



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Snohomish County Public Transportation Benefit Area (Community Transit)

For the period January 1, 2014 through December 31, 2015

Published July 21, 2016

Report No. 1016986





Washington State Auditor's Office

July 21, 2016

Board of Directors
Snohomish County Public Transportation Benefit Area
DBA Community Transit
Everett, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in blue ink that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Community Transit Snohomish County January 1, 2015 through December 31, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Community Transit are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Authority’s compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.500	Federal Transit Cluster – Federal Transit – Capital Investment Grants
20.507	Federal Transit Cluster – Federal Transit – Formula Grants
20.525	Federal Transit Cluster – State of Good Repair Grants Program
20.526	Federal Transit Cluster – Bus and Bus Facilities Formula Program

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

The Authority qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**Community Transit
Snohomish County
January 1, 2014 through December 31, 2015**

Board of Directors
Snohomish County Public Transportation Benefit Area
DBA Community Transit
Everett, 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 Community Transit, Snohomish County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 21, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

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TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Community Transit
Snohomish County
January 1, 2015 through December 31, 2015**

Board of Directors
Snohomish County Public Transportation Benefit Area
DBA Community Transit
Everett, Washington

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

We have audited the compliance of the Community Transit, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2015. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the

audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 21, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Community Transit Snohomish County January 1, 2014 through December 31, 2015

Board of Directors
Snohomish County Public Transportation Benefit Area
DBA Community Transit
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Community Transit, Snohomish County, Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Transit, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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 16 through 25, pension plan information on pages 68 through 69 and information on postemployment benefits other than pensions on page 70 and 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

June 21, 2016

FINANCIAL SECTION

Community Transit Snohomish County January 1, 2014 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015 and 2014

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2015 and 2014

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014

Comparative Statement of Cash Flows – 2015 and 2014

Notes to Financial Statements – 2015 and 2014

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – 2015 and 2014

Schedule of Employer Contributions – 2015 and 2014

Information on Other Postemployment Benefits Plan (OPEB) – 2015 and 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

Management's Discussion and Analysis

This section of Community Transit's Comprehensive Annual Financial Report (CAFR) represents management's overview and analysis of Community Transit's financial performance for the fiscal year ended December 31, 2015. This section should be read in conjunction with the financial statements that follow.

Introduction

Community Transit is a public transportation benefit area corporation providing public transportation services to the Snohomish County community. Services include:

- Local and intercounty bus services.
- Paratransit services for the elderly and disabled.
- A vanpool program and Ridematch services.
- Regional express bus services funded through Sound Transit.

Financial Summary

- As of December 31, 2015, Community Transit's assets exceeded its liabilities by \$289.9 million. Of this amount, \$108.7 million is available to meet our primary goal of providing service to the public and to be invested in future capital improvements as discussed in Community Transit's six-year plan.
- Community Transit's total net position increased by \$31.4 million.
- Capital grants and contributions amounted to \$26.6 million.
- Community Transit's primary source of funding is from local sales taxes. In 2015, sales tax revenue increased by \$4.9 million.

Overview of the Financial Statements

This discussion and analysis section serves as an introduction to Community Transit's basic financial statements. Community Transit is a stand-alone enterprise fund, and our financial statements report information using the accrual basis of accounting, a method similar to those used by private-sector businesses. Under this method, revenues are recorded when earned, and expenses are recorded as soon as they result in liabilities for benefits received.

The Comparative Statements of Net Position present information about all of Community Transit's assets and liabilities. The difference between assets and liabilities is reported as net position. When net position is compared for several years, increases and decreases may serve as useful indicators of whether Community Transit's financial position is improving or deteriorating.

The Comparative Statements of Revenues, Expenses, and Changes in Net Position present information showing how Community Transit's net position changed during the fiscal year. All changes in net position are reported as soon as the event occurs, regardless of the timing of related cash flows.

The Comparative Statements of Cash Flows present information on Community Transit's cash receipts, cash payments, and changes in cash and cash equivalents during the fiscal year.

The basic financial statements can be found following this Management Discussion and Analysis. The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. *Notes to the Financial Statements* can be found following the basic financial statements.

Community Transit's Financial Position

Community Transit's overall financial position improved in 2015. Net investment in capital assets increased by \$21.3 million, restricted net position increased by less than \$0.1 million, and unrestricted net position increased by \$10.2 million. This resulted in an increase in total net position of \$31.4 million.

Current assets net of current liabilities amounted to \$152.0 million for the year ended December 31, 2015, as compared to \$141.9 million for 2014 and \$127.5 for 2013.

Sales tax revenues increased by 6.2 percent for 2015, as compared to a 6.4 percent increase for 2014 and a 10.8 percent increase for 2013.

Cash reserves available to meet current and future obligations increased to \$123.7 million in 2015 from \$131.4 million in 2014 and \$114.2 million in 2013. Of these reserves, \$2.4 million was restricted for debt service and workers' compensation claims. As of December 31, 2015, Community Transit had no long-term public financing debt.

Financial Analysis

For the year ended December 31, 2015, Community Transit's assets exceeded liabilities by \$289.9 million. A summary of Community Transit's net position follows.

Summary Statement of Net Position

	2015	2014	2013
Assets:			
Current and Other Noncurrent Assets	\$ 169,078,532	\$ 157,056,702	\$ 141,847,776
Capital Assets	179,250,685	159,711,281	164,963,426
Total Assets	348,329,217	316,767,983	306,811,202
Deferred Outflows of Resources:	4,688,614	1,673,937	40,286
Liabilities:			
Current and Other Liabilities	17,119,756	15,112,596	14,340,095
Noncurrent Liabilities	40,923,503	33,964,727	10,505,660
Total Liabilities	58,043,259	49,077,323	24,845,755
Net Position:			
Net investment in capital assets	178,831,358	157,546,954	161,104,099
Restricted	2,355,611	2,292,861	2,314,361
Unrestricted	108,731,233	98,671,998	118,587,273
Total Net Position	\$ 289,918,202	\$ 258,511,813	\$ 282,005,733

Public transportation is a capital-intensive enterprise. Consequently, 61.7 percent of Community Transit's net position was invested in capital assets in 2015, as compared to 60.9 percent in 2014 and 57.1 in 2013. Because these capital assets are used to provide services to citizens, they are not available for future spending.

External restrictions on assets affected 0.8 percent of net position in 2015, 2014, and 2013. Community Transit's Board of Directors designated 27.2 percent of total net position for vehicle replacements and other capital improvements in 2015 compared to 29.8 percent in 2014 and 23.6 percent for 2013. An additional \$2.3 million was designated for workers' compensation in 2015; correspondingly, \$1.8 million was designated in 2014 and \$1.2 million in 2013. The remaining \$27.7 million in 2015 is available to support our public obligation for future transit operations as compared to \$20.0 million in 2014 and \$51.0 million in 2013. Additional information regarding net position can be obtained from Note 10 in the *Notes to the Financial Statements* section.

Due to the implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No 27*, Deferred Outflows of Resources increased \$3.0 million in 2015, and \$1.6 million in 2014.

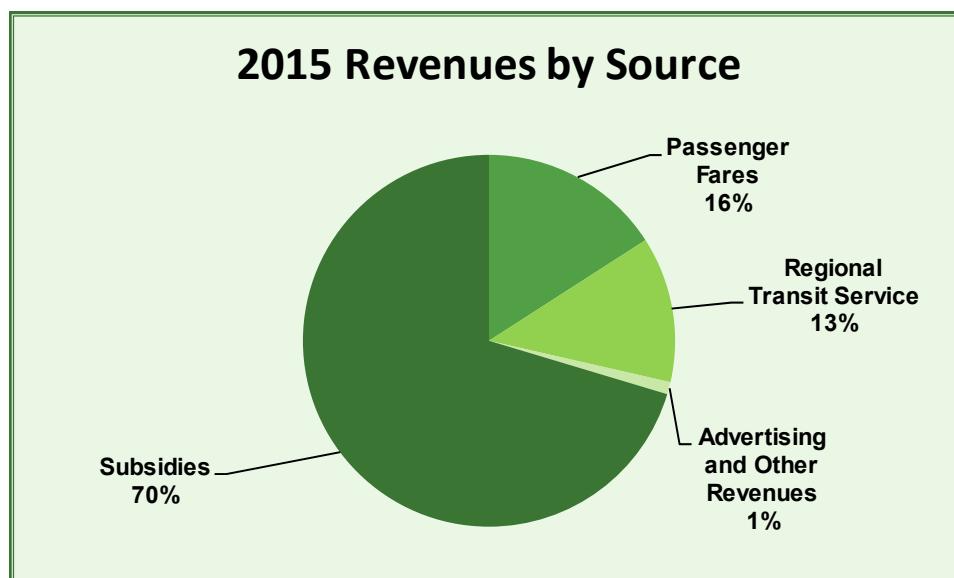
Community Transit's net position increased by \$31.4 million during the current fiscal year. Key elements of this increase follow.

Summary Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014	2013
Operating Revenues:			
Passenger Fares	\$ 20,798,527	\$ 19,769,863	\$ 19,331,239
Regional Transit Service	16,600,685	16,870,539	16,402,918
Advertising	901,627	836,580	784,946
Nonoperating Revenues:			
Subsidies	92,768,390	87,315,853	83,455,798
Other Revenues	500,445	750,209	748,945
Total Revenues	131,569,674	125,543,044	120,723,846
Expenses:			
Operations and Maintenance	63,590,182	58,801,929	55,685,100
General and Administrative	22,396,557	21,012,151	19,748,865
Contracted Transportation	23,797,411	23,370,984	22,547,152
Depreciation and Amortization	16,886,860	15,150,735	15,573,477
Nonoperating Expenses	55,401	99,684	120,544
Total Expenses	126,726,411	118,435,483	113,675,138
Net Income (Loss) Before Contributions	4,843,263	7,107,561	7,048,708
Capital Grants and Contributions	26,563,126	3,201,352	9,801,132
Total Change in Net Position	31,406,389	10,308,913	16,849,840
Net Position—Beginning of Year	258,511,813	282,005,733	265,155,893
Prior Period Adjustment for Change in Accounting Principle	-	(33,802,833)	-
Net Position—Beginning of Year Restated	258,511,813	248,202,900	265,155,893
Net Position—End of Year	\$ 289,918,202	\$ 258,511,813	\$ 282,005,733

Revenues

During 2015, revenues increased by \$6.0 million, or 4.8 percent. Revenues from major sources are illustrated in the following chart:



The major components of the overall increase in revenues were sales tax and fares.

Subsidies include sales tax revenue and operating grants. State and federal subsidies increased \$0.5 million in 2015 and decreased \$0.9 million in 2014, while sales tax revenue increased in 2015 and 2014. This resulted in total subsidies increasing by \$5.5 million, or 6.2 percent, over the preceding year and \$3.9 million, or 4.6 percent, when comparing 2014 to 2013.

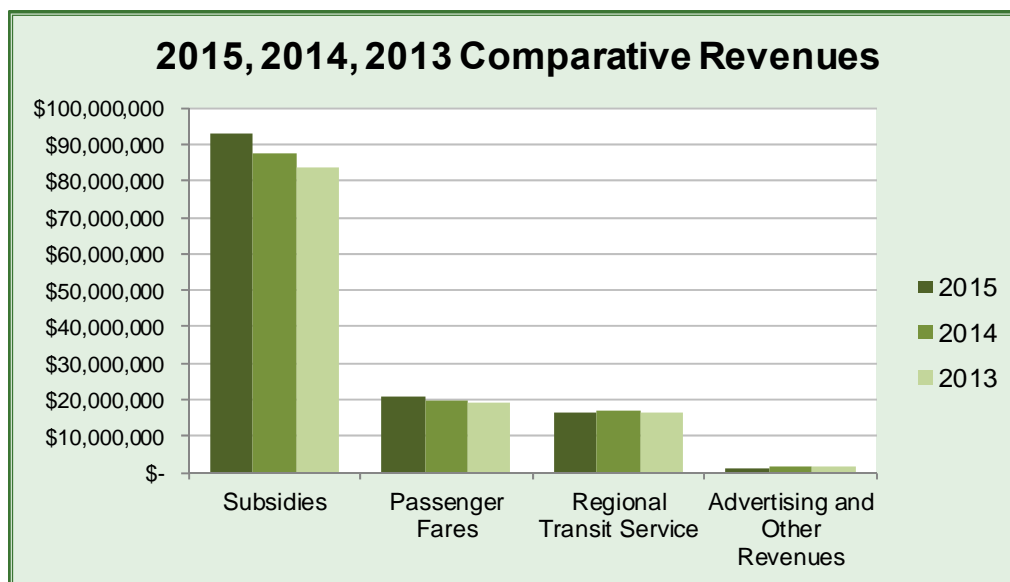
Sales tax revenues increased by 6.2 percent in 2015, resulting in an additional \$4.9 million in sales tax revenue. In 2014, the increase was 6.4 percent, or \$4.8 million, when compared to 2013. The increases in sales tax are attributed to improvements in the local economy.

Regional transit service revenues decreased \$0.3 million, or 1.6 percent, in 2015. The 2014 increase was \$0.5 million, or 2.9 percent, when compared to 2013. The 2015 decrease reflected current service levels and contract rates.

Passenger fares for 2015 increased by \$1.0 million, or 5.2 percent, over the preceding year. Fares increased for 2014 when compared to 2013 by \$0.4 million, or 2.3 percent.

Advertising and other revenues decreased in 2015 by \$0.2 million, or 11.6 percent. The increase in 2014 when compared to 2013 was \$0.1 million, or 3.4 percent.

The following chart compares revenues by major source for 2015, 2014, and 2013.



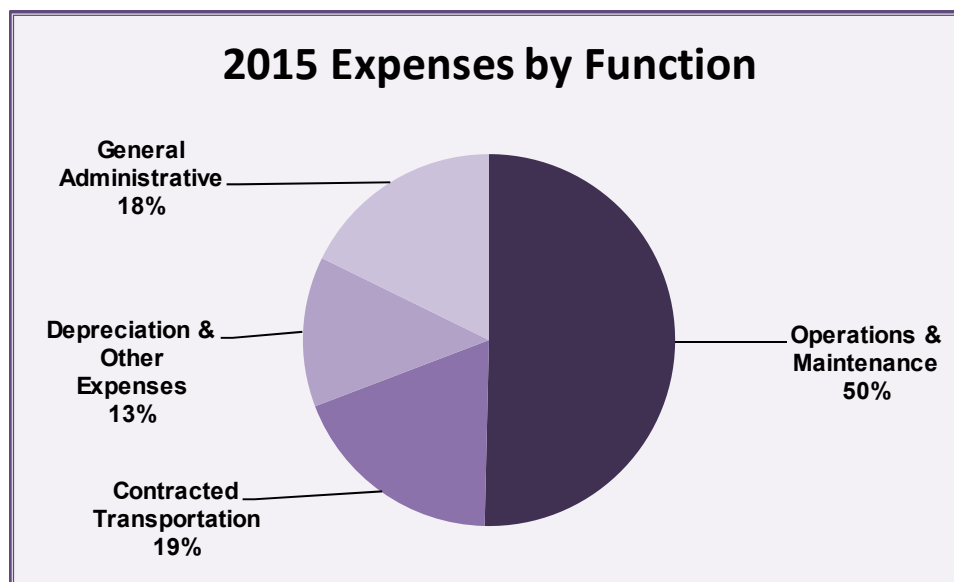
Expenses

During 2015, expenses increased by \$8.3 million, or 7.0 percent. The increase is due primarily to an increase in service hours, salaries and benefits, and staffing levels. Although fuel prices continued to decline in 2015, the number of gallons consumed increased with the increase in service.

Operations and maintenance expenses in 2015 increased by \$4.8 million, or 8.1 percent. The 2014 operations and maintenance expenses when compared to 2013 increased by \$3.1 million, or 5.6 percent. General and administrative expenses increased by \$1.4 million, or 6.5 percent in 2015. The 2014 general and administrative expenses when compared to 2013 increased by \$1.3 million, or 6.4 percent.

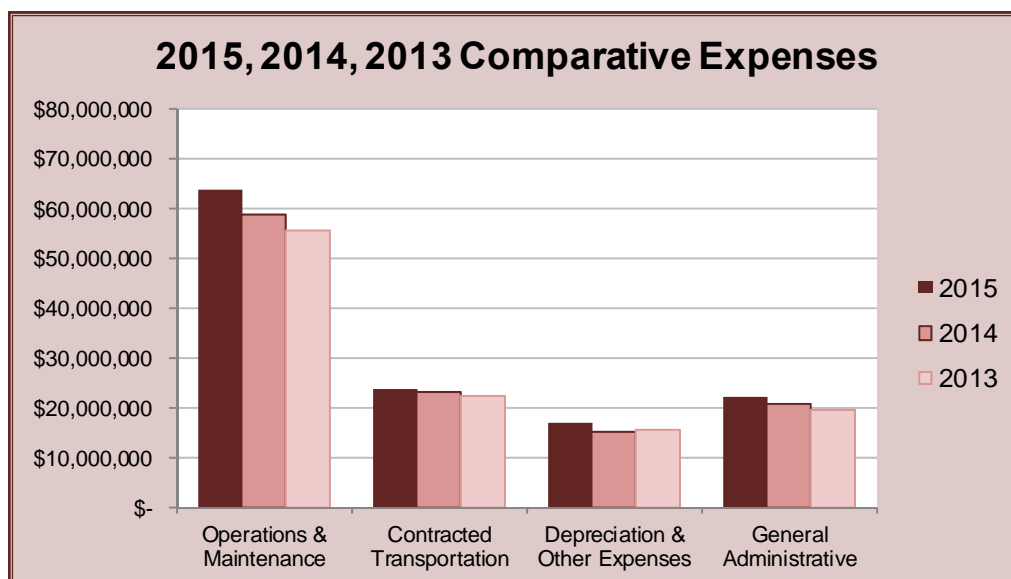
Contracted transportation expenses increased by \$0.4 million, or 1.8 percent. This increase reflects an increase in service hours. The 2014 contracted transportation expenses when compared to 2013 increased by \$0.8 million, or 3.7 percent.

The next chart summarizes expenses by major function.



Depreciation and other nonoperating expenses increased \$1.7 million, or 11.1 percent. The increase is primarily attributed to an increase in capital assets via the purchase of coaches and capitalization of the transit technologies suite of information systems. The 2014 depreciation and other nonoperating expenses when compared to 2013 decreased by \$0.4 million, or 2.8 percent.

The following chart compares expenses by function for 2015, 2014, and 2013.



Capital Assets

Capital assets include revenue vehicles, support vehicles, land and buildings, equipment, and passenger facilities.

As of December 31, 2015, Community Transit's investment in capital assets amounted to \$179.3 million, net of accumulated depreciation. Capital assets increased by 12.2 percent during 2015.

Major acquisitions during 2015 included:

- 16 Double Tall coaches in the amount of \$14.4 million.
- 19 forty-foot coaches in the amount of \$9.2 million.
- KPOB pavement replacement in the amount of \$3.7 million.

For additional information on Community Transit's capital assets, please see Note 5 in the *Notes to the Financial Statements* section.

Debt Administration

In June 2010, Community Transit sold \$5,240,000 in limited sales tax general obligation refunding bonds. The bonds were sold on a competitive bid basis and carried a rate of 3 percent. Payment of the bonds will be made from a portion of Community Transit sales tax revenue. The 2010 bond issue was rated Aa2 by Moody's Investors Service and AA+ by S&P Global Ratings (formerly Standard and Poor's Ratings Services). The resulting funds were used to refund the 2004 bond issue outstanding and to pay the cost of issuing the 2010 bonds. The monies used to fund the bond reserve account continue to earn interest, while the funds allocated to pay for the bond issuance costs are reflected in the Comparative Statements of Net Position. For additional information on Community Transit's bonds payable, please see Note 9(A) in the *Notes to the Financial Statements* section.

Under Washington State law, bonds secured by and payable from sales tax revenues are general obligations of the issuer and are subject to this debt limitation: The bonds may not exceed 0.375 percent of the value of taxable property within the agency's boundaries. Larger amounts may be approved with a public vote.

Assessed valuation in 2015 for collection of taxes in 2016	\$ 67,905,520,501
Maximum nonvoted debt capacity at 0.375 percent of valuation	254,645,702
Less outstanding bond issues - net	1,810,857
Nonvoted debt capacity remaining	<u>\$ 252,834,845</u>

Economic Factors and Next Year's Budgets

On June 7, 2015, Community Transit initiated a 27,000 annualized hour service increase. This increase restored service on Sundays and holidays and represents slightly less than 20 percent of the service cut during the economic downturn. The June service expansion also added several trips to downtown Seattle and the University of Washington. A few route changes and off-peak trip additions were implemented as well. The following press release provides additional detail: <http://www.commtrans.org/newsrelease/1605>.

On July 1, 2015, fares increased by 25 cents for all adult local and commuter trips, as well as for dial-a-ride transportation paratransit trips. This helps keep fare revenues in line with expenses and prevents "sticker shock" that can occur with larger, more infrequent fare changes.

Snohomish County voters approved Proposition 1 on November 3, 2015. Proposition 1 authorized Community Transit to begin collecting an additional three-tenths of 1 percent sales and use tax effective April 1, 2016. Due to the passage of Proposition 1 and the related increased retail sales tax revenue, Community Transit has planned substantial service increases in 2016, 2017, and 2018 and more modest increases from 2019 through 2021. A small increase of about 4,700 annualized revenue hours occurred in March 2016, and a larger increase of 32,000 annualized hours, including two new bus routes and numerous service enhancements, will occur in September 2016. The agency plans to add approximately 27,000 annualized hours in 2017, and 45,000 annualized hours—related to a new *Swift II* bus rapid transit line—will be added in 2018.

More information regarding the 2016 budget can be obtained at www.commtrans.org/budget/. The 2016 original budget is summarized below:

2016 Budget	in millions
Operating Fund Revenues	\$ 133.8
Capital Grants and Contributions	30.1
Other Revenues	0.1
Total Budgeted Revenues	\$ 164.0
Operating Fund Expenditures	\$ 121.3
Capital Projects	66.3
Workers' Compensation Fund	2.6
Debt Service	1.9
Total Budgeted Expenditures	\$ 192.1

Requests for Information

This financial report is designed to provide a general overview of Community Transit's finances for anyone who has an interest. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to:

Lori Fox, Controller
Community Transit
7100 Hardeson Road
Everett, WA 98203

Community Transit
Comparative Statements of Net Position
December 31, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 121,382,800	\$ 129,076,978
Restricted Assets:		
Cash and Cash Equivalents	2,355,611	2,292,861
Accounts Receivable and Accrued Interest	273,939	51,050
Due from Other Governments	43,648,411	24,328,716
Maintenance Parts Inventory	1,298,479	1,239,442
Prepaid Expenses	119,292	67,655
<i>Total Current Assets</i>	<u>169,078,532</u>	<u>157,056,702</u>
<i>Noncurrent Assets:</i>		
Capital Assets Not Being Depreciated:		
Land	14,330,617	14,212,114
Intangible Property	1,800,680	1,800,680
Work in Progress	18,517,020	19,896,141
Capital Assets (Net of Accumulated Depreciation):		
Buildings	36,181,149	35,884,256
Site Improvements	19,024,186	16,621,349
Vehicles, Machinery, and Equipment	85,698,054	66,447,079
Intangible Property	3,698,979	4,849,662
<i>Capital Assets (Net of Accumulated Depreciation)</i>	<u>179,250,685</u>	<u>159,711,281</u>
<i>Total Noncurrent Assets</i>	<u>179,250,685</u>	<u>159,711,281</u>
<i>Total Assets</i>	<u>348,329,217</u>	<u>316,767,983</u>
<u>Deferred Outflows of Resources</u>		
Pensions	4,688,614	1,673,937
<i>Total Deferred Outflows of Resources</i>	<u>4,688,614</u>	<u>1,673,937</u>
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 353,017,831</u>	<u>\$ 318,441,920</u>

Continued on the following page.
See accompanying notes to the financial statements.

Community Transit
Comparative Statements of Net Position
December 31, 2015 and 2014
(Continued)

<u>Liabilities</u>	<u>2015</u>	<u>2014</u>
<i>Current Liabilities:</i>		
Warrants, Accounts Payable, and Accrued Expenses	\$ 6,439,064	\$ 5,945,622
Accrued Payroll Liabilities	2,693,307	2,172,966
Compensated Absences Payable	3,461,688	2,850,888
Unearned Revenue	1,852,340	1,549,807
Current Liabilities Payable from Restricted Assets:		
Interest Payable	22,500	44,313
Bonds Payable - Current Portion	1,810,857	1,745,000
Provision for Workers' Compensation Claims	840,000	804,000
<i>Total Current Liabilities</i>	<u>17,119,756</u>	<u>15,112,596</u>
<i>Noncurrent Liabilities:</i>		
Compensated Absences Payable	1,021,199	1,171,179
Provision for Workers' Compensation Claims	1,569,000	1,621,000
Net Pension Liability	32,922,782	24,623,986
Other Postemployment Benefits	5,410,522	4,708,569
Bonds Payable - Net	-	1,839,993
<i>Total Noncurrent Liabilities</i>	<u>40,923,503</u>	<u>33,964,727</u>
<i>Total Liabilities</i>	<u>58,043,259</u>	<u>49,077,323</u>
<u>Deferred Inflows of Resources</u>		
Pensions	5,056,370	10,852,784
<i>Total Deferred Inflows of Resources</i>	<u>5,056,370</u>	<u>10,852,784</u>
<u>Net Position</u>		
Net Investment in Capital Assets	178,831,358	157,546,954
Restricted For:		
Debt Service	551,861	551,861
Workers' Compensation	1,803,750	1,741,000
Unrestricted	108,731,233	98,671,998
<i>Total Net Position</i>	<u>289,918,202</u>	<u>258,511,813</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Net Position</i>	<u>\$ 353,017,831</u>	<u>\$ 318,441,920</u>

See accompanying notes to the financial statements.

Community Transit
Comparative Statements of Revenues, Expenses,
and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Operating Revenues:</i>		
Passenger Fares	\$ 20,798,527	\$ 19,769,863
Regional Transit Service	16,600,685	16,870,539
Advertising	901,627	836,580
<i>Total Operating Revenues</i>	<u>38,300,839</u>	<u>37,476,982</u>
<i>Operating Expenses:</i>		
Operations	40,771,330	34,908,009
Maintenance	22,818,852	23,893,920
General and Administrative	22,396,557	21,012,151
Contracted Transportation	23,797,411	23,370,984
Depreciation and Amortization	16,886,860	15,150,735
<i>Total Operating Expenses</i>	<u>126,671,010</u>	<u>118,335,799</u>
<i>Operating Loss</i>	<u>(88,370,171)</u>	<u>(80,858,817)</u>
<i>Nonoperating Revenues (Expenses):</i>		
Subsidies	92,768,390	87,315,853
Investment Income	141,991	51,917
Miscellaneous	122,074	323,544
Interest Expense	(55,401)	(99,684)
Gain on Sale of Capital Assets	236,380	374,748
<i>Total Nonoperating Revenues (Expenses)</i>	<u>93,213,434</u>	<u>87,966,378</u>
<i>Net Income Before Contributions</i>	4,843,263	7,107,561
Capital Grants and Contributions	26,563,126	3,201,352
<i>Change in Net Position</i>	<u>31,406,389</u>	<u>10,308,913</u>
<i>Net Position - Beginning of Year</i>	258,511,813	282,005,733
Prior Period Adjustment for Change in Accounting Principle	-	(33,802,833)
<i>Net Position - Beginning of Year, Restated</i>	<u>258,511,813</u>	<u>248,202,900</u>
<i>Net Position - End of Year</i>	<u>\$ 289,918,202</u>	<u>\$ 258,511,813</u>

See accompanying notes to the financial statements.

Community Transit

Comparative Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Cash Flows from Operating Activities:</i>		
Cash Received for Operating Revenues	\$ 38,278,296	\$ 36,031,739
Cash Received for Miscellaneous Revenue	83,652	345,420
Cash Paid to Vendors for Goods and Services	(48,304,719)	(48,666,440)
Cash Paid for Employee Services and Benefits	(60,626,915)	(53,630,110)
<i>Net Cash Used for Operating Activities</i>	<u>(70,569,686)</u>	<u>(65,919,391)</u>
<i>Cash Flows from Noncapital Financing Activities:</i>		
Operating Subsidies	93,135,477	88,788,008
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>93,135,477</u>	<u>88,788,008</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>		
Acquisition of Capital Assets	(35,753,039)	(9,705,309)
Capital Grants and Contributions	7,016,953	5,385,444
Principal Payment on Bonds	(1,745,000)	(1,695,000)
Interest Paid on Bonds	(106,350)	(157,200)
Proceeds From the Sale of Capital Assets	248,226	383,595
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(30,339,210)</u>	<u>(5,788,470)</u>
<i>Cash Flows from Investing Activities:</i>		
Investment Income	141,991	51,917
<i>Net Cash Provided by Investing Activities</i>	<u>141,991</u>	<u>51,917</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>(7,631,428)</u>	<u>17,132,064</u>
<i>Cash and Cash Equivalents - Beginning of Year</i>	131,369,839	114,237,775
<i>Cash and Cash Equivalents - End of Year</i>	<u>\$ 123,738,411</u>	<u>\$ 131,369,839</u>

Continued on the following page.

See accompanying notes to the financial statements.

Community Transit
Comparative Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014
(Continued)

	<u>2015</u>	<u>2014</u>
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</i>		
Operating Loss	\$ (88,370,171)	\$ (80,858,817)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</i>		
Depreciation and Amortization	16,886,860	15,150,735
Miscellaneous Revenue	122,074	323,544
Pensions	(512,295)	-
<i>Change in Assets - Decrease (Increase):</i>		
Accounts Receivable	(222,889)	1,983
Due from Other Governments	(140,609)	(1,643,569)
Maintenance Parts Inventory	(59,037)	(144,759)
Prepaid Expenses	(51,637)	53,236
<i>Change in Deferred Outflows of Resources - Decrease (Increase):</i>		
Accumulated Decrease in Fair Value of Hedging Derivative	-	29,738
<i>Change in Liabilities - Increase (Decrease):</i>		
Warrants, Accounts Payable, and Accrued Expenses	(191,629)	(146,834)
Accrued Payroll Liabilities	520,341	247,248
Compensated Absences Payable	460,820	254,253
Unearned Revenue	302,533	218,219
Provision for Workers' Compensation Claims	(16,000)	113,000
Other Postemployment Benefits	701,953	482,632
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (70,569,686)</u></u>	<u><u>\$ (65,919,391)</u></u>

Schedule of Noncash Investing, Capital, and Financing Activities

Capital Grants and Contributions contain no noncash capital contributions.

See accompanying notes to the financial statements.

Community Transit
Notes to the Financial Statements
December 31, 2015

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Snohomish County Public Transportation Benefit Area Corporation, dba Community Transit, was authorized to begin operation of a public transportation system in 1976. The agency was incorporated under the provisions of Washington State law pertaining to public transportation benefit area corporations (RCW 36.57A) and operates under the control of a Board of Directors.

Community Transit has an undivided interest in a nonequity joint venture, jointly governed with six other agencies for the provision of regional smart card fare (ORCA) collection services. Community Transit's undivided interests in the assets, liabilities and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis.

In fiscal year 2015, Community Transit implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 68 requires governments providing defined benefit pensions for their employees to recognize their proportional share of the pension plan's net pension liability or asset, which is measured as total pension liability less the amount of the pension plan's fiduciary net position. The statement also establishes standards for measuring and recognizing pension liabilities or assets, deferred outflows of resources, deferred inflows of resources, and pension expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense equal to their contractually required contribution to the plan.

GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current year pension contributions are reported subsequent to the measurement date. GASB Statement No. 82 amends GASB Statement No. 68 regarding the presentation of payroll-related measures in required supplementary information.

Community Transit adopted these statements effective January 1, 2014. The collective financial impact resulting from the implementation of these GASB statements is the restatement of 2014 unrestricted net position, reducing it by \$33,802,833 for Community Transit's portion of the net

pension liability, deferred outflows of resources, and deferred inflows of resources incurred in prior years.

B. Basis of Accounting

The accounting policies of Community Transit conform to generally accepted accounting principles applicable to governmental units. Community Transit applies all applicable GASB pronouncements.

Community Transit uses an enterprise fund to account for its operations and prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded as soon as the benefits are received. Operating revenues and expenses generally result from providing transportation services. Community Transit's primary operating revenues include:

- Passenger Fares: Charges to customers for transportation services.
- Regional Transit Service: Reimbursements from Sound Transit for providing regional express bus service.
- Advertising: Revenues earned from advertisements posted on buses.

Operating expenses consist of:

- Transit Operations: Directly operated and provided under contract.
- Vehicle and facility maintenance.
- Administration expenses.
- Depreciation and amortization of capital assets.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses and include:

- Subsidies: tax revenues and operating grants.
- Investment income.
- Miscellaneous revenues.
- Interest expense.
- Gains or losses on the sale of capital assets and maintenance parts inventory.

Community Transit's accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law.

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. Budget

Community Transit adopts its annual budget in December of the preceding fiscal year. The budget is based on corporatewide goals and departmental programs and objectives. After these programs and objectives are developed, revenue for the coming year is estimated. The estimated revenue is used to determine the level of change in service to be provided the following year.

Most operating revenues and expenditures are budgeted on the accrual basis. Significant differences include depreciation and amortization, compensated absences payable, sales tax revenue, actuarial accrual of future workers' compensation losses, other postemployment benefits, and miscellaneous revenues. Debt service is budgeted on a cash basis.

Capital projects are budgeted on a project basis. Projects are budgeted in their entirety when approved, regardless of anticipated expenditure dates. Each year thereafter, the remaining unexpended portion of each project, as well as related grant reimbursements, is rebudgeted.

Community Transit encumbers expenditures for management information. Encumbrances do not constitute a legal reduction of appropriations and are not reported on the financial statements.

The schedules that follow show budgeted versus actual revenues and expenditures for the periods ended December 31, 2015, and December 31, 2014.

Revenues - Budgeted vs. Actual (Budgetary Basis) ***Year Ended December 31, 2015***

	2015 Budget	2015 Actuals	Variance Over (Under) Budget
Passenger Fares	\$ 21,539,000	\$ 20,798,527	\$ (740,473)
Regional Transit Service	18,530,000	16,600,685	(1,929,315)
Advertising	650,000	901,627	251,627
Sales Tax	82,047,991	83,358,802	1,310,811
State and Local Grants	21,579,998	8,824,294	(12,755,704)
Federal Grants - Operating	5,712,070	5,382,205	(329,865)
Federal Grants - Capital	32,661,071	20,663,571	(11,997,500)
Investment Income	107,000	141,991	34,991
Miscellaneous	172,500	122,074	(50,426)
Sale of Capital Assets and Inventory	15,000	248,225	233,225
Total Revenues	<u>\$ 183,014,630</u>	<u>\$ 157,042,001</u>	<u>\$ (25,972,629)</u>

Revenues - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2014

	2014 Budget	2014 Actuals	Variance Over (Under) Budget
Passenger Fares	\$ 19,590,000	\$ 19,769,863	\$ 179,863
Regional Transit Service	18,410,000	16,870,539	(1,539,461)
Advertising	790,000	836,580	46,580
Sales Tax	78,120,000	78,951,863	831,863
State and Local Grants	7,604,074	3,590,960	(4,013,114)
Federal Grants - Operating	5,333,000	4,526,912	(806,088)
Federal Grants - Capital	16,460,841	2,847,955	(13,612,886)
Investment Income	122,000	51,917	(70,083)
Miscellaneous	246,000	323,545	77,545
Sale of Capital Assets and Inventory	20,000	383,595	363,595
Total Revenues	\$ 146,695,915	\$ 128,153,729	\$ (18,542,186)

Expenditures - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2015

	2015 Budget	2015 Actuals	Variance Under (Over) Budget
Salaries and Benefits	\$ 63,884,310	\$ 61,255,753	\$ 2,628,557
Supplies and Materials	17,528,737	12,117,684	5,411,053
Services and Other Charges	43,353,872	36,384,757	6,969,115
Intergovernmental	2,499,662	2,212,549	287,113
Capital Acquisitions	90,873,208	33,617,038	57,256,170
Debt Service - Principal	1,745,000	1,745,000	-
Debt Service - Interest	106,350	106,350	-
Total Expenditures	\$ 219,991,139	\$ 147,439,131	\$ 72,552,008

Expenditures - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2014

	2014 Budget	2014 Actuals	Variance Under (Over) Budget
Salaries and Benefits	\$ 57,400,584	\$ 54,426,512	\$ 2,974,072
Supplies and Materials	16,918,199	14,679,309	2,238,890
Services and Other Charges	38,918,301	33,016,012	5,902,289
Intergovernmental	2,358,979	2,046,505	312,474
Capital Acquisitions	58,940,388	8,070,278	50,870,110
Debt Service - Principal	1,695,000	1,695,000	-
Debt Service - Interest	157,200	157,200	-
Total Expenditures	\$ 176,388,651	\$ 114,090,816	\$ 62,297,835

The following schedule reconciles the accrual to budgetary differences for 2015 and 2014.

	2015	2014
Revenues and Capital Grants Reported on the Accrual Basis	\$ 158,132,800	\$ 128,744,396
Accruals for Sales Tax	(1,102,644)	(599,514)
Net Book Value of Retired Equipment	11,845	8,847
Revenues Reported on the Budgetary Basis	\$ 157,042,001	\$128,153,729

	2015	2014
Expenses Reported on the Accrual Basis	\$ 126,726,411	\$ 118,435,483
Capital Projects	36,438,109	9,903,437
Accrued Interest Expense	50,949	57,516
Change in Actuarial Accrual for Workers' Compensation	16,000	(113,000)
Change in Compensated Absences Payable	(460,820)	(254,253)
Change in Actuarial Accrual for Other Postemployment Benefits	(701,953)	(482,632)
Pension Expense	512,295	-
Debt Service - Principal	1,745,000	1,695,000
Depreciation and Amortization	(16,886,860)	(15,150,735)
Expenses Reported on the Budgetary Basis	\$ 147,439,131	\$ 114,090,816

D. Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments purchased with a remaining maturity of three months or less. Community Transit's investment policies are governed by regulations established for public funds by Washington State law.

Community Transit's investment policy was updated effective October 15, 2015. Safety of principal continues to be the top priority, with liquidity being the second most important priority. The investment policy clearly states that safety and liquidity takes precedence over return on investment. Investments as of December 31, 2015, consisted of demand deposits and Local Government Investment Pool investments.

Allowable investments are limited to:

- U.S. Treasury obligations.
- U.S. Government agency obligations and U.S. Government sponsored enterprises.
- Banker's acceptances.
- Commercial paper.
- Certificates of deposit.
- Repurchase agreements.
- Bonds of Washington State and any local government in Washington State.
- General obligation bonds of a state other than Washington State.
- Washington State Local Government Investment Pool

Throughout 2015 Community Transit's portfolio complied with the investment policies discussed above. Investments are reported at fair value based on quoted market prices. Changes in fair value are included as revenue in the financial statements.

E. Restricted Assets

Funds are classified as restricted assets when their use is limited by bond covenants, state requirements for workers' compensation, or other legally binding conditions. As of December 31, 2015, restricted assets amount to \$1,803,750 for the state-required workers' compensation reserve and \$551,861 for bond reserve and interest according to the bond covenant.

F. Maintenance Parts Inventory

Vehicle maintenance parts are held for consumption and valued at cost using the weighted-average method. The costs of maintenance parts are recorded as an expense when consumed rather than when purchased.

G. Capital Assets and Depreciation

Assets with a useful life in excess of one year are capitalized if the individual cost is at least \$5,000. Capital assets are recorded at historical cost. Donated assets are stated at estimated fair market value as of the date of acquisition. Replacements which improve or extend the lives of property are capitalized. Repairs and maintenance are expensed as incurred.

Community Transit participates with the Washington State Department of Transportation in the construction of passenger park-and-ride facilities within the transit service area. Community Transit contributes funds to provide the local match required under the terms of federal construction grants. The State of Washington retains park-and-ride facility ownership, but Community Transit's contribution allows us to use these facilities. The rights are valued at the amount of the contribution made and are reported under capital assets as site improvements.

Depreciation is computed using the straight-line method (without salvage values) over the estimated useful life of the asset. When used assets are acquired, they are assigned a useful life of one-half the new life. Newly acquired assets are assigned useful lives as follows:

<i>Asset Category</i>	<i>Years</i>
Land	Not Depreciated
Work in Progress	Not Depreciated
Intangible Property—Easements	Not Depreciated
Buildings	10 to 30
Site Improvements	10 to 30
Buses	12 to 15
Other Vehicles	5
Machinery and Equipment	5 to 10
Computer Equipment	3 to 7
Intangible Property	3 to 10

H. Compensated Absences

Policies for the accrual and use of compensated absences vary depending on whether an employee is represented by a labor contract or subject to the personnel policy. All employees are covered in the same two plans: paid time off and major sick leave. Paid time off is payable upon an employee's termination. Major sick leave is payable at 25 percent of the hours accrued with the exception of some union employees, who are paid out at 50 percent if retiring. The portion of major sick leave payable at termination represents the vested portion of major sick leave earned and is subject to accrual.

I. Unearned Revenue

Revenues received in advance are recorded as unearned revenue on the Comparative Statements of Net Position. At December 31, 2015, unearned revenue amounted to \$1,852,340. Of this amount, \$100,000 was an advertising insurance security deposit. The remaining \$1,752,340 included ORCA fare revenue amounting to \$1,687,431 and payments for employer Flex Pass contracts expiring in future periods in the amount of \$64,909.

J. Pensions

Information about the fiduciary net position of all state-sponsored pension plans and additions to or deductions from the fiduciary net position of those plans has been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. This information was used to measure net liability, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2: Cash and Investments

As of December 31, 2015, and December 31, 2014, Community Transit had the following investments:

<i>Investment Type</i>	<i>2015 Fair Value</i>	<i>2014 Fair Value</i>
Demand Deposits	\$ 12,419,071	\$ 21,004,708
Local Government Investment Pool	111,319,340	110,365,131
Total	\$ 123,738,411	\$ 131,369,839

Investments as of December 31, 2015, consisted of demand deposits and Local Government Investment Pool (LGIP) investments. The LGIP is an investment trust fund of the state of Washington operated by the Office of the State Treasurer. The State Finance Committee provides statutory administrative oversight. The LGIP Advisory Committee provides advice on the operation of the pool.

Eligible investments are limited only to those investments authorized by state law. The pool is subject to an annual audit by the Washington State Auditor's Office. On an annual basis, the State Treasurer is required to provide a report which summarizes the activities of the investment pool to the Governor, the State Auditor, and the state legislative budget committee.

The LGIP is an unrated, 2a7-like pool, as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*. Accordingly, participant balances in the LGIP are not subject to interest risk, as the weighted average maturity of the

portfolio will not exceed 90 days. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosure—an amendment of GASB Statement No. 3*, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited, as most investments are either obligations of the U.S. Government; government-sponsored enterprises; or insured, demand-deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as category 1 risk-level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

Interest Rate Risk: Community Transit investment guidelines and policies state that safety of funds is the number one priority in all investment decisions. The LGIP investment policy requires a 90-day maximum on the weighted average maturity. Thus, all investments held are considered to have a low interest rate risk.

Credit Risk: Community Transit's investment policy has only one direct, credit-risk requirement. The requirement applies to bonds of Washington State and any local government in Washington State in which the rating must be one of the three highest credit ratings of a nationally organized rating agency. Credit risk is indirectly controlled via the kind of investment instruments allowed by the investment policy and by maturity requirements. The risk ranges from minimal to none, based on the investment instruments Community Transit holds. There is no credit risk for federally insured demand deposits.

Funds currently held at the LGIP have minimal to no risk. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. Government or its agencies, bankers' acceptances, commercial paper, certificates of deposit, or obligations of the state of Washington. All repurchase agreements must be rated AAA and be at least 102 percent of the value of the agreement.

Custodial Credit Risk: There is no custodial risk for Community Transit's demand deposits. Custodial risk is minimal within our investment in the LGIP. The LGIP assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit. Some exposure is present in the LGIP's holdings of repurchase agreements. This exposure has been limited by restrictions that require all agreements must be rated AAA and the market value of securities utilized in repurchase agreements must be at least 102 percent of the value of the agreement.

Note 3: Receivables

As of December 31, 2015, and December 31, 2014, the following amounts were due to Community Transit:

Accounts Receivable	2015	2014
Fares and Miscellaneous	\$ 264,576	\$ 43,092
ORCA Fiscal Agent Receivables	9,363	7,958
Total Accounts Receivable	\$ 273,939	\$ 51,050

Due from Other Governments	2015	2014
Sales Tax Received in January and February	\$ 15,889,647	\$ 14,787,003
Operating Grants and Contributions	1,780,050	3,249,781
Capital Grants and Contributions	19,996,710	450,537
Sound Transit Regional Service	4,254,047	4,242,449
Fares and Miscellaneous	321,402	306,663
ORCA Fiscal Agent Receivables	1,406,555	1,292,283
Total Due from Other Governments	\$ 43,648,411	\$ 24,328,716

Note 4: Fuel Hedge

To protect against the potential of rising prices of diesel fuel through the fiscal year ending December 31, 2014, Community Transit purchased a forward-starting cap at a cost of 5.8 cents per gallon on 1,774,000 gallons in the amount of \$102,892. There is no value at December 31, 2014, or at December 31, 2015; the contract expired on December 31, 2014, and no additional instruments were purchased after that date.

The cap purchased for fiscal year 2014 qualified for hedge accounting under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; therefore all changes in fair value are offset by corresponding deferred outflows of resources and deferred inflows of resources in the Comparative Statements of Net Position. The fair value of the cap was estimated using an independent proprietary pricing service.

There were no outstanding hedging derivatives as of December 31, 2015. The following table displays the objective and terms of the last hedging derivative instrument purchased by Community Transit, a summary of basic terms of the cap agreement, along with the credit rating of the counterparty as of December 31, 2013:

Type	Objective	Notional	Effective Date	Maturity Date
Diesel Cap	Hedge of changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel.	1,774,000 Gallons	1/1/2014	12/31/2014

Terms	Fair Value	Bank Counterparty	Counterparty Ratings Moody's /S&P /Fitch
US Gulf Coast Ultra Low Sulfur Diesel Price Cap at \$3.200 per Gallon	\$ 73,154	Barclays Bank PLC	A2/AA

Credit Risk, Basis Risk, and Termination Risk: As of December 31, 2015, Community Transit has no credit risk exposure because the last fuel hedge contract expired December 31, 2014, and was not replaced with a new contract.

Note 5: Capital Assets

The tables that follow summarize changes in capital assets for the years ending December 31, 2015, and December 31, 2014, respectively.

	<i>Beginning Balance 12/31/2014</i>	<i>Additions/ Adjustments</i>	<i>Retirements</i>	<i>Ending Balance 12/31/2015</i>
Capital Assets Not Being Depreciated:				
Land	\$ 14,212,114	\$ 118,503		\$ 14,330,617
Work in Progress	19,896,141	(1,379,121)		18,517,020
Intangible Property	1,800,680			1,800,680
Subtotal	35,908,935	(1,260,618)	-	34,648,317
Capital Assets Being Depreciated:				
Buildings	56,217,400	2,359,788		58,577,188
Site Improvements	30,984,047	4,016,582		35,000,629
Vehicles/Machinery/Equipment	167,402,203	29,765,945	(2,196,020)	194,972,128
Intangible Property	5,570,258	1,556,412	(12,127)	7,114,543
Subtotal	260,173,908	37,698,727	(2,208,147)	295,664,488
Less Accumulated Depreciation For:				
Buildings	(20,333,144)	(2,062,895)		(22,396,039)
Site Improvements	(14,362,697)	(1,613,746)		(15,976,443)
Vehicles/Machinery/Equipment	(99,203,387)	(12,254,957)	2,184,270	(109,274,074)
Intangible Property	(2,472,334)	(955,357)	12,127	(3,415,564)
Subtotal	(136,371,562)	(16,886,955)	2,196,397	(151,062,120)
Total Capital Assets (Net of Accumulated Depreciation)	<u>\$ 159,711,281</u>	<u>\$ 19,551,154</u>	<u>\$ (11,750)</u>	<u>\$ 179,250,685</u>

	<i>Beginning Balance 12/31/2013</i>	<i>Additions/ Adjustments</i>	<i>Retirements</i>	<i>Ending Balance 12/31/2014</i>
Capital Assets, Not Being Depreciated:				
Land	\$ 14,212,114			\$ 14,212,114
Work in Progress	20,086,758	(190,617)		19,896,141
Intangible Property	1,761,362	39,318		1,800,680
Subtotal	36,060,234	(151,299)	-	35,908,935
Capital Assets Being Depreciated:				
Buildings	54,070,170	2,153,150	(5,920)	56,217,400
Site Improvements	30,883,461	347,122	(246,536)	30,984,047
Vehicles/Machinery/Equipment	170,787,251	7,041,775	(10,426,823)	167,402,203
Intangible Property	5,053,569	516,689		5,570,258
Subtotal	260,794,451	10,058,736	(10,679,279)	260,173,908
Less Accumulated Depreciation For:				
Buildings	(18,463,230)	(1,875,834)	5,920	(20,333,144)
Site Improvements	(13,265,216)	(1,344,017)	246,536	(14,362,697)
Vehicles/Machinery/Equipment	(98,264,285)	(11,357,078)	10,417,976	(99,203,387)
Intangible Property	(1,898,528)	(573,806)		(2,472,334)
Subtotal	(131,891,259)	(15,150,735)	10,670,432	(136,371,562)
Total Capital Assets, Net of Accumulated Depreciation	\$ 164,963,426	\$ (5,243,298)	\$ (8,847)	\$ 159,711,281

Note 6: Pension Plan

The table below represents the aggregate pension amounts for all Community Transit plans for the years 2015 and 2014, subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No 27*.

Aggregate Pension Amounts: PERS Plans 1, 2, and 3

	2015	2014
Pension Liability	\$ 32,922,782	\$ 24,623,986
Deferred Outflows of Resources	\$ 4,688,614	\$ 1,673,937
Deferred Inflows of Resources	\$ 5,056,370	\$ 10,852,784
Pension Expense	\$ 3,716,047	\$ 3,332,623

Substantially all of Community Transit’s full-time and qualifying part-time employees participate in the Public Employees’ Retirement System (PERS). This statewide retirement system is administered by the Washington State Department of Retirement Systems as cost-sharing, multiple-employer, public-employee, defined-benefit, and defined-contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The Department of Retirement Systems’ CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98540-8380, or it may be downloaded from the DRS website at www.drs.wa.gov.

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

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes. PERS members include elected officials; state employees; employees of the supreme, appeals and superior courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS Plans 1 and 2 are defined-benefit plans, and PERS Plan 3 is a defined-benefit plan with a defined-contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2 percent of the member’s average final compensation times the member’s years of service. The average final compensation is the average of the member’s 24 highest consecutive service months.

Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit.

Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time, duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS Plan 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by state statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2014 and 2015 were as follows:

<i>PERS Plan 1</i>		
Actual Contribution Rates:	Employer	Employee
January 2014 through June 2015	9.21%	6.00%
July 2015 through December 2015	11.18%	6.00%

Community Transit's actual contributions to the plan, including the Plan 1 unfunded actuarial accrued liability¹ funded through Plan 2/3 rates, were \$1,866,781 and \$1,480,324 for the years ended December 31, 2015, and December 31, 2014, respectively.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2 percent of the member's average final compensation times the member's years of service for Plan 2 and 1 percent of average final compensation for Plan 3. The average final compensation is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are

¹ Unfunded actuarial accrued liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by current plan assets (definition courtesy of the Washington State Office of the State Actuary). For purposes of this discussion, the UAAL is the amount of retirement that is owed to an employee in future years that exceeds current assets and their projected growth.

eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- 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 2/3 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 credit.

PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the Consumer Price Index) and capped at 3 percent annually, and a one-time, duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined-benefit portion of their plan after ten years of service or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers.

As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined-benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability and an administrative expense that is currently set at 0.18 percent.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2014 and 2015 follow:

PERS Plans 2/3

Actual Contribution Rates:	Employer, Plans 2/3	Employee, Plan 2	Employee, Plan 3
January 2014 through June 2015	9.21%	4.92%	Varies
July 2015 through December 2015	11.18%	6.12%	Varies

Community Transit's actual contributions to the plan, excluding the Plan 1 unfunded actuarial accrued liability contributions, were \$2,373,759 and \$1,806,240 for the years ended December 31, 2015, and December 31, 2014, respectively.

Actuarial Assumptions

The total pension liability for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's *2007-2012 Demographic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The total pension liability was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 3 percent total economic inflation; 3.75 percent salary inflation.
- Salary increases: In addition to the base 3.75 percent salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5 percent.

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB². Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

² The Society of Actuaries uses Scale BB to determine pension valuations. Scale BB is based on more recent data and newly developed techniques and can be used immediately without any changes to existing valuation software. (Society of Actuaries, Mortality Improvement Scale BB Report, September 2012, <http://www.soa.org>)

There were minor changes in methods and assumptions since the last valuation.

- The Office of the State Actuary updated demographic assumptions (consistent with the changes from the *2007-2012 Demographic Experience Study*) used when valuing the PERS 1 basic minimum COLA.
- The Office of the State Actuary corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 entry age normal cost contribution rates, the Office of the State Actuary now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The Office of the State Actuary changed the way it applies salary limits, as described in their *2007-2012 Demographic Experience Study*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent.)

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates, including PERS 2/3 whose rate includes a component for PERS Plan 1 liabilities. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return of 7.5 percent on DRS pension plan investments was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of the WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, and June 30, 2014, are summarized in the following table. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	2015 Target Allocation	2015 % Long-Term Expected Real Rate of Return Arithmetic	2014 Target Allocation	2014 % Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%	20%	0.80%
Tangible Assets	5%	4.40%	5%	4.10%
Real Estate	15%	5.80%	15%	5.30%
Global Equity	37%	6.60%	37%	6.05%
Private Equity	23%	9.60%	23%	9.05%
	100%		100%	

Sensitivity of Net Pension Liability

The tables below presents Community Transit's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Community Transit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

As of June 30, 2015:

		1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$	21,410,835	\$	17,585,864
PERS 2/3	\$	44,845,945	\$	15,336,918
				\$ (7,257,037)

As of June 30, 2014:

		1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$	20,103,133	\$	16,309,562
PERS 2/3	\$	34,681,244	\$	8,314,424
				\$ (11,824,919)

Pension Plan Fiduciary Net Position

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

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, and June 30, 2014, Community Transit reported total pension liabilities of \$32,922,782 and \$24,623,986, respectively, for its proportionate share of the net pension liabilities as shown:

	2015 Liability		2014 Liability	
PERS 1	\$	17,585,864	\$	16,309,562
PERS 2/3	\$	15,336,918	\$	8,314,424

Community Transit's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2015	Proportionate Share 6/30/2014	Change in Proportion
PERS 1	0.336190%	0.323760%	0.012430%
PERS 2/3	0.429238%	0.411328%	0.017910%

Employer contribution transmittals received and processed by the DRS for the fiscal years ended June 30, 2015, and June 30, 2014 were used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liabilities were based on the actuarial valuation date of June 30, 2014. Update procedures were used to roll forward the total pension liability to the measurement date of June 30, 2015.

Pension Expense

For the years ended December 31, 2015, and December 31, 2014, Community Transit recognized pension expense as shown:

	2015 Pension Expense		2014 Pension Expense	
PERS 1	\$	1,739,216	\$	1,501,068
PERS 2/3	\$	1,976,831	\$	1,831,555

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, Community Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	2015		2014	
	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	962,139	-	2,039,419
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	1,072,667	-	751,450	-
Total	\$ 1,072,667	\$ 962,139	\$ 751,450	\$ 2,039,419

PERS 2/3	2015		2014	
	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ 1,630,319	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	4,094,231	-	8,813,365
Changes of assumptions	24,711	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	576,281	-	-	-
Contributions subsequent to the measurement date	1,384,636	-	922,487	-
Total	\$ 3,615,947	\$ 4,094,231	\$ 922,487	\$ 8,813,365

Deferred outflows of resources related to pensions resulting from Community Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as shown:

Year Ended December 31	PERS 1	Year Ended December 31	PERS 2/3
2016	\$ (372,892)	2016	\$ (942,107)
2017	(372,892)	2017	(942,107)
2018	(372,892)	2018	(942,111)
2019	156,537	2019	963,405
Thereafter	-	Thereafter	-
Total	\$ (962,139)	Total	\$ (1,862,920)

Note 7: Risk Pool

In December 1988, Community Transit signed an interlocal government agreement with seven Washington public transit systems for the joint purchase of liability insurance, joint self-insurance, and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. The agreement created an agency known as the Washington State Transit Insurance Pool (WSTIP). The purpose of the pool is stabilization of present insurance costs and reduction of costs in the long-term future.

The pool is governed by a Board of Directors consisting of a representative of each member system. Participating transit systems as of December 31, 2015, include:

- Asotin County PTBA.
- Ben Franklin Transit.
- Clallam Transit System.
- Columbia Area Transit.
- Community Transit.
- C-Tran.
- Everett Transit.
- Grant County Transit.
- Grays Harbor Transportation Authority.
- Intercity Transit.
- Island Transit.
- Jefferson Transit Authority.
- Kitsap Transit.
- Link Transit.
- Mason Transit Authority.
- Pacific Transit System.
- Pierce Transit.
- Pullman Transit.
- River Cities Transit.
- Skagit Transit.
- Spokane Transit.
- Twin Transit.
- Valley Transit.
- Whatcom Transit Authority.
- Yakima Transit.

The pool self-insures the first \$2 million of all liability claims; after the first \$2 million, the next \$3 million is provided by Government Entities Mutual, Inc. PCC. Private carriers supply the remaining liability coverages up to the \$20 million limit on a per-occurrence basis for auto and general liability and on a per-claim basis for errors and omissions. In addition, the pool provides property, comprehensive, auto physical damage, and crime coverage. A complete annual report including financial statements is available at <http://www.wstip.org>.

The next table summarizes audited financial information for the pool as of December 31, 2014.

	<u>2014</u>
Assets	\$ 37,159,570
Liabilities	175,031
Reserve for Claims	16,555,981
Net Position	<u>20,428,558</u>
Total Liabilities & Net Position	37,159,570
Operating Revenues	11,783,693
Operating Expenses	<u>12,289,462</u>
Operating Income (Loss)	(505,769)
Nonoperating Revenues (Expenses)	<u>438,009</u>
Change in Net Position	(67,760)
Net Position - Beginning of Year	<u>20,496,318</u>
Net Position - End of Year	<u>\$ 20,428,558</u>

Washington State law prohibits the distribution of profits from insurance pools to member agencies. Accordingly, the financial statements do not reflect any equity in the Washington State Transit Insurance Pool.

Note 8: Insurance

A. Liability Insurance

Community Transit joined the Washington State Transit Insurance Pool (WSTIP) in December 1988 for coverage effective January 1, 1989. Community Transit assumes the liability for claims up to the deductible amounts listed in the following table for each type of risk. Risk of claims in excess of the deductible amount has been transferred to WSTIP.

In 2015 WSTIP provided the coverage as shown in this table.

Comprehensive General Liability	\$20,000,000 per occurrence with no deductible
Auto Liability, Garage Keepers, and Garage Legal Liability	\$20,000,000 per occurrence with no deductible
Public Official Liability	\$20,000,000 per occurrence with \$5,000 deductible
Crime Coverage/Public Employee Dishonesty	\$1,000,000 per occurrence with \$10,000 deductible
Property Damage Insurance: Property—Building, Personal, Auto Physical (All Vehicles), Boiler, Machinery, and Cyber Liability	\$1,000,000,000 blanket limit with \$5,000 deductible
Pollution Liability	\$5,000,000 aggregate with \$100,000 self-insured retention and \$5,000 deductible
Pollution Liability (Underground Fuel Storage Tanks	\$1,000,000 per occurrence with \$25,000 deductible

Claim settlements in the past three years did not exceed insurance coverage.

B. Self-Insured Workers' Compensation and Unemployment Compensation

Community Transit continues to be self-insured for unemployment compensation and workers' compensation (industrial insurance), with excess workers' compensation retained consistent with statutory requirements.

On December 31, 2015, cash and investments set aside for self-insurance totaled \$6,517,408. Community Transit reported a liability on December 31, 2015, of \$2,409,000, which represents the estimated liability for workers' compensation claims for which Community Transit may ultimately be liable, including a provision for claims incurred but not yet reported. Of the \$2,409,000 estimated liability, Community Transit expects to pay out \$840,000 within the coming year, and the remaining \$1,569,000 is expected to be paid out later than one year.

No outstanding liabilities have been removed from the Comparative Statements of Net Position due to the purchase of annuity contracts from third parties in the name of the claimants. In addition to the reserve, Community Transit purchased a commercial workers' compensation

policy with a \$1,000,000 limit per occurrence and a \$550,000 self-insured retention per occurrence.

In 2015, Community Transit paid out \$53,484 in unemployment compensation claims, and \$86,637 in 2014. There is no accrued liability for future unemployment claims. The following table shows the claims liabilities for Workers' Compensation:

	2015	2014
Total Claims Liability : Beginning of Year	\$ 2,425,000	\$ 2,312,000
Incurred Claims:		
Provision for Incurred Claims	1,411,000	1,374,000
Change in Provision for Incurred Claims, Prior Year	(373,305)	(203,108)
Total Provision for Incurred Claims	1,037,695	1,170,892
Total Incurred	3,462,695	3,482,892
Payments:		
Payment Made for Current-Year Claims	288,695	379,330
Payment Made for Prior-Year Claims	765,000	678,562
Total Payments	1,053,695	1,057,892
Total Claims Liability: End of Year	<u>\$ 2,409,000</u>	<u>\$ 2,425,000</u>

Note 9: Changes in Long-Term Liabilities

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

Note	Description	Beginning Balance 12/31/2014	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
9 A.	General Obligation Bonds	\$ 3,545,000	\$ -	\$ (1,745,000)	\$ 1,800,000	\$ 1,800,000
	Premiums	39,993	-	(29,136)	10,857	10,857
	Total Bonds Payable	3,584,993	-	(1,774,136)	1,810,857	1,810,857
9 B.	Compensated Absences	4,022,067	460,820	-	4,482,887	3,461,688
	Workers' Compensation	2,425,000	-	(16,000)	2,409,000	840,000
9 C.	Pension Obligations	24,623,986	8,298,796	-	32,922,782	-
9 D.	OPEB Obligations	4,708,569	701,953	-	5,410,522	-
	Total Long-Term Liabilities	<u>\$ 39,364,615</u>	<u>\$ 9,461,569</u>	<u>\$ (1,790,136)</u>	<u>\$ 47,036,048</u>	<u>\$ 6,112,545</u>

A. Bonds Payable

Limited sales tax, general-obligation bonds were issued in 2004 for the purchase of capital assets. Of the total 2004 bond proceeds, \$1,200,000 was used to fund the reserve account, and \$180,673 was used to pay the bond issue costs. On June 3, 2010, Community Transit issued \$5,240,000 in limited sales tax, general-obligation refunding bonds, Series 2010, to fully refund outstanding 2004 bonds and pay for issuance costs for the Series 2010 bonds. An economic gain of \$54,256 resulted from the refunding transaction. The difference between the cash flows required to service the outstanding 2004 bonds and to service the new debt was a loss that is recorded as a deferred outflow of resources and is being amortized over the remaining life of the 2004 bonds.

The Series 2010 bond interest is payable on February 1 and August 1 of each year commencing February 1, 2011, and ending August 1, 2016. The bonds are not subject to redemption prior to their maturity. The bonds have a coupon rate of 3 percent with varying maturities ranging from 2014 to 2016. These bonds are subject to federal arbitrage rules. As of December 31, 2015, the 2010 bonds are the only outstanding issued debt held by Community Transit.

	As of 12/31/2015	As of 12/31/2014
Current Portion of Bonds Payable	\$ 1,800,000	\$ 1,745,000
Long-Term Portion of Bonds Payable	-	1,800,000
Total Bonds Payable	\$1,800,000	\$3,545,000

The table below reflects 2015 bonds payable activity.

<i>Bond Type</i>	<i>Beginning Balance 12/31/2014</i>	<i>Issuance</i>	<i>Reductions via Principal</i>	<i>Ending Balance 12/31/2015</i>	<i>Amount Due in 2016 - Principal Only</i>
Series 2010	\$3,545,000	\$ -	\$ 1,745,000	\$ 1,800,000	\$ 1,800,000

The following table presents the annual principal and interest debt service amounts:

<i>Annual Debt Service</i>				<i>Total Debt Service</i>
<i>Year</i>	<i>Rate</i>	<i>Principal</i>	<i>Interest</i>	
2016	3.00%	1,800,000	54,000	1,854,000
Total		\$ 1,800,000	\$ 54,000	\$ 1,854,000

B. Compensated Absences

The two categories of compensated absences are paid time off (PTO) and major sick leave (MSL). As of December 31, 2015, PTO payable was \$3,209,907 as compared to \$2,833,483 for the same period in 2014. The 2015 current portion amounted to \$3,103,980, which was an

increase of \$383,836 compared to the 2014 amount of \$2,720,144. The amount classified as long term was \$105,927, which was a decrease of \$7,412 over the 2014 amount of \$113,339.

As of December 31, 2015, the vested portion of MSL payable was \$1,272,979 as compared to \$1,188,583 for the same period in 2014. The 2015 current portion amounted to \$357,707, which was an increase of \$226,963 compared to the 2014 amount of \$130,744. The amount classified as long term was \$915,272, which was a decrease of \$142,567 over the 2014 amount of \$1,057,839. Schedules for all categories of compensated absences follow.

The PTO short-term and long-term classification is based on a five-year historical average of leave paid as a percentage of the liability.

<i>Paid Time Off (PTO)</i>	<i>2015</i>	<i>2014</i>
Beginning Balance - Current Liability	\$ 2,720,144	\$ 2,509,251
PTO Earned	5,092,847	4,334,348
PTO Paid	(4,709,011)	(4,123,455)
<i>Ending Balance - Current Liability</i>	<i>3,103,980</i>	<i>2,720,144</i>
Beginning Balance - Long-Term Liability	113,339	132,066
PTO Earned	138,228	153,084
PTO Paid	(145,640)	(171,811)
<i>Ending Balance - Long-Term Liability</i>	<i>\$ 105,927</i>	<i>\$ 113,339</i>

The MSL short-term and long-term classification is based on a five-year historical average on leave paid as a percentage of the liability.

<i>Major Sick Leave (MSL)</i>	<i>2015</i>	<i>2014</i>
Beginning Balance - Current Liability	\$ 130,744	\$ 157,709
MSL Earned	412,231	32,325
MSL Paid	(185,268)	(59,290)
<i>Ending Balance - Current Liability</i>	<i>357,707</i>	<i>130,744</i>
Beginning Balance - Long-Term Liability	1,057,839	968,787
MSL Earned	333,835	568,758
MSL Paid	(476,402)	(479,706)
<i>Ending Balance - Long-Term Liability</i>	<i>\$ 915,272</i>	<i>\$ 1,057,839</i>

C. Pensions

Please refer to Note 6—Pensions.

D. Other Postemployment Benefits (OPEB)

In 2009, Community Transit implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes accounting and financial reporting standards for benefits that are earned during an employee's active service but will not be paid until after the employee retires.

Plan Description: During the working careers of active employees, Community Transit contributes to the state Public Employees Benefits Board (PEBB), a cost-sharing, multiple-employer, defined-benefit, healthcare program administered by the Washington State Health Care Authority (HCA), an agent. The program provides medical, prescription drug, and vision coverage.

HCA issues a publicly available financial report that includes financial statements and required supplementary information for the program. That report may be obtained by writing to HCA, P.O. Box 42682, Olympia, WA 98504-2682. No stand-alone financial statements are available for the program.

Under state law, active Community Transit employees who are covered by the state public employee retirement system are eligible upon retirement to obtain medical, prescription drug, and vision coverage through the state PEBB program at the retiree rate associated with the elected plan. Because the rate is based on a pool of both active employees and retirees, the rate paid by pre-Medicare retirees is less than the full cost of the benefits, based on their age and other demographic factors.

This creates an implicit subsidy where the "underpayment" of retiree premiums is funded through the premiums paid by Community Transit for active employees. Additionally, an explicit subsidy exists for Medicare-eligible retirees enrolled in Medicare Parts A and B. For 2015, the explicit subsidy is the lessor of 50 percent of the monthly premium or \$150.00 per month. The rate was \$150.00 for 2014. This explicit subsidy is also funded through premiums paid by Community Transit for active employees.

Funding Policy: The HCA calculates the premium amounts each year that are sufficient to fund the program on a pay-as-you-go basis. These costs are passed through to all participating agencies based on active employee headcount.

Annual OPEB costs and the net OPEB obligation for 2015, 2014, and 2013 follow.

<i>Annual OPEB Cost</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>
Annual Required Contribution (ARC)	\$ 908,174	\$ 680,651	\$ 680,651
Interest on Net OPEB Obligation	211,886	190,167	167,169
Adjustment to ARC	(289,065)	(259,435)	(228,060)
<i>Annual OPEB Cost</i>	<i>\$ 830,995</i>	<i>\$ 611,383</i>	<i>\$ 619,760</i>

<i>Net OPEB Obligation</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>
Net OPEB Obligation—Beginning of Year	\$ 4,708,569	\$ 4,225,937	\$ 3,714,857
Annual OPEB Cost	830,995	611,383	619,760
Employer Contribution Made	(129,042)	(128,751)	(108,680)
Net OPEB Obligation—End of Year	\$ 5,410,522	\$ 4,708,569	\$ 4,225,937
<i>Increase/Decrease in Net OPEB</i>	<i>\$ 701,953</i>	<i>\$ 482,632</i>	<i>\$ 511,080</i>
<i>Employer Percentage Contribution</i>	<i>16%</i>	<i>21%</i>	<i>18%</i>

Funded Status and Funding Progress: The disclosures for the funded status and funding progress are presented immediately after the Notes to the Financial Statements in the required supplementary information section. The disclosures are based on a biannual basis.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment rate of return, payroll growth rate, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the program as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and program members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Community Transit performed an actuarial study as of December 31, 2015, in accordance with the parameters of GASB Statement No. 45. The actuary calculated the OPEB obligation based on individual Community Transit employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

Community Transit will use a third-party vendor to complete the actuarial report every two years. In the interim years between valuations, the actuary will update the annual OPEB cost and the net OPEB obligation. All other assumptions and data will remain the same. The actuarial report is available upon request from Community Transit. The next table summarizes actuarial assumptions used:

<i>Description</i>	<i>Actuarial Assumption</i>
Valuation Date	December 31, 2015
Actuarial Cost Method	Projected Unit Credit
Investment Rate of Return	4.5% per year
Inflation Rate	3% per year
Projected Salary Increases	2% for 2015 adjustment of covered payroll
Health Care Cost Trend Rates	All years: 5%
Post-Retirement Benefit Increases	No increases are projected.
Amortization Method	Level dollar amount on an open basis over a period of 30 years.

Note 10: Net Position

Portions of Community Transit's net position are restricted for the following purposes:

- **Debt Service:** Funds restricted by bond covenant for payment of principal and interest.
- **Workers' Compensation:** Funds legally restricted by Washington State Department of Labor and Industries for payment of self-insured workers' compensation claims.

In addition, Community Transit's Board of Directors has designated portions of Community Transit's net position under the following categories:

- **Vehicle Replacement:** Funds set aside for future replacement of buses, paratransit vehicles, and vanpools.
- **Future Capital Improvements:** Amounts designated to fund capital projects.
- **Workers' Compensation:** Additional funds set aside in excess of the state-required restrictions for the payment of workers' compensation claims.

The next table shows net position as reported on the balance sheets, including the breakdown of designated and undesignated net position, as of December 31, 2015, and December 31, 2014.

	2015	2014
Net Investment in Capital Assets	\$ 178,831,358	\$ 157,546,954
Restricted Net Position		
Debt Service	551,861	551,861
Workers' Compensation	1,803,750	1,741,000
Total Restricted Net Position	2,355,611	2,292,861
Unrestricted Net Position		
Designated - Vehicle Replacement	39,878,935	37,636,848
Designated - Future Capital Improvements	38,851,648	39,277,694
Designated - Workers Compensation	2,272,890	1,789,450
Undesignated	27,727,759	19,968,006
Total Unrestricted Net Position	108,731,233	98,671,998
Net Position	\$ 289,918,202	\$ 258,511,813

Note 11: Commitments

A. Paratransit Service (DART)

On September 9, 2011, Community Transit entered into a five-year contract with Senior Services of Snohomish County for the provision of paratransit service.

The contract terms cover the period October 1, 2011, through September 30, 2016, with renewal options for five additional one-year terms. The annual cost for 100,000 annual revenue hours over the five-year period is shown in the table at right.

The annual cost of paratransit service is within the annual budget. Contracted services with Senior Services amounted to \$6,533,980 during 2015 compared to \$6,704,149 in 2014. Actual annual vehicle hours amounted to 85,058 for 2015, compared to 84,349 for 2014.

100,000 Revenue Service Hours		
Year	Annual Cost	
1	\$	6,417,520
2		6,569,659
3		6,726,583
4		6,886,620
5		7,051,588

B. Commuter Service

On May 9, 2012, Community Transit entered into a multiyear contract with First Transit. Under the terms of the contract, First Transit will operate Community Transit's express commuter bus service for a five-year, seven-month period with renewal options for five additional one-year term extensions beginning January 1, 2018.

First Transit operates the service from Community Transit's Kasch Park Base under the terms of the facility lease provisions of the commuter service agreement. The annual cost of the service for the five-year, seven-month period, which includes 92,560 service hours of Sound Transit express commuter service, is shown below.

<i>Contract Period</i>	<i>Revenue Service Hours</i>	<i>Annual Cost</i>
Jun 09, 2012 to Dec 31, 2013	196,133	\$ 25,102,589
Jan 01, 2014 to Dec 31, 2014	124,040	\$ 16,352,081
Jan 01, 2015 to Dec 31, 2015	124,040	\$ 16,842,643
Jan 01, 2016 to Dec 31, 2016	124,040	\$ 17,347,923
Jan 01, 2017 to Dec 31, 2017	124,040	\$ 17,868,360

The annual cost is within the annual budget. Contract service with First Transit for Community Transit service amounted to \$4,638,123 in 2015 compared to \$4,448,041 in 2014. Actual annual revenue hours amounted to 37,907 in 2015 as compared to 36,876 in 2014.

Contract service with First Transit for Sound Transit service amounted to \$12,625,307 in 2015 compared to \$12,218,794 in 2014. Actual revenue hours amounted to 92,752 in 2015 as compared to 91,065 for 2014.

C. Central Puget Sound Regional Fare Coordination System

Community Transit has an undivided interest in a nonequity joint venture, jointly governed with six other Puget Sound-area public transit agencies for the provision of regional ORCA card fare collection services.

On April 14, 2009, Community Transit entered into an amended interlocal agreement with King County Metro Transit, Pierce Transit, Sound Transit, Everett Transit, Kitsap Transit, and the Washington State Ferries to provide for joint operation of the Central Puget Sound Regional Fare Coordination System. The regional fare coordination system began a phased implementation on April 1, 2009, with substantial deployment in 2010. The system is governed by a joint board consisting of one representative from each participating agency. The participating agencies have committed to use the system for a minimum of ten years and fund a proportional share of regional shared costs.

Under the terms of the interlocal agreement, Sound Transit acts as the fiscal agent. Participating agencies remit all funds collected through the sale of ORCA fare media to Sound

Transit. When customers use ORCA cards to pay transit fares, statistical information is collected which determines how Sound Transit remits fare revenue back to participating agencies.

Community Transit's undivided interests in the assets, liabilities, and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis. Expenses associated with the regional fare coordination system are shared proportionally by each participating agency. The joint venture does not publish public financial statements. Please direct requests for information about the joint venture's financial statements to Lori Fox at the address shown in the Management's Discussion and Analysis section of this report.

The following table represents the amount included in Community Transit's financial statements that is an undivided interest:

Current Assets	2015	2014
Cash and Cash Equivalents	\$ 2,051,669	\$ 1,838,891
Accounts Receivable	2,546,315	2,200,205
Total Assets	\$ 4,597,984	\$ 4,039,096
Current Liabilities		
Accounts Payable and Accrued Liabilities	2,932,888	2,732,280
Deferred Receipts	1,665,095	1,306,816
Total Liabilities	\$ 4,597,983	\$ 4,039,096
Total Operating Revenues	\$ 15,146,551	\$ 14,254,517
Total Expenses	\$ 449,803	\$ 504,313

D. Transit Police Contract with Snohomish County

On December 4, 2014, Community Transit's Board of Directors approved a new interlocal agreement with Snohomish County to continue the police services which the Snohomish County Sheriff's Office has provided since April 2003.

Year	Annual Cost	Under the terms of the new agreement, the county provides one full-time sergeant, one full-time administrative staff person, one full-time master patrol deputy, and nine full-time commissioned sheriff's deputies who patrol Community Transit's services and facilities on a regular basis and perform other related services.
2015	\$ 1,560,598	
2016	1,607,416	
2017	1,655,638	

The contract term is January 1, 2015, to December 31, 2017. The annual cost of these services over the life of the contract is summarized above.

Costs in 2015 were slightly below the annual budget. The cost of police services provided to Community Transit amounted to \$1,452,638 in 2015 as compared to \$1,198,808 in 2014.

E. Double-Decker Coach Contract

On July 2, 2009, Community Transit entered into a five-year contract with Alexander Dennis for the purchase of up to 120 double-decker coaches over the term of the contract. Future price changes are limited to the change in the Producer Price Index for similar equipment. The actual number of future purchases depends on Community Transit's future needs and available funding.

Under the terms of this contract, other transit agencies may purchase buses provided that such purchases are within the stated quantity and the participating agency assumes all purchasing responsibilities. The Board approved an initial order of 23 coaches at a cost of \$21,675,238. All were delivered by the end of June 2011. No purchases were made in 2012. An order for 17 coaches was placed in 2013; 16 coaches were delivered in 2015, and the remaining coach is scheduled for 2016 delivery. An additional five coaches were ordered in 2014 with delivery scheduled for 2016.

F. Transit Technologies

On February 7, 2008, Community Transit awarded a contract to INIT in the amount of \$13,377,228 to develop and implement a suite of transit technologies. (In financial reports for previous years, this suite of technologies was referred to as Advanced Public Transportation Systems or APTS.) The transit technologies suite includes automatic vehicle locators, automated passenger counters, automated stop annunciation, computer-aided dispatch, advanced traveler information systems, data radio, and mobile data terminals.

Phase I was completed in 2011 with implementation of the system for paratransit service. Phase II, installation of the system for fixed-route service, was completed in 2013. Implementing these technologies has improved agency efficiency through faster access to more reliable system data, leading to better fleet management and improved on-time performance, and providing consumers with access to real-time transit information.

Ten percent retainage in the amount of \$1 million was returned to INIT in July 2015. Annual project costs are within the 2015 budget. For 2015, Community Transit's transit technologies contract costs amounted to \$1,513,036 as compared to \$1,072,650 in 2014.

G. Express Bus Operating Agreement with Sound Transit

Community Transit has operated Sound Transit's express bus service since September 1999. On June 4, 2015, Community Transit's Board of Directors approved a new agreement with Sound Transit to continue operating Sound Transit express bus service. The agreement covers various aspects of providing the service including operations, vehicle maintenance, fare collection, and security. The first year of this agreement ended on December 31, 2015; all subsequent years of this agreement begin on January 1 and end on December 31. The agreement expires on December 31, 2017, but includes an option to extend for two additional one-year periods. In

2015, Community Transit received \$16,600,685 from Sound Transit compared to \$16,870,539 in 2014.

H. Five-Year Bus Purchase Contracts

Community Transit entered into five-year contracts with New Flyer of America on June 4, 2010, and GILLIG LLC - USA on June 29, 2010, for the purchase of up to 203 coaches over the term of the contracts.

Future price changes are limited to the change in the Producer Price Index for similar equipment. The actual number of future purchases depends on Community Transit's needs and available funding. Under the terms of this contract other transit agencies may purchase buses provided that such purchases are within the stated quantity and the participating agency assumes all purchasing responsibilities.

In 2015 Community Transit placed an order with New Flyer of America amounting to \$9,553,460 for nineteen 40-foot coaches; these coaches were delivered in 2015. Community Transit also placed two more coach orders in 2015: ten 60-foot coaches from New Flyer of American and five double-decker coaches from Alexander Dennis Limited. The 60-foot coaches and double-deckers are scheduled for delivery in 2016.

I. Lease Obligation

As of December 31, 2015, Community Transit had no capital leases and various operating leases. Total operating lease expense for 2015 was \$318,687 compared to \$299,318 in 2014. The leases consist of the park-and-pool lot program, communication sites, Pitney Bowes, and copiers. Both the park-and-pool lot program and the communication site leases are cancellable by either party with a 30- to 90-day notice depending on the contract. The Pitney Bowes and copier leases are more than one year and noncancelable. Future minimum lease commitments for noncancelable leases of more than one year are listed here.

<i>Year</i>	<i>Annual Cost</i>
2016	\$ 33,927
2017	8,251
2018	2,461

Note 12: Contingencies

A. Legal Proceedings

There are several pending lawsuits in which Community Transit is involved. Community Transit's attorney estimates that the potential claim against Community Transit not covered by insurance resulting from such litigation would not materially affect the financial statements.

B. Federal Grants

Community Transit has received several federal grants for specific purposes that are subject to review and audit. Such audits could lead to requests for reimbursement of expenditures disallowed under the terms of the grant. In the opinion of management, such disallowances, if any, will be immaterial and will not have any significant effect on the financial position of Community Transit.

C. Environmental Liability

As a public transit operation, Community Transit has certain environmental risks related to its operation involving the storage, liability, and disposal of certain petroleum products. In the opinion of management, any potential claim not covered by insurance would not materially affect the financial statements of Community Transit.

Note 13: Subsequent Events

Community Transit has evaluated subsequent events through June 2016. On July 16, 2015, the Board of Directors adopted Resolution No. 08-15, calling for an election to ask the voters to authorize Community Transit to impose an additional three-tenths of 1 percent (0.3 percent) retail sales and use tax as authorized by RCW 82.14.045.

This proposition, known as Snohomish County Proposition 1, was passed by voters in the Snohomish County general election on November 3, 2015. It authorized 0.3 percent additional sales and use tax to fund operating, maintenance, and capital improvements to the existing Community Transit system. These improvements will include more bus trips and connections, operation of a second line of *Swift* bus rapid transit, and new routes and service throughout the county, including connections to the future regional light-rail network.

The additional 0.3 percent sales and use tax will take effect April 1, 2016. Community Transit will receive distributions of the additional 0.3 percent tax beginning in late June 2016.

This additional funding has allowed Community Transit to plan substantial service increases in 2016, 2017, and 2018, and more modest increases from 2019 through 2021. A small increase of about 4,700 annualized revenue hours occurred in March 2016 and a larger increase will occur in September 2016.

The September 2016 service increase consists of 32,000 annualized hours, including two new bus routes and numerous service enhancements. Community Transit plans to add approximately 27,000 annualized hours in 2017 and 45,000 annualized hours in 2018. The 2018 service increase is due primarily to implementation of a new *Swift II* bus rapid transit line.

Note 14: Status of Active Grants

The status of Federal Transit Administration operating grants active as of December 31, 2015, follows:

Operating Grants

<i>FTA Grant No.</i>	<i>Total Grant: Federal Share</i>	<i>Accrued Receipts To-Date</i>	<i>Unexpended Grant</i>	<i>Accrued Receipts Current Year</i>
GCB1947	\$ 173,726	\$ 173,726	\$ -	\$ 71,320
GCB2036	372,727	66,703	306,024	66,703
WA-54-0005	919,210	919,210	-	919,210
WA-90-X527	5,169,710	3,650,794	1,518,916	1,505,971
WA-90-X574	5,121,185	5,121,185	-	2,121,185
WA-95-X062	860,000	860,000	-	267,265
WA-95-X087	884,391	394,306	490,085	394,306

The status of Federal Transit Administration capital grants active as of December 31, 2015, follows:

Capital Grants

<i>FTA Grant No.</i>	<i>Total Grant: Federal Share</i>	<i>Accrued Receipts To-Date</i>	<i>Unexpended Grant</i>	<i>Accrued Receipts Current Year</i>
GCB1855	\$ 1,376,000	\$ 1,376,000	\$ -	\$ 1,376,000
New TrAMS Grant A	486,035	486,035	-	486,035
New TrAMS Grant B	862,299	611,257	251,042	611,257
WA-04-0083	894,578	894,578	-	721,684
WA-04-0096	1,337,512	1,337,512	-	289,053
WA-34-0006	1,380,671	1,380,671	-	1,380,671
WA-54-0005	5,677,575	4,965,454	712,121	4,965,454
WA-90-X454	1,349,267	1,349,267	-	1,349,267
WA-90-X493	500,000	454,757	45,243	172,658
WA-90-X519	1,600,000	1,590,078	9,922	628,904
WA-90-X520	2,157,858	2,148,314	9,544	1,356,398
WA-90-X588	2,240,000	1,174,795	1,065,205	1,174,795
WA-90-X589	9,098,220	4,615,623	4,482,597	4,615,623
WA-95-X062	1,380,000	1,380,000	-	1,380,000

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years* (as of June 30)

PERS Plan 1		
	2015	2014
Employer's proportion of the net pension liability	0.336190%	0.323760%
Employer's proportionate share of the net pension liability	\$ 17,585,864	\$ 16,309,562
Employer's covered payroll	\$ 203,389	\$ 212,639
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8,646.42%	7,670.07%
Plan fiduciary net position as a percentage of covered payroll	59.10%	61.19%
PERS Plans 2/3		
	2015	2014
Employer's proportion of the net pension liability	0.429238%	0.411328%
Employer's proportionate share of the net pension liability	\$ 15,336,918	\$ 8,314,424
Employer's covered payroll	\$ 38,087,086	\$ 35,246,857
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.27%	23.59%
Plan fiduciary net position as a percentage of covered payroll	89.20%	93.29%

* Until a full ten-year trend is completed, information is presented only for the years available.

Required Supplementary Information

Schedule of Employer Contributions

Last 10 Fiscal Years* (as of December 31)

PERS Plan 1		
	2015	2014
Statutorily or contractually required contributions	\$ 1,866,781	\$ 1,480,324
Contributions in relation to the statutorily or contractually required contributions	(1,866,781)	(1,480,324)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 166,584	\$ 223,361
Contributions as a percentage of covered employee payroll	1,120.62%	662.75%
PERS Plans 2/3		
	2015	2014
Statutorily or contractually required contributions	\$ 2,373,759	\$ 1,806,240
Contributions in relation to the statutorily or contractually required contributions	(2,373,759)	(1,806,240)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 42,403,091	\$ 36,083,840
Contributions as a percentage of covered employee payroll	5.60%	5.01%

* Until a full ten-year trend is completed, information is presented only for the years available.

Required Supplementary Information

Other Postemployment Benefits Plan (OPEB)

Schedule of Funding Progress

Actuarial Valuation Date	Actuary Value of Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2011	\$0	\$ 6,107,919	\$ 6,107,919	0.0%	\$ 36,554,787	17%
12/31/2013	\$0	\$ 6,179,625	\$ 6,179,625	0.0%	\$ 32,900,679	19%
12/31/2015	\$0	\$ 7,407,700	\$ 7,407,700	0.0%	\$ 39,542,354	19%

GASB Statements No. 25 and 27 now require only biennial valuations with no updates between valuations.

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2011	\$ 790,915	\$ 111,571	14%	\$ 3,066,673
12/31/2012	\$ 779,780	\$ 131,595	17%	\$ 3,714,858
12/31/2013	\$ 619,760	\$ 108,680	18%	\$ 4,225,937
12/31/2014	\$ 611,383	\$ 128,751	21%	\$ 4,708,569
12/31/2015	\$ 830,995	\$ 129,042	16%	\$ 5,410,522

Snohomish County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015

Federal Agency (Pass-Through Agency)	Expenditures				Passed through to Subrecipients	Note	
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards			From Direct Awards
Highway Planning and Construction Cluster							
Federal Highway Administration (fhwa), Department Of Transportation (via CMAQ pass-through WSDOT)	Highway Planning and Construction	20.205	GCB-2036	66,703	-	66,703	1,2,3
	Total Highway Planning and Construction Cluster:			66,703	-	66,703	-
Federal Transit Cluster							
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Capital Investment Grants	20.500	WA-04-0083	-	721,684	721,684	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Capital Investment Grants	20.500	WA-04-0096	-	289,053	289,053	1,2,3
	Total CFDA 20.500:			-	1,010,737	1,010,737	-
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X454	-	1,349,267	1,349,267	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X466	-	155,772	155,772	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X493	-	172,658	172,658	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X519	-	628,904	628,904	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X520	-	1,356,398	1,356,398	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X527	-	1,505,971	1,505,971	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X574	-	2,121,185	2,121,185	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X588	-	1,174,795	1,174,795	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X589	-	4,615,623	4,615,623	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X062	-	1,647,265	1,647,265	1,2,3,4,5
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X063	-	36,245	36,245	1,2,3,5

The accompanying notes are an integral part of this schedule.

Federal Agency (Pass-Through Agency)	Expenditures				Passed through to Subrecipients	Note	
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards			From Direct Awards
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X087	-	394,306	-	1,2,3,4,5
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	New TrAMS grant Bus	-	266,651	-	1,2,3,6,7
			Total CFDA 20.507:	-	15,425,040	-	
Federal Transit Administration (fta), Department Of Transportation	State of Good Repair Grants Program	20.525	WA-54-0005	-	5,884,664	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Bus and Bus Facilities Formula Program	20.526	WA-34-0006	-	1,380,671	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Bus and Bus Facilities Formula Program	20.526	New TrAMS grant Bus	-	219,384	-	1,2,3,6,7
Federal Transit Administration (fta), Department Of Transportation	Bus and Bus Facilities Formula Program	20.526	New TrAMS grant Facility	-	611,257	-	1,2,3,6,8
Federal Transit Administration (fta), Department Of Transportation (via 5339 pass- through WSDOT)	Bus and Bus Facilities Formula Program	20.526	GCB-1855	1,376,000	-	-	1,2,3
			Total CFDA 20.526:	1,376,000	2,211,312	-	
			Total Federal Transit Cluster:	1,376,000	24,531,753	-	
Federal Transit Administration (fta), Department Of Transportation (via JARC pass- through WSDOT)	Job Access And Reverse Commute Program	20.516	GCB-1947	71,320	-	-	1,2,3,4
			Total Transit Services Programs Cluster:	71,320	-	-	
			Total Federal Awards Expended:	1,514,023	24,531,753	-	

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as Community Transit's financial statements. Community Transit uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - INDIRECT COST RATE

The amount expended does not include any amount claimed as indirect cost recovery. Community Transit has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. All amounts expended for both capital and operating projects are direct costs only.

NOTE 4 - PROGRAM INCOME

Program Income generated by grant supported activity in 2015 was retained and used for allowable capital or operating expenses as permitted by 49.CFR Part 18.25(g)(5). Advertising Revenue is the only Program Income Community Transit generates. During the grant period \$161,207 program income was generated from bus advertising on vehicles funded under CFDA 20.507 grant #s WA-90-x454 and WA-95-x062 and \$2,778 was generated from bus advertising on vehicles funded under CFDA 20.525 grant # WA-54-0005. NOTE: Fare Revenue generated from operations is not considered Program Income by FTA. During 2015 Fare Revenue of \$832,746 was generated under CFDA 20.507 grant #s WA-90-x574, WA-90-x527, WA-95-x062 and WA-95-x087 and \$26,305 under CFDA 20.516 pass through grant # GCB-1947. Fare Revenue is always subtracted from the gross project cost to arrive at net eligible grant expense.

NOTE 5 - FLEXED FUNDS

These funds were flexed from FHWA programs to FTA for obligation and administration, however, the grant may retain some aspects of the original program. The following grant #s WA-95-X062, WA-95-x063 and WA-95-x087 were all flexed from the CMAQ program CFDA #20.205 to the FTA 5307 formula program CFDA 20.507. After Flex these grant projects took on an 80% grant / 20% match ratio.

NOTE 6 - NEW TRAMS GRANTS

FTA launched a new Transit Award Management System called TrAMS. This replaces the old TEAM system and all existing grants were moved into the new system. TEAM was closed during year-end accounting. An unexpected new rule does not allow any of the existing grants to be amended to add funding. New grants must be entered and executed to add funds that have been accrued to the 2015 SEFA. The ability to make changes to existing grants or create new grants did not begin until 3/17/16, therefore much of this work is not finished at the time the SEFA was completed. These new grants are entered on the SEFA as "New TrAMS Grant Bus or Facility" because a grant number is not yet available. Notes 7 and 8 provide detail for each grant effected.

NOTE 7 - New TrAMS Grant Bus

Also see note 6 above. \$486,035 total accrued revenue was moved into New TrAMS grant for Bus = \$266,651 of 5307 funds 20.507 plus \$219,384 of 5339 funds 20.526. Drawdown of accrual will occur once new grants are executed in TrAMS.

NOTE 8 - New TrAMS Grant Facility

Also see note 6 above. \$611,257 total accrued revenue was moved into New TrAMS Grant for Facility all are 5339 funds 20.526. Drawdown of accrual will occur once new grant is executed in TrAMS.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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