Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Thurston County Public Transportation Benefit Area (Intercity Transit)

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

Published September 22, 2016

Report No. 1017438

Washington State Auditor's Office

September 22, 2016

Board of Directors
Intercity Transit
Olympia, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

TABLE OF CONTENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Intercity Transit
Thurston County
January 1, 2015 through December 31, 2015

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

CFDA No.	Program or Cluster Title
20.500	Federal Transit Cluster – Federal Transit Capital Investment Grants
20.507	Federal Transit Cluster – Federal Transit Formula Grants

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

The Transit 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*

Intercity Transit
Thurston County
January 1, 2015 through December 31, 2015

Board of Directors
Intercity Transit
Olympia, 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 Intercity Transit, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements, and have issued our report thereon dated September 7, 2016. As discussed in Note 9 to the financial statements, during the year ended December 31, 2015, the Transit Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Transit 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 Transit Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit 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 Transit 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.

In addition, we noted certain matters that we have reported to the management of the Transit Authority in a separate letter dated September 7, 2016.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Transit Authority's financial statements are free from material misstatement, we performed tests of the Transit 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 Transit 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 Transit Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 7, 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

Intercity Transit
Thurston County
January 1, 2015 through December 31, 2015

Board of Directors
Intercity Transit
Olympia, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Intercity Transit, Thurston 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 Transit Authority's major federal programs for the year ended December 31, 2015. The Transit 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 Transit 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 Transit 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 Transit Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Transit 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 Transit 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 Transit 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 Transit 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.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 7, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Intercity Transit
Thurston County
January 1, 2015 through December 31, 2015

Board of Directors
Intercity Transit
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Intercity Transit, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Transit 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 Transit 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 Intercity Transit, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 9 to the financial statements, in 2015, the Transit 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*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

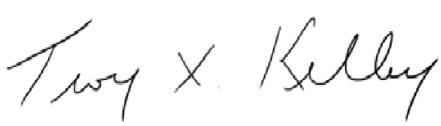
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 24 and pension plan information on pages 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit 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 September 7, 2016 on our consideration of the Transit 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 Transit Authority's internal control over financial reporting and compliance.



TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

September 7, 2016

FINANCIAL SECTION

Intercity Transit
Thurston County
January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

INTERCITY TRANSIT

Management's Discussion and Analysis

This section of Intercity Transit's Annual Financial Report represents management's overview and analysis of Intercity Transit's financial performance for the fiscal years ended December 31, 2015. This section should be read in conjunction with the financial statements which follow.

Introduction

Intercity Transit (IT) is a public transportation benefit area corporation providing public transportation services to the Thurston County community. Services include:

- Local and inter-county bus services.
- Paratransit services for the elderly and disabled.
- A vanpool program and ridematch services.

Financial Highlights for 2015

- As of December 31, 2015, Intercity Transit's assets and deferred outflows exceeded its liabilities and deferred inflows by $68.3 million. The full $68.3 million is available to meet the primary goal of providing service to the public. These funds may also be invested in future capital improvements as discussed in Intercity Transit's Six-Year Plan.
- Intercity Transit's total net position decreased by $11.3 million, primarily due to the implementation of GASB 68. Intercity Transit maintained approximately the same amount of fixed route service in 2015, except for grant funded express service between Tumwater and Lakewood, and Olympia to DuPont with continuing service to Seattle. Small increases in demand response service and a decrease in vanpool operations also occurred in 2015.
- Capital grants amounted to $4,224,136.
- Intercity Transit's primary source of funding is from local sales taxes. Intercity Transit's sales tax revenue increased from $30.8 million in 2014 to $33.7 million in 2015.

Overview of the Financial Statements

This discussion and analysis section serves as an introduction to Intercity Transit's basic financial statements. Intercity Transit is a stand-alone enterprise fund, and the financial statements report information using accounting methods similar to those used by private-sector businesses.

The Statement of Net Position presents information about all of Intercity Transit's assets and liabilities. The difference between assets and liabilities is reported as net position. The statement includes deferred outflows of resources representing payments made in advance of services, and deferred inflows of resources representing payments received in advance of services. When net position is compared for several years, increases and decreases may serve as a useful indicator of whether Intercity Transit's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Intercity 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 Statement of Cash Flows presents information on Intercity Transit's cash receipts, cash payments, and changes in cash and cash equivalents during the fiscal year.

The basic financial statements can be found in this report.

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 in this report.

In addition to the basic financial statements, the accompanying notes contain supporting schedules comparing revenues and expenses to the budget using a cash basis of accounting. These schedules are intended to provide additional information for analysis, but they are not a required part of the basic financial statements. These notes can be found in this report.

Intercity Transit's Financial Position

Intercity Transit's financial position, like the economy as a whole, was shaken during the great recession and slow recovery during 2007-2012, but has stabilized over the last three years. Sales tax revenue was up nearly 9% in 2015 compared to 2014. Two major concerns have always been Intercity Transit's companions. The first concern is a heavy reliance on sales tax revenue as the primary source of funding. Sales tax follows the general economic situation which results in cycles of boom and bust. The other concern is volatility in the cost of fuel. IT currently uses almost one million gallons of fuel each year, so a $1 increase in fuel costs is significant. For 2014 and 2015, Intercity Transit experienced a raise in sales tax revenues and a decrease in fuel costs so the immediate outlook is good. However, the ability to tap into capital funds under MAP21 was lost. This change means that the fleet, which historically has been funded using 80% grant funds and 20% local funds, will in the future be completely funded with local dollars. Intercity Transit's current financial reserves will allow it to weather these stresses through the next several years but the long-term outlook is tenuous.

From the Statement of Net Position:

> Current assets net of current liabilities amounted to $49.7 million for the year ended December 31, 2015 as compared to $39.5 million for 2014.

Cash reserves available to meet current and future obligations increased from $33.2 million in 2014 to $42.7 million in 2015.

As of December 31, 2015, Intercity Transit had no long-term public financing debt.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended December 31, 2015, Intercity Transit's assets and deferred outflows exceeded liabilities and deferred inflows by $68.3 million which is down from $79.6 in 2014. This reduction is due to the implementation of GASB 68, which requires for the first time, recognition of IT's long-term pension liability.

The following is a summary of Intercity Transit's net position:

Summary Statements of Net Position

	2015	2014	2013	Net increase (decrease) 2014 vs. 2015
Assets:				
Current Assets	$51,188,870	$41,839,626	$35,166,628	$9,349,244
Capital Assets	36,545,754	41,505,932	38,531,052	(4,960,178)
Total Assets	87,734,624	83,345,558	73,697,680	4,389,066
Deferred Outflows	1,884,485	0	0	1,884,485
Current Liabilities	1,479,365	2,386,823	2,069,755	(6907,458)
Long-Term Liabilities	17,327,394	1,121,914	1,098,864	16,205,480
Total Liabilities	18,806,759	3,508,737	3,168,619	15,298,022
Deferred Inflows	2,511,784	274,095	80,326	2,237,689
Net Position:				
Investment in capital assets	36,545,754	41,505,932	38,531,052	(4,960,178)
Unrestricted	31,754,812	38,056,794	31,917,683	(6,301,982)
Total Net Position	$68,300,566	$79,562,726	$70,448,735	($11,262,160)

Public transportation is a capital-intensive enterprise. Consequently, 53.5 percent of Intercity Transit's net position was invested in capital assets. Because these assets are used to provide services to citizens, they are not available for future spending.

There are no external restrictions on assets. However, Intercity Transit's Authority has designated an operating reserve equal to one fourth of the current operating budget (a ninety-day reserve). For 2015 the designated reserve was $9.3 million.

Intercity Transit's net position decreased by $11.3 million during the current fiscal year, due to the implementation of GASB 68. Key elements of this increase are shown below:

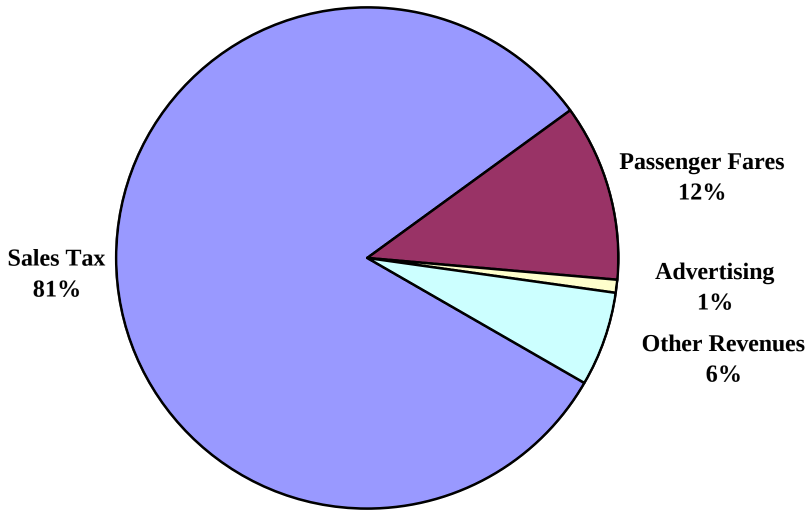
Summary Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	2013	Net increase (decrease) 2014 vs. 2015
Operating Revenues:				
Passenger Fares	$ 4,760,962	$ 4,966,682	$ 4,906,192	$ (205,720)
Advertising	298,474	425,269	321,774	(126,795)
Non-Operating Revenues:				
Sales Tax	33,696,773	30,804,103	29,381,345	2,892,670
Other revenues	2,240,644	5,988,522	5,287,913	(3,747,878)
Gain(Loss) on Capital Assets	269,279	244,992	18,116	24,287
Total Revenues	41,266,132	42,429,568	39,915,340	(1,163,436)
Expenses:				
Operations and Maintenance	25,345,777	26,037,106	25,476,662	(691,329)
General and Administrative	7,900,477	7,792,571	7,101,105	107,906
Depreciation	6,534,955	5,737,335	5,177,241	797,620
Accrued Vac/Sick Leave Exp	(134,783)	148,675	83,972	(283,458)
Total Expenses	$39,646,426	$39,715,687	$37,838,980	(69,261)
Net Income Before Contributions	1,619,706	2,713,881	2,076,360	(1,094,175)
Capital Grants/Contributions	4,224,136	6,400,110	312,194	(2,175,974)
Total Change in Net Position	5,843,842	9,113,991	2,388,554	(3,270,149)
Net Position–Beginning of Year	62,456,724	70,448,735	68,060,181	(7,992,011)
Change in Accounting Principle	(17,106,002)			
Net Position – End of Year	$68,300,566	$79,562,726	$70,448,735	$ (11,262,160)

Revenues

During 2015, revenues decreased by $1.2 million, or 2.7 percent, while capital contributions decreased by $2.2 million. Revenues from major sources are illustrated below (Source: Summary Statement of Revenues):

2015
Revenues by Source



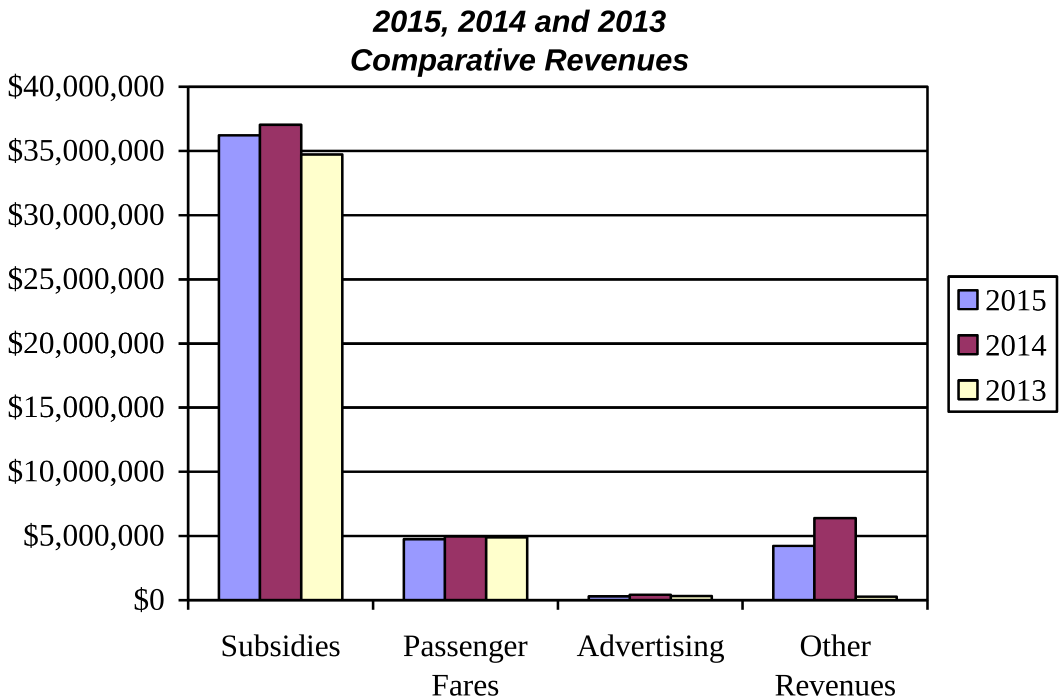
Total operating revenue sources (passenger fares and advertising) dcreased between 2014 and 2015 by $205,720 (4.1% decrease). Sales tax revenues increased by $2.9 million from 2014, (9.4% increase). Other revenue sources (operating grants, interest income, miscellaneous revenues and gain/loss on disposal of assets) decreased by $3,723,591 (59.7% decrease).

Passenger fares decreased slightly in 2015. Total ridership also decreased slightly from 5,374,000 in 2014 to 5,132,000 in 2015, a 4.5% decrease.

Other revenues decreased by $3.7 million or 59.7%. There was a $3.9 million decrease in Federal/State operating assistance, an increase of $107,000 in interest earnings, miscellaneous income showed a minor increase and revenue from the disposal of assets increased between by $24,000 between 2015 and 2014.

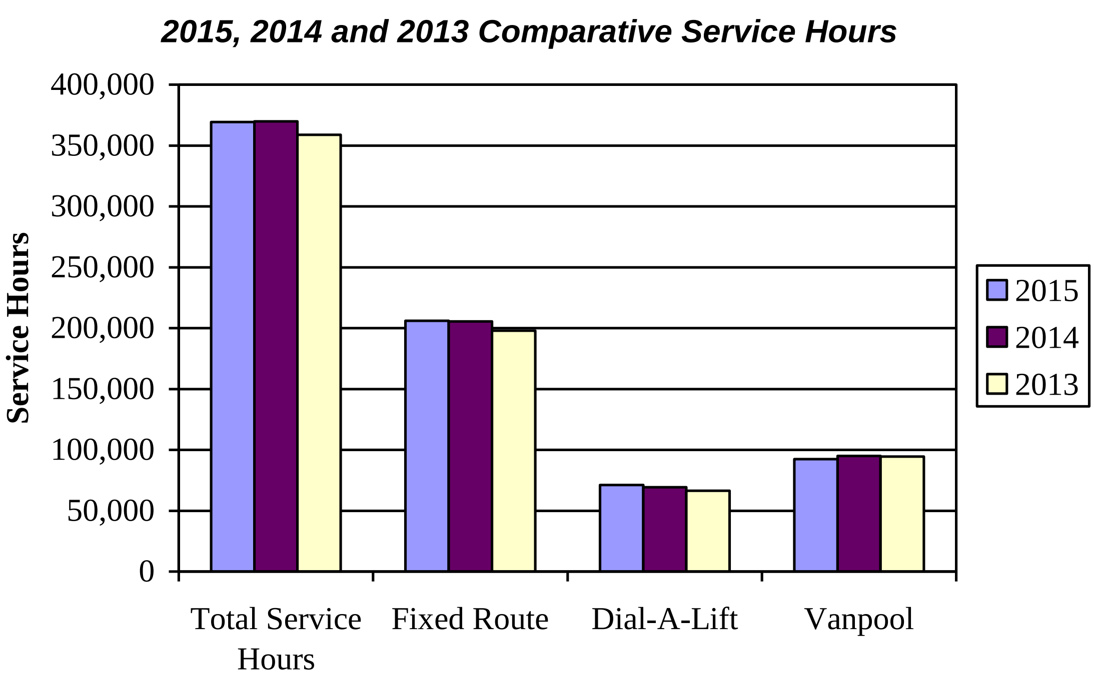
Furthermore, advertising revenue decreased by $24,000 from 2014 to 2015.

The following graph compares revenues by function for 2015, 2014 and 2013.



Expenses

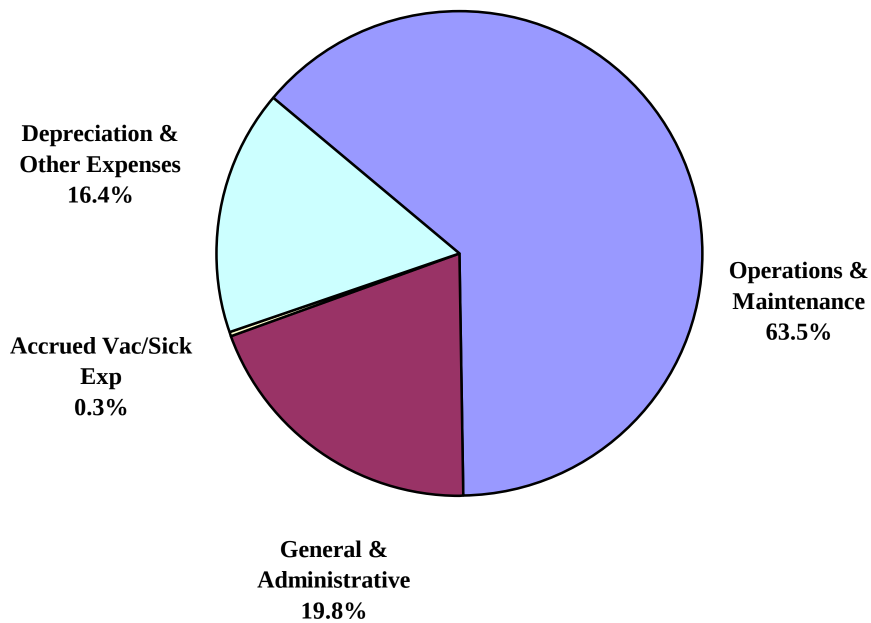
Per the Statement of Expenses, 2015 expenses decreased by $69,000 million, or 0.1 percent.



Total operating expense, excluding depreciation, is significantly impacted by the number of hours of service Intercity Transit provides. Total service hours for all modes were essentially flat in 2015.

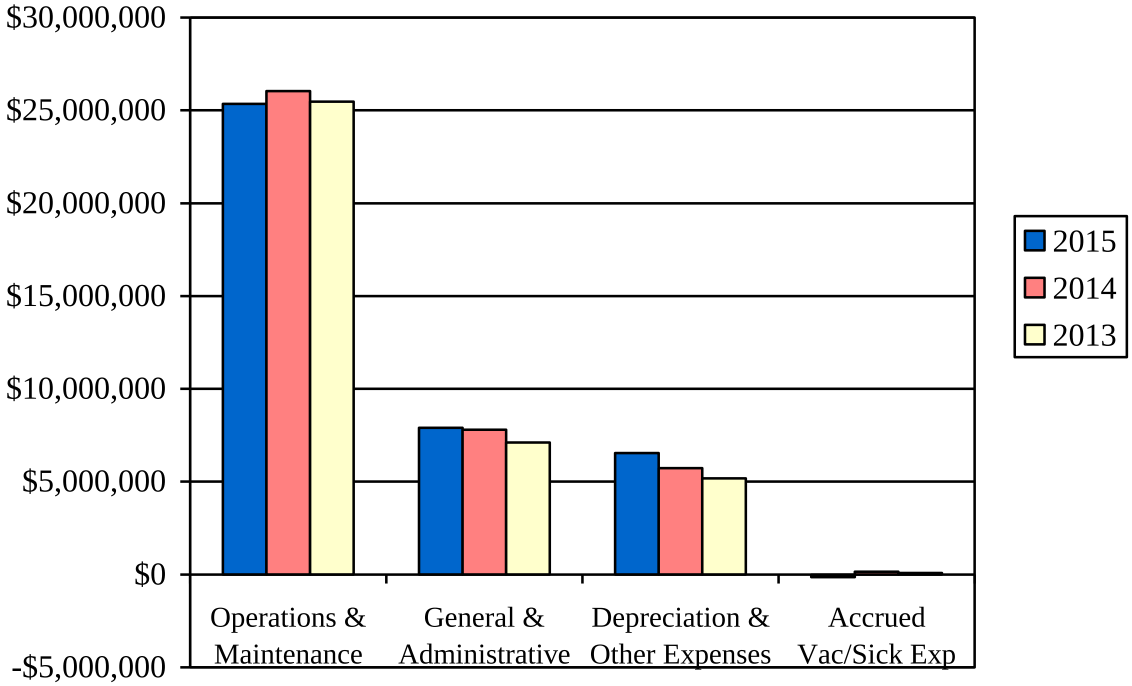
Expenses by major function are shown below:

2015 Expenses by Function



The graph on the following page compares expenses by function for 2015, 2014 and 2013.

2015, 2014 and 2013 Comparative Expenses



Operations and maintenance expenses decreased by $691,000 or 2.7 percent.

General and administrative expenses increased by $108,000 or 1.4 percent.

Depreciation expenses increased $798,000 or 13.9%.

Capital Assets

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

Intercity Transit's investment in capital assets as of December 31, 2015 amounted to $36.5 million, net of accumulated depreciation. Capital assets decreased $5.0 million or 7.7% during 2015. The increase consisted of $600,000 in net additions and $5.5 million increase in accumulated depreciation.

Major acquisitions during 2015 included:

- Vanpool vans ($1 million)
- Underground storage tanks ($275,000)
- IS equipment ($240,000)

For additional information on Intercity Transit's capital assets please see Note 4 in the notes to the financial statements included with this report.

Economic Factors and Future Outlook

Thurston County's March unemployment rates for 2014, 2015 and 2016 compared to Washington State and the nation as a whole are as follows:

	March 2016	March 2015	March 2014
Thurston County	6.1%	6.0%	6.9%
Washington State	5.8%	5.9%	6.3%
United States	5.0%	5.6%	6.7%

The 2016 budget is summarized below:

Operating Fund Revenues	$ 5,369,080
Capital Grants and Contributions	8,868,962
Non-Transportation Revenue	701,466
Subsidies (Sales Tax/Operating Assistance)	38,288,446
Total Budgeted Revenues	$53,227,954
Operating Expenses	$40,007,803
Capital Projects	18,833,508
Total Expenditures	$58,841,311

Requests for Information

This financial report is designed to provide a general overview of Intercity Transit 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:

Leslie Williamson
Intercity Transit
P.O. Box 659
Olympia, WA 98507-0659

INTERCITY TRANSIT
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015

		2015
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents	$	42,707,771
Receivables		6,422,169
Due From Government Units		1,196,961
Inventories		875,948
TOTAL CURRENT ASSETS	**$**	**51,202,849**
NONCURRENT ASSETS		
CAPITAL ASSETS NOT BEING DEPRECIATED		
Land	$	5,331,565
Work In Process		3,126,609
CAPITAL ASSETS BEING DEPRECIATED		
Facilities		23,073,492
Revenue Equipment		42,167,937
Communication Equipment		5,742,209
Administrative Vehicles		578,212
Shop Equipment		2,073,886
Office/IS Equipment/Software		1,442,304
Miscellaneous Equipment		707,286
(Less) Total Accumulated Depreciation		(47,711,725)
TOTAL NONCURRENT ASSETS	**$**	**36,531,775**
TOTAL ASSETS	**$**	**87,734,624**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows on Pensions	$	1,884,485
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$**	**1,884,485**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$**	**89,619,109**
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$	769,835
Accrued Wages & Benefits		635,358
Accrued Vacation		74,172
TOTAL CURRENT LIABILITIES	**$**	**1,479,365**
NONCURRENT LIABILITIES		
Accrued Vacation/Sick Leave	$	1,538,099
Pension	$	15,789,295
TOTAL NONCURRENT LIABILITIES	**$**	**17,327,394**
TOTAL LIABILITIES	**$**	**18,806,759**
DEFERRED INFLOWS OF RESOURCES		
Payments Received in Advance		95,371
Deferred Inflows on Penions		2,416,413
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**2,511,784**
NET POSITION		
Investment in Capital Assets	$	36,531,775
Unrestricted		31,768,791
TOTAL NET POSITION	**$**	**68,300,566**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

INTERCITY TRANSIT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDING DECEMBER 31, 2015

		2015
OPERATING INCOME		
Fares	$	3,014,798
Vanpool		1,746,164
Advertising		298,474
TOTAL OPERATING REVENUE	**$**	**5,059,436**
OPERATING EXPENSES		
Operations	$	17,250,329
Vehicle Maintenance		6,631,435
Non-Vehicle Maintenance		1,464,013
General & Administration		7,900,477
Depreciation		6,534,955
Accrued Vacation Expense		(113,210)
Accrued Sick Leave Expense		(21,573)
TOTAL OPERATING EXPENSES	**$**	**39,646,426**
OPERATING INCOME (LOSS)	**$**	**(34,586,990)**
NON-OPERATING REVENUES (EXPENSES)		
Sales Tax	$	33,696,773
Federal/State Operating Assistance		5,453,738
Interest Income		274,687
Miscellaneous		122,117
Gain (Loss) on Disposal of Assets		269,279
TOTAL NON-OPERATING REVENUES (EXPENSES)	**$**	**39,816,594**
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	**$**	**5,229,604**
Capital Contributions		614,238
CHANGE IN NET POSITION	**$**	**5,843,842**
NET POSITION - BEGINNING, AS RESTATED	**$**	**62,456,724**
NET POSITION, ENDING	**$**	**68,300,566**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INTERCITY TRANSIT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 2015

		2015
OPERATING ACTIVITIES:		
Cash Received From Customers	$	5,021,014
Payments for Wages & Benefits		(26,288,395)
Payments for Operating Expenses		(8,167,748)
Cash Received From Advertising Income		319,307
NET CASH USED BY OPERATING ACTIVITIES	**$**	**(29,115,822)**
NONCAPITAL FINANCING ACTIVITIES		
Cash Received From Sales Tax	$	33,189,152
Cash Received From Operating Grants		6,159,397
NET CASH PROVIDED FROM NONCAPITAL ACTIVITIES	**$**	**39,348,549**
CAPITAL & RELATED FINANCING ACTIVITIES		
Capital Contributed by Federal Agencies	$	438,885
Capital Contributed by State/Local Agencies		0
Cash Received From Sale of Capital Assets		269,279
Acquisition of Capital Assets		(1,680,909)
NET CASH USED FOR CAPITAL & RELATED ACTIVITIES	**$**	**(972,745)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest on Investments	$	253,154
NET CASH PROVIDED BY INVESTING ACTIVITIES	**$**	**253,154**
NET INCREASE IN CASH & CASH EQUIVALENTS		**9,513,136**
CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR	**$**	**33,194,635**
CASH & CASH EQUIVALENTS - END OF THE YEAR	**$**	**42,707,771**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

For the year ending December 31, 2015 there were no noncash investing, capital or financing activities.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INTERCITY TRANSIT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 2015

RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

		2015
NET OPERATING LOSS	**$**	**(34,586,990)**
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	$	6,534,955
Misc Non-Operating Income		122,117
Pension Expense		(784,779)
CHANGE IN ASSETS AND LIABILITIES:		
Decrease in Miscellaneous Accounts Receivable		130,253
Increase in Inventories		(174,752)
Decrease in Accrued Vacation Payable		(113,210)
Decrease in Accrued Sick Leave Payable		(21,573)
Increase in Accounts Payable		313,568
Decrease in Wages and Benefits Payable		(563,927)
Increase in Deferred Inflows		28,516
TOTAL ADJUSTMENTS	**$**	**5,471,168**
NET CASH USED BY OPERATING ACTIVITIES	**$**	**(29,115,822)**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INTERCITY TRANSIT

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

Intercity Transit was incorporated in 1981 and operates under the laws of the state of Washington applicable to a public transportation benefit area. The financial statements of Intercity Transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

The following summary of the significant accounting policies is presented to assist the reader. These notes should be viewed as an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Entity:

Intercity Transit is a special purpose government which provides fixed route, demand response and vanpool services to the general public. It is governed by a nine member board consisting of elected officials, citizen representatives and a labor representative. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Intercity Transit has no component units.

B. Basis of Accounting and Reporting:

Intercity Transit's accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

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

Intercity Transit consists of a single enterprise fund and uses the full-accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and become measurable; and expenses are recognized in the period incurred, if measurable.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operation. Intercity Transit's principal operating revenues are charges to customers in the form of bus and vanpool fares. Operating expenses include the cost of providing transit service, administration expenses, depreciation on capital assets, and gain/loss on sale of assets. Tax revenue, grants used to finance operations, interest, and expenses not related to the provision of transit service are reported as non-operating revenues and expenses. Accrued revenues include sales tax, state and federal subsidies, and interest earnings. Capital grant revenues are accrued in the amount of reimbursable liabilities incurred as of year end.

C. Budgetary Data:

a. The annual budget is prepared on the same basis as the statements with the exception of depreciation and accrued vacation and sick leave expense. These are items not requiring cash outlay.

b. Appropriations lapse at year-end.

c. Expenses cannot exceed appropriations at the total budget level. Resolution No. 05-2014 set the total 2015 budgeted revenues at $48,345,400 and expenses at $55,114,240. Actual revenues, including capital grants, were $45,490,268. Actual expenses and capital outlay less depreciation and accrued vacation/sick leave expense were $34,821,033.

d. A resolution is required by Intercity Transit if amendments are needed to the original budget. No amendments were made to the 2015 budget.

Detail of budgeted versus actual amounts are shown on the following page.

SCHEDULE OF REVENUES AND NON-REVENUES: BUDGET VERSUS ACTUAL

Year Ended December 31, 2015

	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	$ 4,906,530	$ 4,760,962	$ (145,568)
Advertising	344,655	298,474	(46,181)
Interest Income	553,220	274,687	(278,533)
Sales Tax	31,209,000	33,696,773	2,487,773
Operating/Capital Subsidies	11,148,662	6,067,976	(5,080,686)
Miscellaneous	183,333	122,117	(61,216)
Gain on Disposal of Assets	-	269,279	269,279
TOTAL	**$48,345,400**	**$45,490,268**	**($2,855,132)**

SCHEDULE OF EXPENSES AND EXPENDITURES: BUDGET VERSUS ACTUAL

Year Ended December 31, 2015

	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Operations	$ 18,603,837	$ 17,250,329	$ 1,353,508
Vehicle Maintenance	9,325,390	6,631,435	2,693,955
Non-Vehicle Maintenance	1,973,963	1,464,013	509,950
General & Administration	9,303,443	7,900,477	1,402,966
Capital Purchases	15,907,607	1,574,779	14,332,828
Accrued Vac/Sick Leave Expense	-	(134,783)	134,783
Depreciation	-	6,534,955	(6,534,955)
TOTAL*	**$55,114,240**	**$41,221,205**	**$13,893,035**

*Expenditures in excess of revenues were funded by reserves.

A reconciliation of the revenue and expenditures shown on the Budget vs. Actual Schedules and the Statement of Revenues, Expenses and Changes in Net Position is shown on the following page:

REVENUES		EXPENSES	
Passenger Fares	$ 4,760,962	Operations	$ 17,250,329
Advertising	298,474	Vehicle Maintenance	6,631,435
Investment Interest	274,687	Non-Vehicle Maintenance	1,464,013
Miscellaneous	122,117	General & Administrative	7,900,477
Operating Subsidies	35,540,613	Accrued Vac/Sick Lv Expense	(134,783)
Gain on Disposal of Assets	269,279	Depreciation	6,534,955
TOTAL	**$41,266,132**	**TOTAL**	**$39,646,426**
Revenues From the Budget to Actual Schedule		**Expenditures From the Budget to Actual Schedule**	
Capital Grants	4,224,136	Capital Purchases	1,574,779
TOTAL	**$45,490,268**	**TOTAL**	**$41,221,205**

D. Cash and Cash Equivalents:

Cash equivalents are composed of all highly liquid investments with an original maturity of three months or less. Cash consists of cash on hand; petty cash; and demand deposits.

E. Investments:

Investments are carried at cost, adjusted for purchase discounts or premiums. The discounts or premiums are amortized over the holding period of the investments. See Note 3 for further information.

F. Receivables

At December 31, 2015 Intercity Transit had the following receivables:

Accounts Receivable	
Miscellaneous	$ 196,410
Sales Tax	6,169,225
Advertising	0
Interest in Investments	56,534
TOTAL	**$ 6,422,169**
Due from Government Units	**$ 1,182,982**

G. Inventories:

Inventories consist of vehicle maintenance supplies, fuel, lubricants, and oils. They are valued using the average cost method. A physical inventory was taken on May 1, 2015 with appropriate adjustments made to recorded inventories.

H. Capital Assets:

Property, plant and equipment with individual values of at least $5,000 and a useful life of three years are stated at historical cost or if unknown, at fair market value. Donated capital assets are valued at their estimated market value. Improvements, which add to the value of or extend the life of the asset, are capitalized. Repairs and maintenance are expensed as incurred. Labor and other expenses incurred in the acquisition and construction of capital assets are capitalized. See Note 4 for further details.

I. Restricted Assets:

As of December 31, 2015, there were no restricted assets designated for specific purposes.

J. Accumulated Unpaid Vacation and Sick Leave:

Transit operators accumulate vacation benefits under the agreement between Intercity Transit and Amalgamated Transit Union (ATU), Local Division 1384. Maintenance employees accumulate vacation benefits under the agreement between Intercity Transit and International Association of Machinists and Aerospace Workers (IAM), Lodge No. 160. All other employees accumulate vacation benefits under Intercity Transit Policy HR-3503. Based upon the provisions of these documents, vacation benefits are accumulated per the following schedules:

Transit Operators	
Years of Service	Vacation Hours
1	112
2	120
3-4	128
5	136
6-7	144
8-10	152
11-12	160
13-16	168
17-18	176
19	184
20-25	192
26+	200

Maintenance Workers	
Years of Service	Vacation Hours
0-12 months	96
2nd year	104
3-4	112
5	120
6-7	128
8-9	136
10	144
11-12	152
13-16	160
17-18	168
19	176
20-25	184
26+	192

Other Employees	
Years of Service	Vacation Hours
1	112
2	120
3-4	128
5	136
6-7	144
8-10	152
11-12	160
13-16	168
17-18	176
19	184
20-25	192
26+	200

Non-represented employees may accumulate 360 hours of vacation; members of IAM may accumulate 340 hours of vacation; and members of ATU may accumulate 360 hours of vacation. All employees may accumulate 960 hours of sick leave. At termination employees receive cash for accrued vacation, and may receive partial pay for sick leave based on their years of service and the number of hours accrued. Intercity Transit records unpaid leave for compensated absences as an expense and liability when incurred.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. 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 - STEWARDSHIP/COMPLIANCE/ACCOUNTABILITY

As of December 31, 2015 there were no excess of expenditures over appropriations; and no violations of finance related legal and contractual provisions.

NOTE 3 - DEPOSITS AND INVESTMENTS

Composition of cash and cash equivalents are shown below:

Cash on Hand	$ 9,150
Demand Deposits	9,500
Investments having original maturities of less than three months	42,689,121
Cash and Cash Equivalents	**$42,707,771**

All bank deposits are entirely insured under FDIC limitations.

As required by State law, all investments of Intercity Transit's funds are obligations of the US. Government, the Thurston County Treasurer's Investment Pool, bankers' acceptance, or deposits with Washington State banks and savings and loan institutions. As of December 31, 2015 all the transit's investments are in the Thurston County Treasurer's Investment Pool.

The Thurston County Investment Pool (TCIP) operates on an amortized cost-book value basis rather than a net asset value (NAV) basis. All funds deposited in the pool are returned to the participant at full face value without regard to current market values of the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's cash in the pool. Investments are stated at amortized cost.

GASB Statement 31, relating to adjustments to financial statements to reflect the difference between amortized cost and market value, has not been implemented by the Thurston County Treasurer's Office due to its determination of immateriality to the county's financial statements.

The Thurston County Treasurer serves as the transit's treasurer. The county issues a publicly available annual financial report that includes financial statements and required supplementary information. The report may be obtained by writing to:

Thurston County Auditor
2000 Lakeridge DR SW
Olympia, WA 98502

Per GASB Statement 3, investments in pools managed by another government and in mutual funds need not be categorized as to credit risk.

NOTE 4 - CAPITAL ASSETS AND RELATED DEPRECIATION

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

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known), or estimated market value for donated assets.

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

Upon retirement of a capital asset, the cost and the related allowance for depreciation is removed from the property accounts. The gain or loss is reflected in non-operating income.

Costs incurred in the planning and design of projects are deferred until programs are approved or abandoned. At that time, the related costs are transferred to the asset accounts or charged to expense as appropriate. Items of plant and equipment, which are incomplete, unclassified or otherwise not in service, and therefore not subject to depreciation, are deferred until they are placed in service.

Depreciation expense is charged to operating expenses to allocate the cost of capital assets over their estimated useful lives, using the straight-line method. Individual useful lives are assigned to new assets as follows:

Land	Not Depreciated
Buildings, Facilities	10 to 30 years
Revenue Vehicles	4.5 to 12 years
Other Vehicles	3 to 5 years
Equipment, Furniture	3 to 5 years

A summary of changes in plant, property and equipment for 2015 is shown on the following page.

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	Balance 12/31/14	Increases	Decreases	Balance 12/31/15
Capital assets, not being depreciated				
Land	$5,331,565			$5,331,565
Work in Process	2,039,987	1,328,731	242,109	3,126,609
Total capital assets, not being depreciated	**$7,371,552**	**1,328,731**	**242,109**	**8,458,174**
Capital assets, being depreciated				
Administrative Vehicles	578,212			578,212
Shop Equipment	1,842,970	235,261	4,345	2,073,886
Office Equipment	11,505			11,505
IS Equipment/Software	1,211,089	238,916	19,206	1,430,799
Miscellaneous Equipment	707,286			707,286
Facilities	23,073,492	13,979		23,087,471
Revenue Equipment	43,113,958		946,021	42,167,937
Communication Equipment	5,742,209			5,742,209
Total capital assets, being depreciated	**76,280,721**	**488,156**	**969,572**	**75,799,305**
Less accumulated depreciation for:				
Administrative Vehicles	477,080	40,014		517,094
Shop Equipment	1,210,490	180,737	4,345	1,386,882
Office Equipment	11,505			11,505
IS Equipment/Software	825,483	138,723	19,206	945,000
Miscellaneous Equipment	670,884	34,401		705,285
Facilities	13,226,177	778,270		14,004,447
Revenue Equipment	20,664,216	4,681,108	946,021	24,399,303
Communication Equipment	5,060,507	681,702		5,742,209
Total accumulated depreciation	**42,146,342**	**6,534,955**	**969,572**	**47,711,725**
Total capital assets, being depreciated, net	**34,134,379**			**28,087,580**

Work in progress as of 12/31/15 consists of the following projects:

Land	$ 0
Facilities	1,128,741
Equipment	1,997,868
TOTAL	**$3,126,609**

NOTE 5 - PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$15,789,295
Pension assets	$0
Deferred outflows of resources	$1,884,485
Deferred inflows of resources	$2,511,784
Pension expense/expenditures	($784,778)

State Sponsored Pension Plans

All Intercity Transit employees, except for personnel working less than 70 hours per month in five months in a calendar year, participate in the Public Employees' Retirement Systems (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov, or may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380;

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

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 two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. 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 non-duty 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 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 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

Intercity Transit's actual contributions to the plan were $29,317 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC 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 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 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 three 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 five 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 non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. 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

The **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 UAAL 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 2015 were as follows:

PERS Plan 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

Intercity Transit's actual contributions to the plan were $2,940,828 for the year ended December 31, 2015.

Actuarial Assumptions

The total pension liability (TPL) 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 (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL 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% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. 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.

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.

- The OSA 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 OSA 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 OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

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 except LEOFF 2, which has assumed 7.5 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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan 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 on the DRS pension plan investments of 7.5 percent 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 WSIB's capital market assumptions. The 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, are summarized in the table below. 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	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents Intercity Transit's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Intercity Transit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate. Numbers are presented in thousands.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$10,317	$8,474	$6,889
PERS 2/3	$21,390	$7,315	($3,461)

Pension Plan Fiduciary Net Position

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

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, Intercity Transit reported a total pension liability of $15,789,295 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$8,474,211
PERS 2/3	$7,3015,084

At June 30, Intercity Transit's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2014	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.165187%	.162002%	-.003185%
PERS 2/3	.205917%	.204729%	-.001188%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015, Intercity Transit recognized pension expense as follows:

	Pension Expense
PERS 1	($358,777)
PERS 2/3	($426,001)
TOTAL	($784,778)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments		$463,632
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$9,992	
TOTAL	$9,992	$463,632

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$777,596	
Net difference between projected and actual investment earnings on pension plan investments		$1,952,711
Changes of assumptions	$11,786	
Changes in proportion and differences between contributions and proportionate share of contributions	$38,226	
Contributions subsequent to the measurement date	$1,046,885	
TOTAL	$1,874,493	$1,952,781

Deferred outflows of resources related to pensions resulting from Intercity Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as:

Year ended December 31:	PERS 1
2016	$105,371
2017	$105,371
2018	$105,371
2019	$ 105,371
2020	$ 42,148
Thereafter	$ 0

Year ended December 31:	PERS 2/3
2016	$255,721
2017	$255,721
2018	$255,721
2019	$255,721
2020	$102,289
Thereafter	$ 0

The Transit's contribution in 2015 represents its full liability with the exception of an unknown contingent liability for certain employees. Intercity Transit's leave policy allows for the accumulation of 340 or more hours of leave for all employees. PERS is liable for only 30 days of leave. Certain employees are also eligible for partial payment for sick leave based on their years of service and the number of hours accrued. PERS is not liable for payment of sick leave upon retirement. A lump sum payment may be required if an employee retires with more than 30 days of vacation, and/or receives payment for sick leave, and is a member of PERS Plan I. Currently, one employee has exceeded 30 days of accrued vacation, two employees are eligible for sick leave payout, and are members of PERS 1. Intercity Transit's estimated liability for these employees is immaterial and will not have any significant effect on its financial position.

NOTE 6 - OUTSTANDING DEBT

Intercity Transit did not engage in any short term debt activities in 2015 and had no outstanding debt as of December 31, 2015, other than the current accounts payable, wages and benefits payable, and accrued vacation and sick leave payable per the Statement of Net Position.

NOTE 7 - SEGMENT INFORMATION

Intercity Transit operates as a public transportation entity. No other operation other than public transportation services is involved. Exterior and interior advertising is offered on the buses but represents an insignificant portion of the operation.

NOTE 8 - PUBLIC ENTITY RISK POOLS

A. Washington State Transit Insurance Pool

In December of 1988, Intercity Transit signed an interlocal government agreement per Chapters 48.62 and 39.34 of the Washington State RCWs, with seven public Washington 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. Intercity Transit's commitment to the Pool was a minimum of four years. Currently, there are 24 members in the transit insurance pool.

A board of Directors consisting of a representative of each member system governs the Pool. Member systems include: Intercity Transit, Grays Harbor Transit, Kitsap Transit, Ben Franklin Transit, Clallam Transit, Jefferson Transit, Community Transit, Pacific Transit, Link Transit, Island Transit, Mason Transit, Whatcom Transit, Grant Transit and Skagit Transit, Columbia County Transit, CUBS, Everett Transit, Pullman Transit, Spokane Transit, Twin Transit, Valley Transit, Asotin Transit, Pierce Transit and Yakima Transit.

The purpose of the Pool is stabilization of present insurance costs and reduction of costs in the long term future.

The Pool self insures for the first $1,500,000 of each auto and general liability claim and provides excess insurance with private carriers for up to 10.5 million above the initial $1,500,000 on a per claim basis. In addition to general liability coverage, Intercity Transit obtains the following insurance products through WSTIP: Crime, Pollution, Property, Public Officials Liability and Underground Storage Tank insurance.

There have been no insurance settlements that exceeded the amount of insurance coverage within the past three years.

A complete annual report, including financial statements, may be obtained by writing to:

WSTIP
2629 12th Ct SW
Olympia, WA 98502

B. Risk Management

The transit maintains insurance against most normal hazards. There have been no insurance settlements that exceeded the amount of insurance coverage within the past three years.

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE

Intercity Transit implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. GASB 68 requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual based financial statements.

Intercity Transit recorded a reduction to the beginning net position balance in the amount of $17,106,001 as a result of implementing GASB Statement No. 68.

NOTE 10 - SIGNIFICANT CONTINGENCIES

Intercity Transit has various unresolved claims and suits against it as of December 31, 2015. Management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of these actions will not have any significant effect on the Agency's financial position or result of operations.

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

Intercity Transit
Schedule of Proportionate Share of the Net Pension Liability
WA State Public Employees' Retirement System (PERS) Plan 1
As of December 31, 2015
Last 10 Fiscal Years*

	2015
Employer's proportion of the net pension liability (asset)	0.162002%
Employer's proportionate share of the net pension liability	8,474,211
Employer's covered employee payroll	181,321
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	2.14%
Plan fiduciary net position as a percentage of the total pension liability	59.10%

** This schedule is to be built prospectively until it contains ten years of data*

Intercity Transit
Schedule of Proportionate Share of the Net Pension Liability
WA State Public Employees' Retirement System (PERS) Plan 2/3
As of December 31, 2015
Last 10 Fiscal Years*

	2015
Employer's proportion of the net pension liability (asset)	0.204729%
Employer's proportionate share of the net pension liability	7,315,084
Employer's covered employee payroll	18,644,080
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	254.87%
Plan fiduciary net position as a percentage of the total pension liability	89.20%

** This schedule is to be built prospectively until it contains ten years of data*

Intercity Transit
Schedule of Employer Contributions
WA State Public Employees' Retirement System (PERS) Plan 1
As of December 31, 2015
Last 10 Fiscal Years*

	2015
Statutorily or contractually required contributions	29,314
Contributions in relation to the statutorily or contractually required contributions	29,314
Contribution deficiency (excess)	0
Covered employer payroll	181,321
Contributions as a percentage of covered employee payroll	16.17%

** This schedule is to be built prospectively until it contains ten years of data*

Intercity Transit
Schedule of Employer Contributions
WA State Public Employees' Retirement System (PERS) Plan 2/3
As of December 31, 2015
Last 10 Fiscal Years*

	2015
Statutorily or contractually required contributions	2,754,262
Contributions in relation to the statutorily or contractually required contributions	2,754,262
Contribution deficiency (excess)	0
Covered employer payroll	18,644,080
Contributions as a percentage of covered employee payroll	14.77%

** This schedule is to be built prospectively until it contains ten years of data*

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation	Highway Planning and Construction	20.205	LA-8307	-	36,324	36,324	-	
			Total Highway Planning and Construction Cluster:	**-**	**36,324**	**36,324**	-	
Federal Transit Cluster								
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Capital Investment Grants	20.500	WA-04-0038	-	3,973	3,973	-	
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-0600	-	514,534	514,534	-	
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-0601	-	3,095,364	3,095,364	-	
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-0072	-	211,146	211,146	-	
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-0576	-	610,265	610,265	-	
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-0071	-	113,526	113,526	-	
			Total CFDA 20.507:	**-**	**4,544,835**	**4,544,835**	-	
			Total Federal Transit Cluster:	**-**	**4,548,808**	**4,548,808**	-	
Transit Services Programs Cluster								
Federal Transit Administration (fta), Department Of Transportation	Job Access And Reverse Commute Program	20.516	GCB1610	-	153,843	153,843	-	
			Total Transit Services Programs Cluster:	**-**	**153,843**	**153,843**	-	
			Total Federal Awards Expended:	**-**	**4,738,975**	**4,738,975**	**-**	

The accompanying notes are an integral part of this schedule.

INTERCITY TRANSIT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditure of Federal Awards is prepared on the same basis of accounting as the transit's financial statements. Intercity Transit uses the accrual basis of accounting.

NOTE 2- PROGRAM COSTS

The amounts shown as current year expenses represent only the federal portion of the program costs. Actual program costs, including Intercity Transit's portion, may be more than shown.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov