-Capital Financing Activities	10,403,742
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(12,907,996)
G.O. Bond Proceeds	1,376,272
Receipts from Capital Grants	11,471,103
Interest Paid on Capital Debt	(13,078)
Net Cash Provided (Used) by Capital and Related Financing Activities	(73,699)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts from Interest	1,827
Purchase of Investments	0
Sale of Investments	2,100,000
Net Cash Provided (Used) by Investing Activities	2,101,827
Net Increase (Decrease) in Cash and Cash Equivalents	(18,426)
Cash and Cash Equivalents at Beginning of Year	141,822
CASH AND CASH EQUIVALENTS AT END OF YEAR	123,396

See Accompanying Notes to Financial Statements

RECONCILIATION OF NET OPERATING INCOME (LOSS)
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2013

RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2013
Net Operating Income (Loss)	(13,410,327)
Adjustment to Reconcile Operating Income to net:	
Depreciation Expense	2,056,146
Changes in Assets and Liabilities:	
Decrease (Increase) in Inventories	(38,936)
(Decrease) Increase in Accounts Payable	(1,057,845)
Increase (Decrease) in Compensated Absences	666
	(1,096,115)
Total Adjustments	960,031
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(12,450,296)

See Accompanying Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Island County Public Transportation Benefit Area (d/b/a Island Transit) was incorporated on September 18, 1987, and operates under the laws of the state of Washington applicable to a public transportation benefit area. The accounting and reporting policies of Island Transit conform to generally accepted accounting principles for local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below.

A. Reporting Entity

Island Transit is a special purpose government and provides transit services to the general public and is supported primarily through local sales tax.

Island Transit is governed by a five-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Island Transit has no component units.

B. Basis of Accounting and Reporting

The accounting records of Island Transit are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. Island Transit uses the Budgeting, Accounting and Reporting System for Transit Districts in the State of Washington.

Funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position (or balance sheets). Their reported net position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. Island Transit discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

Island Transit uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The transit distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a transit's principal ongoing operations. The principal operating revenues of the transit are charges to customers for Vanpool and Special Services. Operating expenses for the transit include general administration, operations, maintenance costs, customer services and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents.

It is Island Transit's policy to invest all temporary cash surpluses. Island Transit makes all its investments with the Island County Treasurer. See Note 2.

For the purposes of the Statement of Cash Flows, Island Transit considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

D. Temporary Investments.

See Note 2.

E. Interest Receivable.

Interest receivable consists of amounts earned on investments at the end of the year.

F. Amounts Due from Other Governmental Units.

This amount includes amounts due from other governmental units.

G. Inventories.

Inventories consist of maintenance parts and are valued using the first-in first-out method.

H. Capital Assets.

All capital assets are valued at historical cost. Depreciation is taken on all capital assets. See Note 3 for further details.

I. Compensated Absences.

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Island Transit records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation Pay

According to Island Transit's payroll policy employees accumulate vacation benefits at the rate of 12 days per year up to 5 years service, 15 days up to 10 years, 18 days up to 15 years, 21 days up to 20 years and 24 days at 20 years service. Employees may accumulate 240 hours of vacation.

Sick Leave.

According to Island Transit's payroll policy employees accumulate sick leave benefits at the rate of 12 days per year. There is no limit on sick hours. Employees who leave Island Transit in good standing and after five years employment are paid a percentage of their sick leave with a maximum ceiling. The percentage and ceiling are based on the number of years of employment. The chart below details the calculations used to determine the amount to be paid:

Years of Employment	Percentage	Ceiling
5-9	25%	480 hours
10-14	50%	680 hours
15-19	60%	880 hours
20+	80%	1280 hours

J. Operating Revenues / Expenses

Island Transit reports operating revenues as defined in GASB 9. Operating revenues result from fees and charges from providing services in connection with the ongoing operations of providing ride-sharing services. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are expenses that are directly incurred in the operation of providing ride-sharing services.

NOTE 2. DEPOSITS AND INVESTMENTS

DEPOSITS

Island Transit’s investment in the State investment pool is covered by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Island Transit's certificates of deposit are maintained at a financial institution located in Washington State. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000. The book value of Island Transits' deposits do not materially differ from bank balance.

INVESTMENTS

As of the year ended December 31, 2013, Island Transit had no investments.

Custodial credit risk is the risk that in event of a failure of the counter party to an investment transaction Island Transit would not be able to recover the value of the investment or collateral securities.

NOTE 3. CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost.

Island Transit has acquired certain assets with funding provided by federal and financial assistance programs. Depending on the terms of the agreements involved, the federal or state government could retain an equity interest in these assets. However, Island Transit has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

Depreciation is computed using the straight-line method with useful lives of 3 to 50 years. The statement of revenues and expenses includes depreciation of all depreciable capital assets and total gains and losses upon disposal.

Intangible assets included in the list below for $566,707 are for Routematch software system purchased in 2010 and maintenance software purchased in 2006.

At December 31, 2013, capital assets, accumulated depreciation and amortization were comprised of the following:

ISLAND TRANSIT FIXED ASSETS 2013

		Beginning Balance 1-1-2013	Additions 2013	Deletions 2013		Ending Balance 12-31-2013
Capital assets not being depreciated:						
17110	Land	1,815,573				1,815,573
18900	Construction in progress	13,098,125	29,480	(13,009,247)		118,358
Total capital assets not being deprec.		14,913,698	29,480	(13,009,247)		1,933,931
Capital assets being depreciated						-
17150	Land improvements	2,924,774	6,957,455	(716,550)		9,165,679
17110	Buildings	1,734,715	16,542,847	(384,529)		17,893,033
18110	Equipment	134,792	923,676	(18,183)		1,040,285
18210	Vehicles & Buses	14,587,123	678,349			15,265,472
18310	Office Furniture & Equipment	102,039	785,435	(13,731)		873,743
19150	Computer Software	566,707				566,707
Total capital assets being depreciated		20,050,150	25,887,762	(1,132,993)		44,804,919
Less accumulated depreciation for:						
17190	Land improvements	1,248,607	231,680	(716,550)		763,737
17290	Buildings	862,705	220,066	(384,529)		698,242
18190	Equipment	78,316	69,465	(18,183)		129,598
18290	Vehicles & Buses	9,325,369	1,410,285			10,735,654
18390	Office Furniture & Equipment	31,740	50,674	(13,731)		68,683
19190	Computer Softwre Amortizatn	184,233	73,976			258,209
Total accumulated depreciation		11,730,970	2,056,146	(1,132,993)		12,654,123
Total capital assets being depreciated net		8,319,180	23,831,616	-		32,150,796
TOTAL ALL CAPITAL ASSETS-net		23,232,878	23,861,096	(13,009,247)	$	34,084,727

NOTE 4. CONSTRUCTION IN PROGRESS

Construction in progress is $118,358 at 12-31-13. This includes expenses for Race Road Park and Ride, Smith Landing, Prairie Station, Morris Rd, Elger Bay Rd., and Greenbank. In 2013 Over 13 Million of assets were moved from Construction in Progress to Depreciable Assets in 2013. Most of this was for the completion of the Whidbey Facility but also added to the assets were costs prior to 2013 of various Park & Rides that had not been yet added to depreciable assets. The Washington State Department of Transportation will reimburse Island Transit for 100% of the costs as expenses are incurred on the Park & Ride projects.

NOTE 5. LONG TERM DEBT

Island Transit issued general obligation bonds in 2013 in the amount of $1,376,272 to assist in the financing of the construction of the Whidbey Island Transit facilities. These bonds are considered obligations of the Transit and are being repaid with Transit sales tax and other revenues.

General obligation bonds currently outstanding are:

Purpose	Maturity Date	Interest Rate	Original Amount	Amount of Installment
Capital Facility	1-15-19	2.65%	1,376,272	13,078

	Governmental Activities		Business-Type Activities	
Year Ending 12-31-13	Principal & Interest		Principal	Interest
2013		13,078		
2014	260,216	33,972		
2015	291,195	29,737		
2016	299,048	21,884		
2017	307,250	13,682		
2018-2019	342,291	5,385		
TOTAL:	1,500,000	117,738		0

NOTE 6. PENSION PLANS

Substantially all of Island Transit's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit 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.

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$ 3,613	$ 469,342	$ 5,630
2012	$ 2,558	$ 403,109	$10,161

NOTE 7. DEFERRED COMPENSATION PLAN

Island Transit offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was established by resolution November 14, 1990, and became effective in January 1991. Furthermore, the employees of Island Transit elected not to be a part of the Social Security system. In lieu of payment into the Social Security system Island Transit pays the amount of the employer's share into the deferred compensation plan.

This plan is with International City/County Management Association Retirement Corporation. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 8. RISK MANAGEMENT - WASHINGTON STATE TRANSIT INSURANCE POOL

General

Island Transit is a member of the Washington State Transit Insurance Pool (WSTIP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed on January 1, 1989, when eight transits in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Fourteen (14) transits have joined the Pool.

The Pool allows members programs of joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. The coverage provided by the pool are property and liability insurance protecting the member systems assets and personal property and from claims arising from the negligent or other tortuous conduct of the member transit system, their officers, employees, or agents.

The Pool is fully funded by its member participants. Members make an annual contribution to the pool. The pool acquires reinsurance from unrelated underwriters that are subject to a pool per-occurrence self-insured retention. Members are responsible for the selected deductible amounts of each claim. Claims are filed by members and WSTIP performs claims adjustments, loss prevention, and appraisal services.

The pool’s governing body consists of its Board of Directors, which is comprised of one representative and alternate from each member system. The Executive Committee consists of the pool’s annually elected officers, the Past-President and two at-large positions. The Executive Committee handles the day-to-day operations of WSTIP and serves as a Claims Review Committee in all cases involving reserves in excess of $35,000.

The pool’s responsibilities include:

- Providing for the management and operation of the pool;
- Providing for excess liability coverage for the members;
- Establishing deductibles and/or limits to any coverage that is provided;
- Providing an annual report and audit of the operation of the pool to the members, State Risk Manager, and the State Insurance Commissioner;
- Establishing and maintaining such funds and accounts as may be required by GAAP;
- Establishing and maintaining annual budgets for the operation of the pool;

Member responsibilities include:

- Appointing a Director and at least one Alternate Director to the board;
- Appointing an employee of the transit agency to be responsible for the risk management function within that agency;
- Maintaining an active safety officer and/or committee, and considering all recommendations of the pool concerning the development and implementation of a loss control policy to present unsafe practices;
- Reporting all losses to the pool to insure accuracy of the pool's loss data base;
- Paying its premium and any readjusted amount promptly to the pool when due.
- Providing the pool with such other information or assistance as may be necessary for the pool to carry out its responsibilities.

Coverage

Island Transit joined the Washington State Transit Insurance Pool in July 1992 for coverage effective August 1, 1992. The insurance pool covers auto and general liability, property, flood, earthquake, auto physical damage, boiler and machinery, public officials liability, public honest bond, monies and securities, and depositors forgery insurance for Island Transit. Transit deductibles range from $0 for general liability to $5,000 for public officials.

Unpaid Claims Liabilities

The pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. As of December 31, 2013 there were 7 unpaid claims. The total amounts reserved by the risk pool for open claims for Island Transit is $400,543 as of 12/31/13.

NOTE 9. ACCOUNTS PAYABLE

Accounts payable at December 31, 2013 consisted of current trade accounts payable of $867,366.

NOTE 10. OTHER DISCLOSURES

Financial Condition

The net position of Island Transit shows an increase over the last few years due to the addition of the recently completed Whidbey Island Base facilities. The total project cost was $22.4 million of which approximately $4.4 million in local funds and $17.9 million in Federal Funds were expended in years 2002 to 2013.

The Transit's local contribution to the facilities project depleted the operating and facility reserves of the Transit. To begin to rebuild the reserves, the transit has cut costs in 2014. Effective July 1,2014, Island Transit reduced staffing levels and implemented modified service levels in order to begin to regain our cash flow needs. In addition, effective September 2, 2014, Island Transit implemented further service reductions, modifications and service suspensions and further reduced staffing levels to increase cash flow and build reserves. At the end of July, 2014 our available cash was $247,123. At the end of August, our available cash was $373,338. Our six year transit development plan outlines our commitment to building our reserves. Island Transit's Tax and Revenue Anticipation note will be paid off in June of 2015. Service reinstatement will begin in the fall of 2015.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF DECEMBER 31, 2013

				Expenditures			
Federal Agency Name / Pass-Through Agency Name	**Federal Program Name**	**CFDA #**	**Other Award Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total Amount**	**Foot-note Ref**
Federal Transit Administration (fta), Department Of Transportation/Washington State Department of Transportation	Formula Grants for Rural Areas	20.509	RTAP Scholarships	5,950		5,950	
Federal Transit Administration (fta), Department Of Transportation/Washington State Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCA6823	337,017		337,017	
Federal Transit Administration (fta), Department Of Transportation/none	State of Good Repair Grants Program	20.525	WA-04-0073		10,217,511	10,217,511	
			Total Federal Awards Expended:	342,967	10,217,511	10,560,478	

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
NOTES TO SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as Island County Public Transportation Benefit Area d/b/a Island Transit's financial statements. The Island Transit uses the accrual basis of accounting.

NOTE 2. PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal share of the program costs. Entire program costs, including the Transit's share may be more than shown.

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

Island Transit
Island 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 Island Transit.

Finding ref number:	**Finding caption:**
1	The Transit's internal controls were inadequate to ensure compliance with the requirements of the State of Good Repair Grants Program.

Name, address, and telephone of auditee contact person:
Bob Clay
19758 SR 20
Coupeville, WA 98239
(360) 678-7771

Corrective action the auditee plans to take in response to the finding:

1. *Island Transit acknowledges there was a misunderstanding regarding allowable costs and match percentage requirements of the State of Good Repair Grant. Island Transit will ensure staff will be properly trained so future grants are adequately tracked and managed. Island Transit is working with FTA for resolution of these items.*

2. *Island Transit has developed an inventory of equipment purchased with federal funds. The necessary resources have been identified and a tracking method has been established to meet the requirements of the federal guidelines.*

3. *When made aware of the Suspension and Debarment requirement for two vendors, Island Transit checked the Excluded Parties List System to verify these vendors had not been suspended or debarred to confirm that payments were not made to parties barred from participation in federally funded projects. Island Transit will ensure the necessary processes are in place and staff is properly trained to meet future grant requirements.*

4. *During construction of the facilities project, Island Transit conducted random 'spot check' wage surveys of on-site laborers. Wages were documented and checked to verify prevailing wage requirements were met. Island Transit acknowledges some certified payroll reports were not received in a timely manner; however, these items were identified by Island Transit and obtained from the contractor. During the audit process, Island Transit conducted a spot check of the weekly certified payroll reports to verify that subcontractors paid workers prevailing wages.*

Anticipated date to complete the corrective action: November 30, 2014

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

Island Transit
Island 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 Island Transit.

<table>
<tr><td>Finding ref number:
2</td><td>Finding caption:
The Transit's financial condition has impacted current service levels and puts it at risk of not being able to meet financial obligations.</td></tr>
<tr><td colspan="2">Name, address, and telephone of auditee contact person:
Bob Clay
19758 SR 20
Coupeville, WA 98239
(360) 678-7771</td></tr>
<tr><td colspan="2">Corrective action the auditee plans to take in response to the finding:
1. Island Transit has created a formal financial plan to schedule and monitor the cash flow of the organization by creating a seven year plan detailing expected revenues, expenses, and cash balances during this term. We have hired a CPA to act as our Financial Analyst, who, with the guidance of our Finance Committee and Executive Director, will review monthly financial results to verify that actual results match our formal financial plan. The agency's current actual results show our planned improvement in financial condition.
2. Island Transit has taken steps to ensure that our financial activities are monitored and evaluated. The Executive Director reviews and signs the agency's monthly cash flow analysis and reconciliation. Island Transit's Board of Directors has created a finance committee, composed of two Board members and the Financial Analyst, who will now review cash flow, disbursements, and budget-actual performance on a monthly basis. The Island Transit Board will make any necessary changes to its formal financial plan through the budgeting process to maintain the health and stability of the organization.
3. Island Transit's financial reporting has been enhanced to facilitate informed decision-making. The Island Transit's Board members now receive a monthly reconciled cash statement and a budget actual report to assess monthly and yearly financial progress. The Board also receives related, monthly operational and economic information to guide decision-making.
4. Island Transit has taken swift action to operate within available resources. The agency reduced service during July, August, and September of 2014 so that we are now in a financial position where monthly revenues exceed monthly expenses in alignment with our financial plan.</td></tr>
<tr><td colspan="2">Anticipated date to complete the corrective action: November 30, 2014</td></tr>
</table>

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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