Washington State Auditor's Office

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Financial Statements Audit Report

Clallam County Public Transportation Benefit Area
(Clallam Transit System)

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

Published November 28, 2016

Report No. 1018004

Washington State Auditor's Office

November 28, 2016

Board of Directors
Clallam Transit System
Port Angeles, Washington

Report on Financial Statements

Please find attached our report on the Clallam Transit System's financial statements.

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

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Clallam Transit System
Clallam County
January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Clallam Transit System. The State Auditor's Office has reviewed the status as presented by the Transit Authority.

Audit Period: 1/1/2014 – 12/31/2014	**Report Ref. No:** 1015080	**Finding Ref. No:** 2014-001
Finding Caption: The Transit's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.		
Background: Board members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Authority to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the Authority's ability to produce reliable financial statements.		
Status of Corrective Action: ☒ Fully Corrected ☐ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid		
Corrective Action Taken: *Clallam Transit System (CTS) has made great strides in improving internal controls over the financial statements. The 2014 audit finding specifically addressed the inaccuracy of the capital assets and related accumulated depreciation. Subsequent to the audit, a complete physical inventory was taken of the capital assets. This inventory was then compared to the fixed asset software module (FASM) and the module was adjusted to match the inventory. Once the FASM matched the inventory, the totals were taken from the module for each class of assets on the Statement of Net Position and the amounts were adjusted accordingly in the general ledger in both the capital accounts as well as the accumulated depreciation accounts. The net impact was approximately $47,000 which was posted as non-transportation income (miscellaneous income) in 2015.* *In addition, all journal entries made through the year were submitted to a consultant for review. These journal entries were reviewed and signed off by the consultant. This same consultant reviewed the financial statements which were prepared by the Finance Manager.*		

During 2015, additional controls were put into place in the areas of payroll, accounts payable and accounts receivable. Each of these tasks is now shared between two staff members who trade off doing the work and reviewing the other's work. In addition, staff has been working on understanding the work processes and identifying areas in which additional controls might be needed.

CTS is currently in the process of hiring an accountant which will allow the agency to provide more timely internal controls. This position will be involved with internal review and controls for journal entries, tighter controls over balance sheet account reconciliations, and review of processes where increased controls are needed. The qualifications necessary for this position include an understanding of GAAP as well as GASB, with additional training available through CTS.

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

Clallam Transit System
Clallam County
January 1, 2015 through December 31, 2015

Board of Directors
Clallam Transit System
Port Angeles, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clallam Transit System, Clallam County, Washington, as of and for the year ended December 31, 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 November 22, 2016. As discussed in Note 11 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.

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 X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

November 22, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam Transit System
Clallam County
January 1, 2015 through December 31, 2015

Board of Directors
Clallam Transit System
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clallam Transit System, Clallam County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 11.

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 Clallam Transit System, 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 11 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 12 through 18, information on postemployment benefits other than pensions on page 37 and pension plan information on pages 38 through 39 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 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 X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

November 22, 2016

FINANCIAL SECTION

Clallam Transit System
Clallam County
January 1, 2015 through December 31, 2015

REQUIRED SUPPLEMENTARY INFORMATION

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BASIC FINANCIAL STATEMENTS

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REQUIRED SUPPLEMENTARY INFORMATION

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CLALLAM COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA CLALLAM TRANSIT SYSTEM
MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended December 31, 2015

This section of the Annual Financial Report presents management's overview and analysis of Clallam Transit System's (CTS) financial performance for the fiscal year ended December 31, 2015. This section should be read in conjunction with CTS's financial statements and accompanying notes which follow this section.

FINANCIAL HIGHLIGHTS

During 2015, CTS's net position decreased $4,117,746 due to a number of factors. The majority of the decrease, which is $3,441,956, is a direct result of a new Government Accounting Standards Board (GASB) Statement. GASB Statement 68 requires all government entities to report in the financial statements their portion of the future liability of a group pension plan. CTS is an active participant in Washington's state-sponsored pension plan (Department of Retirement Public Employees' Retirement System) (See Note 5). The remaining decrease in Net Position of $675,790 is due to the non-cash depreciation expense of $1,788,662 and the non-cash Other Post-Employment Benefits (OPEB) medical insurance coverage cost of $533,912 (see Note 10) exceeding the grant revenue of $920,096 and the sales tax revenue increase. While CTS's Board has designated a portion of cash and investments for certain purposes (see Note 2), there exist no outside restrictions, commitments, or other limitations that significantly affect the availability of fund resources (i.e. unrestricted net assets) for future use.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how CTS's net assets changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, sales tax collected by the State but not yet remitted to Clallam Transit, and earned but unused vacation leave).

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

Cash flows from operating activities
Cash flows from non-capital financing activities
Cash flows from capital and related financing activities
Cash flows from investing activities

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

FINANCIAL ANALYSIS

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

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

SUMMARY OF FINANCIAL STATEMENTS

SUMMARY STATEMENT OF NET POSITION

ASSETS:	2015	2014	Net Increase (decrease) 2015 vs. 2014	
Current Assets:				
Cash and Cash Equivalents	$ 2,642,573	$ 2,531,675	$ 110,898	4%
Other Current Assets	4,016,005	3,356,275	659,730	20%
Capital Assets Net of Depreciation	24,500,433	25,666,143	(1,165,710)	-5%
Total Assets	$ 31,159,011	$ 31,554,093	$ (395,082)	-1%
DEFERRED OUTFLOWS OF RESOURCES	$ 360,097	$ -	360,097	
LIABILITIES:				
Current Liabilities	481,882	429,773	52,109	12%
Noncurrent Liabilities	5,471,890	1,992,679	3,479,211	175%
Total Liabilities	$ 5,953,772	$ 2,422,452	$ 3,531,320	146%
DEFERRED INFLOWS OF RESOURCES	$ 551,441	$ -	551,441	
NET POSITION:				
Net Invested in Capital Assets	$ 24,500,433	$ 25,666,143	$ (1,165,710)	-5%
Unrestricted Net Assets	513,462	3,465,498	(2,952,036)	-85%
Total Net Position	**$ 25,013,895**	**$ 29,131,641**	**$ (4,117,746)**	-14%

For the year ended December 31, 2015, assets exceed liabilities by $25 million. The $4.12 million reduction in Net Position is primarily due to CTS's compliance with the new GASB Statement No. 68. (See Note 5)

A majority of the Transit's net position (97.9%) represents its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the net position balance is not available for future spending.

OPERATING ACTIVITY

SUMMARY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2015	2014	Net Increase (decrease) 2015 vs. 2014	
Operating Revenue	$ 1,099,429	$ 1,215,047	(115,618)	-10%
Operating Expenses	9,637,138	9,094,050	543,088	6%
Operating Loss	$ (8,537,709)	$ (7,879,003)	$ (658,706)	
Subsidies	7,256,719	6,965,091	291,628	4%
Other Nonoperating Revenue (net)	142,423	103,917	38,506	37%
Loss before capital contributions, extraordinary and special items	(1,138,567)	(809,995)	(328,572)	41%
Capital contributions	462,777	385,654	77,123	20%
Inc (Dec) in Net Position	(675,790)	(424,339)	(251,451)	59%
Beginning Net Position	29,131,641	29,555,980	(424,339)	-1%
Less Pension Liability posted to Net Position (GASB 68)	(3,441,956)			
Ending Net Position	**$ 25,013,895**	**$ 29,131,641**	**$ (4,117,746)**	-14%

Operating Revenue decreased $115,618 from 2014 to 2015 while Operating Expenses increased by $543,088.

OPERATING GRANTS

A significant source of funding for CTS is operating assistance in the form of grants, which are either appropriated on a formula basis or obtained through competitive grant application processes. Operating grant receipts for 2015 totaled $457,319.

NON-OPERATING REVENUE

CTS's Sales Tax Revenue increased by $601,630 (10%) in 2015. At the same time, External Operating Subsidies decreased by $310,002. As a result, including some smaller non-operating revenue sources, the Total Non-operating Revenue increase netted out to $330,134 (4.7%) over 2014.

CAPITAL CONTRIBUTIONS

Capital contributions were slightly above 2014 by $77,123.

CTS's revenue streams are detailed below:

REVENUES BY SOURCE

	2015	2014	Net Increase (decrease) 2015 vs. 2014	
Passenger Fares	$ 1,083,392	$ 1,196,861	$ (113,469)	-9%
Other Operating Revenue	16,037	18,186	(2,149)	-12%
Sales Tax	6,799,400	6,197,770	601,630	10%
Operating and Capital Grants	920,096	1,152,975	(232,879)	-20%
Investment Revenue	21,412	14,429	6,983	48%
Other Non-Operating Revenue	121,011	89,488	31,523	35%
Total Revenues	$ 8,961,348	$ 8,669,709	$ 291,639	

Expenses by department are summarized below:

OPERATING EXPENSES BY DEPARTMENT

	2015	2014	Net Increase (decrease) 2015 vs. 2014	
Operations	$ 5,020,049	$ 5,302,833	$ (282,784)	-5%
Maintenance	1,709,175	1,565,047	144,128	9%
Administration	1,119,252	735,609	383,643	52%
Depreciation	1,788,662	1,490,561	298,101	20%
Total Expenses	$ 9,637,138	$ 9,094,050	$ 543,088	

SUMMARY OF CAPITAL ASSET TRANSACTIONS DURING 2015:

Changes in Capital Assets

	12/31/14 Beginning Balance	Additions	Reductions	12/31/15 Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 4,100,000	$ 60,000	$ -	$ 4,160,000
Construction in Progress	-	$ 98,864	-	98,864
Subtotal	4,100,000	158,864	-	4,258,864
Capital Assets, Being Depreciated:				
Buildings and Grounds	18,156,740	24,097	39,124	18,141,713
Shelters and Improvements	76,514	292,506	66,711	302,309
Vehicles and Related Equipment	13,028,820	225,951	161,560	13,093,211
Computers and Related Equipment	26,907	423,105	-	450,012
Major Capital Improvements	1,482,619	136,568	99,142	1,520,045
Subtotal	32,771,600	1,102,227	366,537	33,507,290
Less Accumulated Depreciation for:				
Buildings and Grounds	(4,265,849)	(623,651)	-	(4,889,500)
Shelters and Improvements	-	(286,846)	(66,711)	(220,135)
Vehicles and Related Equipment	(6,070,307)	(1,064,242)	(263,878)	(6,870,671)
Computers and Related Equipment	-	(409,743)	-	(409,743)
Major Capital Improvements	(869,301)	(95,264)	(88,893)	(875,672)
Subtotal	(11,205,457)	(2,479,746)	(419,482)	(13,265,721)
Total Capital Assets, Net of Accumulated Depreciation	**$ 25,666,143**	**$ (1,218,655)**	**$ (52,945)**	**$ 24,500,433**

The above schedule contains adjustments that are deemed not to be material to the table taken as a whole. Adjustments included reclassifications between capital asset classes and adjustments to accumulated depreciation in order to improve the accuracy of the capital asset reporting. (See Note 3)

ECONOMIC FACTORS AND FUTURE OUTLOOK

CTS relies on county-wide sales tax receipts of 0.6 of 1 percent as its primary source of revenue. Sales tax for 2015 increased by 9.7 percent over 2014 and remains a very moderate return of sales tax activity compared to other statewide Public Transportation Benefit Authority (PTBA) areas for the same period of time. Sales tax returns showed an increase right around the time of a substantial highway capacity improvement, a two year project managed by the Washington State Department of Transportation (WSDOT). CTS is cautiously watching construction and building permit activity. The conclusion of WSDOT material purchases and the Elwha Dam removal, which was thought to have leveled out sales tax growth, has been sustained throughout the summer months. The County decreased the sales tax rate in the unincorporated areas by 2/10ths of one percent starting mid-summer. The effects of the decrease and other significant one-time purchases are not noticeable as the sales tax trends remain the same for the year. The end of the year (October spending activity) showed stronger sales tax growth than the beginning of the year and could constitute unsustainable sales tax growth predictions moving forward into 2016. CTS forecasted the same sales tax revenue gains in 2016 as received in 2015 to show a conservative flat growth pattern. Local population and unemployment rates can be in direct relationship with steady sales tax growth. County population has increased over the last five-year census period by only 2.9 percent. While unemployment marginally improved over the previous year by -0.8 percent, the seasonal low county-wide unemployment rate for September 2015 was 7.0 percent and the monthly high of 9.6 percent was in January 2015. The civilian labor force unemployment rate of 8.0 percent is expected to diminish slightly as nonfarm job growth has increased by 1.7 percent. This compares with 2.7 percent statewide nonfarm job growth and the evident retirement population settling in the east county area tied to the residual effects of the recession and an aging population. The county's 16.2 percent of persons below poverty level continues to hover above the statewide statistic of 13.2 percent and has stretched to three points over the previous year. Peninsula Community College enrollment was expected to slightly diminish as more jobs were available in the local community. The 2015 student enrollment diminished by 1.39 percent (i.e. 88 students) from 2014 quarters. The student body ballot initiative to increase the transportation fee to $7.00 per credit-earning student passed in April 2014 and continues into 2018. Additional revenue from college bus passes has compensated for the lower enrollment. An additional transportation fee was passed by the student body in 2015 to collect $1.00 per credit-earning student to introduce Jefferson Transit fare-free trips and parking lot improvements.

A secondary source of revenue for CTS is the state and federal operating dollars provided to rural PTBAs based both on a formula and also competitively based on needs. In the 2015-2017 biennium, CTS received $1.41 million operating dollars to be distributed over the two-year period. CTS has mapped the distribution of these funds in accordance with the State's ability to release the funds and also, in a moderate way, to represent consistent financial reports throughout the period. Due to the extended state budget renewal process, the State could only process a partial reimbursement request for fourth quarter 2015. CTS receives fewer operating dollars than many rural PTBAs while producing more revenue miles. With the understanding that CTS should not become reliant on grant operating dollars, CTS is supporting the continuation of the federal highway trust funds and the state legislative budget which supports WSDOT distributing transportation funds to transit agencies. Sometimes CTS receive sales tax equalization funds or rural mobility funds from Washington State; CTS received $215,000 in 2015. These funds are a small contribution to CTS's overall revenue plan and are seemingly an unexpected announcement. CTS does not plan for these dollars in future years. When CTS is awarded federal grant funds for capital projects, CTS has the option to start the project or make the purchase concurrent with the processing of the grant. MAP-21 reauthorization, the former federal transportation act, slowed down the processing of grants to such a degree that projects were not able to transfer between FHWA and FTA and therefore be received in federal fiscal year 2015 (FFY15). The future outlook of FAST, the new federal transportation act, could make receiving federal funds in the same fiscal year more promising.

Throughout the next six years, CTS's strategic goals, as they directly pertain to the economic outlook, are to become more efficient with current revenue levels, make excellent equipment selections with proven technology, make better connections with local and commuter service, and promote service to youth and seniors. Minor service changes in the re-alignment of routes to facilitate local and regional connections are low cost methods to increase ridership and fare revenue. Several service changes are being analyzed with collected data. In the next six years, CTS does not anticipate raising the sales tax receipts percentage by a transit purpose tax measure or an increase of fares by public hearing. CTS is focused on the large and growing senior population which is 26.9 percent of the population compared to 14.1 percent statewide. The median age in Clallam County is 50.28 years and is 1.34 times greater than the state's median age of 37.4 years. CTS's complimentary paratransit services extend beyond the federal Americans with Disabilities Act (ADA) parameters and are serving the entire county. The cost per mile for these services which are out of ADA boundaries has incrementally increased and has capped to actual cost per mile reimbursement of $3.75 plus base or premium fare. CTS is actively encouraging seniors to take fixed route buses and is providing them with opportunities to purchase a Regional Reduced Fare Permit (RRFP) which is honored throughout the Olympic Peninsula and Puget Sound.

Another concern to the financial stability of CTS is the price and availability of ultra-low sulfur diesel and liquid propane. In 2013, CTS underwent a shift in purveyors of fuel which placed a crimp in the vanpool program. Pettit Fuel filed for bankruptcy, closed facilities, and terminated local employees. Fortunately, CTS had other fuel contracts in place and had recently purchased commuter vans fueled by propane. CTS was able to maintain the same level of service with nominal financial impact. CTS is suspended in its concerns and willing to be optimistic as we report the practicability of propane as a state recognized alternative fuel. The benefits of propane in Clallam County and within the fleet are very positive.

Effective January 2015, the Amalgamated Transit Union 587 (ATU) entered into two three-year contracts with CTS management negotiating team and were ratified prior to the expiration of the prior contracts by the CTS Board. CTS was alleviated of arduous arbitration and unpredictability. CTS was able to proceed with annual wage increases mainly in sync with the CPI-U SEA-TAC-Bremerton discounted to 90 percent of the inflation rate (as of November, 2015).

CTS's management has survived the recession with one fare increase, attrition, a hiring freeze, cross-training, re-tooling of bus routes, hiring of temporary drivers for seasonal peaks and outward thinking for contracted service with non-profits and tribal nations. In 2015, CTS was able to increase designated operating reserves by $213,400 and nearly reached policy targets for operating reserves of 4.0 months. The Board and the ATU have aligned around providing the operating reserves necessary to promote fiscal stability in times of future instability. In addition, CTS was able to increase capital reserves by $749,500 in anticipation of major vehicle purchases which will be necessary in the next few years. The Board and the employees are committed to meeting public transit needs of Clallam County in a fiscally responsible manner.

Requests for Information

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

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

CLALLAM TRANSIT SYSTEM
Statement of Net Position
As of December 31, 2015

ASSETS		
Current Assets:		
Cash and cash equivalents	$	2,642,573
Accounts receivable		77,828
Taxes receivable		1,161,081
Due from other governments		511,104
Prepaid expenses		103,349
Inventory		128,555
Investments		2,034,088
Total Current Assets		6,658,578
Noncurrent Assets:		
Capital assets not being depreciated		
Land		4,160,000
Construction in progress		98,864
Capital assets being depreciated, net of accumulated depreciation		
Buildings and grounds		13,252,213
Shelters and improvements		82,174
Vehicles and related equipment		6,222,540
Computers and related equipment		40,269
Major capital improvements		644,373
Total Noncurrent Assets		24,500,433
TOTAL ASSETS		31,159,011
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on pensions		360,097
TOTAL DEFERRED OUTFLOWS OF RESOURCES		360,097
LIABILITIES		
Current Liabilities		
Accounts payable		74,288
Payroll and related expenses payable		249,256
Employee leave payable		158,338
Total Current Liabilities		481,882
Noncurrent liabilities		
Employee leave liability		195,444
CTS post-employ healthcare ins credits liability		145,705
Other post-employment benefits liability (PEBB)		2,174,651
Pension liability		2,956,090
Total Noncurrent Liabilities		5,471,890
TOTAL LIABILITIES		5,953,772
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pensions		551,441
TOTAL DEFERRED INFLOWS OF RESOURCES		551,441
NET POSITION		
Net investment in capital assets		24,500,433
Unrestricted		513,462
TOTAL NET POSITION	$	25,013,895

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

CLALLAM TRANSIT SYSTEM
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2015

OPERATING REVENUES:	
Passenger fares	$ 652,714
Special services	87,575
Vanpool	303,408
Paratransit	39,695
Other operating revenue	16,037
Total operating revenues	1,099,429
OPERATING EXPENSES:	
Operations	3,399,696
Vanpool	207,424
Paratransit	1,412,928
Maintenance	1,709,175
Administration and public education	1,119,252
Depreciation	1,788,662
Total operating expenses	9,637,138
OPERATING INCOME (LOSS)	**(8,537,709)**
NONOPERATING REVENUES (EXPENSES)	
Sales tax	6,799,400
External operating subsidies	457,319
Interest income	21,412
Other nonoperating revenues (expenses)	121,011
Total nonoperating revenues (expenses)	7,399,142
Loss before capital contributions, extraordinary and special items	(1,138,567)
Capital contributions	462,777
Increase/(Decrease) in net position	(675,790)
Total net position - beginning of period	29,131,641
Prior period adjustment - Change in accounting principle	(3,441,956)
Adjusted beginning balance	25,689,685
Net position - end of period	**$ 25,013,895**

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

CLALLAM TRANSIT SYSTEM
Statement of Cash Flows
For the Year Ended December 31, 2015

CASH FLOWS from OPERATING ACTIVITIES	
Receipts from customers	$ 1,069,173
Payments to suppliers	(1,827,657)
Payments to employees	(5,839,240)
Other receipts (payments)	16,037
Net cash used by operating activities	(6,581,687)
CASH FLOWS from NON CAPITAL FINANCING ACTIVITIES	
Operating grant receipts	257,383
Sales tax receipts	6,710,820
Other nonoperating receipts	70,206
Net Cash provided by noncapital financing activities	7,038,409
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES	
Capital grant receipts	462,777
Proceeds from asset sales & related receipts	13,437
Purchases of capital assets	(585,584)
Net cash used by capital and related financing activities	(109,370)
CASH FLOWS from INVESTING ACTIVITIES	
Interest	21,412
Purchase of investments	(257,866)
Net cash used by Investing activities	(236,454)
Net increase in cash and cash equivalents	110,898
Balances - beginning of the year	2,531,675
Balances - end of the year	$ 2,642,573

Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Net Operating Loss	$ (8,537,709)
Adjustments to reconcile operating loss to to net cash used by operating activities	
Depreciation expense	1,788,662
Change in assets and liabilities:	
Receivables, net	(14,219)
Inventories	(10,503)
Prepaid Insurance	(88,626)
Accounts payable	13,674
Wages/expenses payable	48,728
Employee leave payable	1,915
Change in Employee Leave Benefit	(23,000)
Change in Accrued Post-Empl Health - PEBB	533,912
Change in Pension Liability	2,956,090
Change in Deferrals	191,344
Change in Pension PPA	(3,441,956)
Net cash used in operating activities	$ (6,581,687)

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

Clallam Transit System
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CTS is a municipal corporation formed pursuant to Chapter 36.57 A of the Revised Code of Washington to provide public transportation services in Clallam County, and is governed by an eight member board composed of two county commissioners and two city council members from each of the three incorporated cities within the county.

During the year ending December 31, 2015, two new accounting standards (Statement No. 68 and 71 related to accounting and financial reporting for pensions) issued by the Government Accounting Standards Board (GASB) became effective and were implemented by the Transit. These requirements revise existing requirements and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The statements have had a material impact on the Transit's financial statements.

A. Reporting Entity for Financial Reporting Purposes

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

B. Basis of Accounting and Reporting

The accounting records of CTS are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW as published in the *Budgeting, Accounting and Reporting System* for local governments in the State of Washington

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 of noncurrent) associated with their activity are included on the financial statement of net position. The operating statement presents increases (revenues and gains) and decreases (expenses and losses) in net position. CTS discloses changes in cash flows by a separate statement that presents operating, noncapital financing, capital and related financing and investing activities.

CTS uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are recorded when acquired and long-term liabilities are recorded when obligated.

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

C. Assets, Liabilities and Equities

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

All temporary cash surpluses and funds designated for specific uses are invested. The Statement of Cash Flows considers all highly liquid investments (with a maturity of three months or less when purchased) and demand deposits to be cash equivalents.

2. Receivables

Accounts Receivable consist of amounts owed from private individuals or organizations for special services, rentals, fares or other charges and include amounts owed for such as of December 31, regardless of when the billings were prepared. Also included are amounts billed to other governmental agencies under various grant agreements. Accounts are generally paid within 30 days of receipt of billings.

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

3. Amounts Due From Other Governments

Receivables due from other governmental agencies (primarily grant expenditures) are included in Receivables from Other Governments.

4. Inventories

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

5. Compensated Absences

Compensated Absences are earned by employees for vacation, sick, and personal time off. Based upon provisions of their contract, bargaining unit employees accumulate general leave at the rate of 18 to 33 days per year based on longevity. The non-represented transit employees are covered by their own compensation plan and receive similar benefits. Employees may accumulate up to 720 hours of paid time off. CTS records the liquidated value of this time as an expense and liability when incurred, and revalues the accumulated leave balance every month for changes in compensation rates.

Under provisions of the contract and compensation plans employees may elect to expend their paid time off according to certain schedules and limitations. At termination, the cash value of any remaining leave balance is transferred to the employee's Health Reimbursement Arrangement (HRA) Voluntary Employees' Beneficiary Association (VEBA) account for their benefit.

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

7. Current and Noncurrent Liability

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

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

8. Accrued Expenses

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

NOTE 2. DESIGNATED FUNDS, DEPOSITS AND INVESTMENTS

DESIGNATED FUNDS

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

Balances as of December 31	**2015**	**2014**
Cash and Cash Equivalents and Investments	4,676,661	$ 4,307,897
Designated Funds for:		
Maintaining Service Levels	2,376,606	1,600,000
Employee Leave and Post-Employment Healthcare Benefits	499,487	520,572
Vehicle Replacement	183,939	312,000
Vanpool Replacement	34,692	-
Major Projects	49,747	55,487
Facility Maintenance	191,086	64,383
Total Designated Funds	3,335,557	2,552,442
Undesignated Funds used for Working Capital	$ 1,341,104	$ 1,755,455

DEPOSITS AND INVESTMENTS

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

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

As of December 31, 2015, the following deposits and investments were insured through WPDPC or the FDIC, registered or held by CTS or the State Treasurer and thus not subject to custodial credit risk:

Balances as of December 31		**2015**		**2014**
Demand Deposits				
Bank Deposits	$	743,393	$	1,231,459
Local Government Investment Pool		1,899,180		1,300,216
Total Cash and Cash Equivalents		2,642,573		2,531,675
Investments maturing in less than 1 year				
Certificates of Deposits		1,032,601		785,422
Investments Maturing in 1 year of more				
Certificates of Deposits		258,003		496,301
Notes and Bonds		743,484		494,499
Total Investments	$	2,034,088	$	1,776,222

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

NOTE 3. CAPITAL ASSETS and DEPRECIATION

A. Expenditures over $5,000 for individual pieces of equipment and over $50,000 for infrastructure and building improvements, including major repairs that increase useful lives, are capitalized if they have a useful life over one year. Purchases of small equipment items are expensed but may be tagged for tracking purposes. There were no capital leases.

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

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

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

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

B. Summary of Capital Asset Transactions during 2015:

Changes in Capital Assets

	12/31/14 Beginning Balance	Additions	Reductions	12/31/15 Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 4,100,000	$ 60,000	$ -	$ 4,160,000
Construction in Progress	-	$ 98,864	-	98,864
Subtotal	4,100,000	158,864	-	4,258,864
Capital Assets, Being Depreciated:				
Buildings and Grounds	18,156,740	24,097	39,124	18,141,713
Shelters and Improvements	76,514	292,506	66,711	302,309
Vehicles and Related Equipment	13,028,820	225,951	161,560	13,093,211
Computers and Related Equipment	26,907	423,105	-	450,012
Major Capital Improvements	1,482,619	136,568	99,142	1,520,045
Subtotal	32,771,600	1,102,227	366,537	33,507,290
Less Accumulated Depreciation for:				
Buildings and Grounds	(4,265,849)	(623,651)	-	(4,889,500)
Shelters and Improvements	-	(286,846)	(66,711)	(220,135)
Vehicles and Related Equipment	(6,070,307)	(1,064,242)	(263,878)	(6,870,671)
Computers and Related Equipment	-	(409,743)	-	(409,743)
Major Capital Improvements	(869,301)	(95,264)	(88,893)	(875,672)
Subtotal	(11,205,457)	(2,479,746)	(419,482)	(13,265,721)
Total Capital Assets, Net of Accumulated Depreciation	**$ 25,666,143**	**$ (1,218,655)**	**$ (52,945)**	**$ 24,500,433**

The above schedule contains adjustments that are deemed not to be material to the table taken as a whole. Adjustments included reclassifications between capital asset classes and adjustments to accumulated depreciation in order to improve the accuracy of the capital asset reporting.

C. Impaired Capital Assets - None were considered permanently impaired before the end of their useful lives in 2015.

NOTE 4. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

CTS had no pending lawsuits or claims as of year-end that would have a material effect on its assets. There have been no material violations of finance-related legal or contractual provisions.

NOTE 5. RETIREMENT PLANS

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	$ 2,956,090
Pension assets	$ -
Deferred outflows of resources	$ 360,097
Deferred inflows of resources	$ 551,441
Pension expense	$ 89,429

State Sponsored Pension Plans

Substantially all full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit 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 DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government employers and No, 50, Pension Disclosures, an amendment of GASB Statements No. 25, No. 27, No.68 (an amendment of GASB No. 27), and No.71 (an amendment of GASB No. 68).

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

PERS was established in 1947, and its retirement benefits provisions are contained in chapter 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement systems composed of three separate pensions plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

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%

The Transit's actual contributions to the plan were $170,468 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.

<u>Contributions</u>

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

The Transit's actual contributions to the plan were $213,408 for the year ended December 31, 2015.

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 the Transit's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the 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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$1,948,622	$1,600,508	$1,301,161
PERS 2/3	$3,963,792	$1,355,582	$ (641,427)

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, the Transit reported a total pension liability of $2,956,090 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$1,600,508
PERS 2/3	1,355,582
TOTAL	$2,956,090

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.0334620%	.0305970%	(.002865%)
PERS 2/3	.0411090%	.0379390%	(.003170%)

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.

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, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

	Pension Expense
PERS 1	$ (55,704)
PERS 2/3	145,133
TOTAL	$ 89,429

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the 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	-	87,565
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	93,911	-
TOTAL	$93,911	$87,565
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$144,099	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	361,876
Changes of assumptions	2,184	-
Changes in proportion and differences between contributions and proportionate share of contributions		102,000
Contributions subsequent to the measurement date	119,904	
TOTAL	$ 266,187	$463,876

Deferred outflows of resources related to pensions resulting from the 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 follows:

Year ended December 31:	PERS 1
2016	$ 93,111
2017	$ 0
2018	$ 0
2019	$ 0
2020	$ 0
Thereafter	$ 0

Year ended December 31:	PERS 2/3
2016	$ -30,000
2017	$ -30,000
2018	$ -30,000
2019	$ -11,999
2020	$ 0
Thereafter	$ 0

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%	

NOTE 6. LEASES AND LONG-TERM CONTRACTS

Leases/contracts are reported as liabilities when services are received. CTS has a lease with Quillayute Valley School District No. 402 for use of parking facilities, mechanical maintenance, repairs, and general service in Forks. In addition to the actual cost of maintenance to vehicles, Clallam Transit System paid $15,526 for shop rental in 2015.

NOTE 7. RISK MANAGEMENT

CTS is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25 member self insurance program located in Olympia, Washington. WSTIP supplies the Transit automobile liability, general liability, public official's liability coverage, auto physical damage coverage, first property coverage, boiler and machinery coverage and employee fidelity coverage. At the end of 2015, the Transit retained a $5,000 deductible for its auto physical damage coverage and a $5,000 deductible for its first party property coverage through WSTIP. The Transit has a $5,000 deductible for public official's liability coverage and maintains first dollar coverage for its auto and general liability risks covered by WSTIP.

The Washington State Transit Insurance Pool (WSTIP) was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member Transit Systems programs of joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12 months notice. Any member who withdraws will not be allowed to rejoin the Pool for a period of 36 months. Transit authorities applying for membership in the Pool may do so on approval of a simple majority vote of the Board of the Pool. The Pool underwriting and rate-setting policies have been established after consultation with actuaries. The Pool members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited yearly by the Washington State Auditor.

The Transit has not presented any claims to WSTIP in the last three years that exceeded its current coverage limits through WSTIP.

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

WSTIP
2629 12th Ct SW
Olympia, WA 98502

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

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

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

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

WSTIP's estimated net position at year end 2015 (which enables the Pool to fund losses without requiring additional contributions from its members) remained stable, strong and robust but did decrease slightly because of adverse loss development particularly in 2011 loss year. Insurance settlements did not exceed insurance coverage in any of the past three years.

NOTE 8. LONG-TERM LIABILITIES

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

CLALLAM TRANSIT SYSTEM

LIABILITIES

For the Year Ended December 31, 2015

		1	2	3	4
ID No.	**Description**	**Beginning Balance** **1/1/15**	**Additions**	**Reductions**	**Ending Balance** **12/31/15**
263.98	Compensated absences noncurrent	$208,150	$10,294	$23,000	$195,444
263.93	Clallam Transit Retiree Health Insurance Benefit	143,790	1,915	-	145,705
263.93	OPEB Liability HCA Implicit Retiree Subsidy	1,640,739	533,912	-	2,174,651
263.93	Pension Liability	0	2,956,090		2,956,090
TOTAL LIABILITIES		**$1,992,679**	**$3,502,211**	**$23,000**	**$5,471,890**

NOTE 9. EMPLOYEE BENEFIT INSURANCE

A. Unemployment Insurance - CTS remained self-insured for unemployment compensation. During 2015, CTS paid $12,140 in unemployment benefits.

B. Industrial Insurance is provided by the Washington State Department of Labor & Industries Program. CTS paid **$**175,859 in insurance premiums to the Program for 2015.

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

CTS paid $1,109,697 in net premiums for medical, dental, vision and life plans for 2015.

D. Long-term Disability Insurance (LTD) is provided through PEBB HCA, and CTS pays the premium cost for basic coverage. The basic coverage pays benefits based on pre-disability earnings. The amount of benefits paid is calculated on actual pre-disability earnings up to a maximum of $400 per month. Long-term Disability benefits have a minimum monthly benefit of $50 and a maximum monthly benefit of $240. Coverage begins after 90 days of disability and the maximum benefit period is determined by the employee's age. Employees have the option to pay the premium cost for coverage beyond the basic coverage.

CTS paid for the basic long-term disability coverage as part of its medical premiums in 2015.

E. Post-employment Healthcare Insurance Credits - CTS adopted a program in 2007 to assist employees who separate with at least 10 years of continuous service with the cost of obtaining healthcare insurance, reimbursing a maximum of $300 per month toward the cost of the employee's own healthcare coverage

(excluding dependents). The benefit is earned at the rate of one month of insurance credit for every six months of service after January 1, 2007 and is not dependent on future medical costs.
Employees who separate after they become Medicare eligible are limited to reimbursement at the level of PEBB's Medicare Supplement Plan coverage. The value of their benefit is contributed to their HRA VEBA account upon termination.

The amount of the liability for each employee who qualifies is certain upon termination and is generally liquidated at that time, thus ending the employee's participation in the program. The calculation of the liability as of December 31 is based on the months of service of currently active employees, reduced by historical turnover rates for employees with less than 10 years of service, and adjusted for those employees who will not achieve 10 years of service before they become Medicare eligible. The program participants at December 31, 2015 included four separated employees and 18 active vested employees; together with the 29 employees with less than 10 years of service, the liability at year-end was $145,705.

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

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

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

Monthly UMP Medical & UDP Dental Coverage Rates	2015	2014	2013
Retiree (Individual) < 65	$ 578.51	$ 551.03	$ 545.83
Retiree + Spouse or Domestic Partner < 65	1,150.77	1,095.84	1,085.48
Medicare Eligible Individual	234.69	223.87	219.24

The PEBB Funding Policy is based upon pay-as-you go financing requirements - Group premium rates are established by the PEBB and paid on a monthly basis by CTS based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis. The PEBB blends the retiree and active employee rates as part of its rate setting process, which creates an implicit rate subsidy and future post-employment benefit liability. The PEBB determines how this future liability will be funded when it sets the rates that employer groups pay for current insurance coverage. Historically, the PEBB has set rates to recover its costs only for the current plan year, thus not funding the future benefit liability of current and potential future retirees who may elect to participate in the PEBB's post-employment insurance plans. A tool developed by the State Actuary was used to determine CTS's share of this unfunded benefit liability - which approximates the present value of the future cost of post-employment benefits provided to CTS retirees (and indicates the size of the fee that the PEBB may have to charge n the future to cover these benefits).

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

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

OPEB Measurements and NOO Calculation
For the last three Years Ending December 31

	2015	2014	2013
Annual OPEB Cost			
Annual Required Contribution	$ 589,287	$ 345,834	$ 358,295
Net OPEB Obligation Interest	65,630	54,289	41,266
Net OPEB Obligation Amortized	(94,884)	(78,489)	(59,661)
Annual OPEB Cost	$ 560,033	$ 321,634	$ 339,900
Net OPEB Obligation (NOO)			
Starting NOO	$ 1,640,739	$ 1,357,232	$ 1,031,668
Annual OPEB Cost	560,032	321,635	339,900
Contributions	(26,120)	(38,128)	(14,336)
Net OPEB Obligation (NOO)	**$ 2,174,651**	**$ 1,640,739**	**$ 1,357,232**
Increase in Net OPEB	$ 533,912	$ 283,507	$ 325,564
Employer percentage Contributions	5%	12%	4%

NOTE 11 – ACCOUNTING AND REPORTING CHANGES

In accordance with GASB Statement No. 68, *Accounting and Reporting for Pensions*, The Transit has recorded its proportionate share of the net position liability along with the deferred inflows and outflows related to the pension plan administered by the Washington State Department of Retirement Systems. This Statement is a change in accounting method and establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as detailed in Note – 6 – Pension Plans. The implementation of GASB Statement No. 68 resulted in a Prior Period Adjustment of the Statement of Revenue, Expenses and Changes in Fund Net Position. For details of the Prior Period Adjustment please see Note 10.

NOTE 12 - PRIOR PERIOD ADJUSTMENTS - CHANGE IN ACCOUNTING PRINCIPLE

As a result of implementing GASB Statement No 68, which requires recognition of the Transit's share of the underfunded pension liability, the Transit reported a Prior Period Adjustment reducing the beginning Net Position for the year ended December 31, 2015. The adjustment represents pension costs for the prior periods of $3,441,956.

Required Supplementary Information

Other Postemployment Benefits Plan (OPEB)

Schedule of Funding Progress

Actuarial Validation Date	Actuary Value Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/13	-	2,829,885	2,829,885	0%	3,749,370	75%
12/31/14	-	2,601,935	2,601,935	0%	3,767,533	69%
12/31/15	-	3,992,349	3,992,349	0%	3,456,310	116%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/13	339,900	14,336	4%	1,357,232
12/31/14	321,635	38,128	12%	1,640,739
12/31/15	560,032	26,120	5%	2,174,651

Schedules of Required Supplementary Information

SCHEDULE OF THE CLALLAM TRANSIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS Pension Plans

6/30/15

Last 10 Fiscal Years*

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available

PERS # 1	2015	2014	2013
Transit's proportion of the net pension liability (asset)	0.0306%	0.0335%	0.0360%
Transit's proportionate share of the net pension liability (asset)	1,600,508	1,685,664	2,100,708
Transit's covered-employee payroll	42,132	76,782	77,613
Transit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	3798.79%	2195.39%	2706.66%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%	57%

PERS # 2/3	2015	2014	2013
Transit's proportion of the net pension liability (asset)	0.0379%	0.0411%	0.0379%
Transit's proportionate share of the net pension liability (asset)	1,355,582	830,961	1,917,664
Transit's covered-employee payroll	3,847,937	3,636,440	3,566,047
Transit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	35.23%	22.85%	53.78%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%	85%

* The amounts presented for each fiscal year were determined as of the June year-end that occurred within the fiscal year.

SCHEDULE OF THE TRANSIT CONTRIBUTIONS
Pension Plans
12/31/15
Last 10 Fiscal Years*

PERS # 1	2015	2014	2013
Contractually required contribution	170,468	150,583	117,383
Contributions in relation to the contractually required contribution	(170,468)	(150,583)	(117,383)
Contribution deficiency (excess}	-	-	-
Transit's covered-employee payroll	42,132	76,782	77,613
Contributions as a percentage of covered-employee payroll	404.60%	196.12%	151.24%

PERS # 2/3	2015	2014	2013
Contractually required contribution	213,408	177,787	167,991
Contributions in relation to the contractually required contribution	(213,408)	(177,787)	(167,991)
Contribution deficiency (excess}	-	-	-
Transit's covered-employee payroll	3,847,937	3,636,440	3,566,047
Contributions as a percentage of covered-employee payroll	5.55%	4.89%	4.71%

Notes to Required Supplementary Information for the Year Ended December 31, 2015

Changes of benefit terms: There were no changes in the benefit terms for the Pension Plans.

Changes of assumptions: Amounts reported in 2015 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 2007 and later, the expectation of retired life mortality was based on the Office of the State Actuary (OSA) 2007-2012 Experience Study Report.

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