



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

**Clallam County Public Transportation
Benefit Area
(Clallam Transit System)**

For the period January 1, 2016 through December 31, 2016

Published September 18, 2017

Report No. 1019807





Office of the Washington State Auditor
Pat McCarthy

September 18, 2017

Board of Directors
Clallam Transit System
Port Angeles, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Clallam Transit System Clallam County January 1, 2016 through December 31, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Clallam Transit System 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 its major federal program.

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 program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.509	Formula Grants for Rural Areas

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 did not qualify 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**

**Clallam Transit System
Clallam County
January 1, 2016 through December 31, 2016**

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, 2016, 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 12, 2017.

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.



Pat McCarthy

State Auditor

Olympia, WA

September 12, 2017

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

**Clallam Transit System
Clallam County
January 1, 2016 through December 31, 2016**

Board of Directors
Clallam Transit System
Port Angeles, Washington

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

We have audited the compliance of the Clallam Transit System, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2016. 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, 2016.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 12, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam Transit System Clallam County January 1, 2016 through December 31, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 14.

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, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

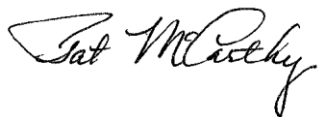
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 19, information on postemployment benefits other than pensions on pages 38 through 39 and pension plan information on pages 40 through 41 be presented to 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 12, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

September 12, 2017

FINANCIAL SECTION

**Clallam Transit System
Clallam County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB) Schedule of Funding Progress and
Schedule of Employer Contributions – 2016

Schedule of the Clallam Transit's Proportionate Share of the Net Pension Liability –
PERS 1 and PERS 2/3 – 2016

Schedule of the Transit Contributions – PERS 1 and PERS 2/3 – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

CLALLAM COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA CLALLAM TRANSIT SYSTEM
MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended December 31, 2016

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, 2016. This section should be read in conjunction with CTS' financial statements and accompanying notes which follow this section.

FINANCIAL HIGHLIGHTS

During 2016, CTS' net position decreased \$460,501 due primarily due to two factors. The decrease in the net position is the result of the continued requirements to recognize liabilities for both Other Post-employment Benefit Programs (GASB 45 – increase in liability of \$543,266) and Pension Liability (GASB 68 – increase in liability of \$1,050,031). However, the decrease in net position was offset by an increase of \$1,757,535 in cash and cash equivalents.

While CTS' 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' 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' 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' infrastructure is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how CTS' 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' 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' financial status in the previous year.

CTS' 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

	2016	2015	Net Increase (decrease) 2016 vs. 2015	
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 4,400,108	\$ 2,642,573	\$ 1,757,535	67%
Other Current Assets	3,740,582	4,016,005	(275,423)	-7%
Capital Assets Net of Depreciation	23,302,606	24,500,433	(1,197,827)	-5%
Total Assets	\$ 31,443,296	\$ 31,159,011	\$ 284,285	1%
 DEFERRED OUTFLOWS OF RESOURCES	\$ 822,411	\$ 360,097	\$ 462,314	128%
 LIABILITIES:				
Current Liabilities	489,959	481,882	8,077	2%
Noncurrent Liabilities	7,079,097	5,471,890	1,607,207	29%
Total Liabilities	\$ 7,569,056	\$ 5,953,772	\$ 1,615,284	27%
 DEFERRED INFLOWS OF RESOURCES	\$ 143,258	\$ 551,441	\$ (408,183)	-74%
 NET POSITION:				
Net Investment in Capital Assets	\$ 23,302,606	\$ 24,500,433	\$ (1,197,827)	-5%
Unrestricted Net Position	1,250,788	513,462	737,326	144%
Total Net Position	\$ 24,553,394	\$ 25,013,895	\$ (460,501)	-2%

For the year ended December 31, 2016, assets exceed liabilities by \$24.6 million.

A majority of the Transit's net position (94.9%) 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.

SUMMARY STATEMENT OF REVENUE, EXPENSE AND CHANGES IN NET POSITION

	2016	2015	Net Increase (decrease) 2016 vs. 2015	
Operating Revenue	\$ 1,054,543	\$ 1,099,429	\$ (44,886)	-4%
Operating Expenses	10,021,091	9,637,138	383,953	4%
Operating Loss	\$ (8,966,548)	\$ (8,537,709)	\$ (428,839)	5%
Subsidies	8,093,962	7,256,719	837,243	12%
Other Nonoperating Revenue (net)	122,199	142,423	(20,224)	-14%
Loss before capital contributions, extraordinary and special items	(750,387)	(1,138,567)	388,180	-34%
Capital contributions	289,886	462,777	(172,891)	-37%
Inc (Dec) in Net Position	(460,501)	(675,790)	215,289	-32%
Beginning Net Position	25,013,895	29,131,641	(4,117,746)	-14%
Less Pension liability posted to Net Position (GASB 68)		(3,441,956)		
Ending Net Position	24,553,394	25,013,895	(460,501)	-2%

OPERATING ACTIVITY

Operating Revenue decreased \$44,886 from 2015 to 2016 while Operating Expenses increased by \$383,953.

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.

NON-OPERATING REVENUE

CTS's Sales Tax Revenue increased by \$484,728 (7%) in 2016. External Operating Subsidies and some smaller non-operating revenue sources increased by \$332,291. In total, the Non-operating Revenue increased by \$817,019 (11%) over 2015.

CAPITAL CONTRIBUTIONS

Capital contributions were less than 2015 by \$172,891.

CTS's SOURCES OF REVENUE:**REVENUES BY SOURCE**

	2016	2015	Net Increase (decrease) 2016 vs. 2015	
Passenger Fares	\$ 1,039,226	\$ 1,083,392	\$ (44,166)	-4%
Other Operating Revenue	15,317	16,037	(720)	-4%
Sales Tax	7,284,128	6,799,400	484,728	7%
Operating and Capital Grants	1,099,720	920,096	179,624	20%
Investment Revenue	31,481	21,412	10,069	47%
Other Non-Operating Revenue	90,718	121,011	(30,293)	-25%
Total Revenue	<u>\$ 9,560,590</u>	<u>\$ 8,961,348</u>	<u>\$ 599,242</u>	7%

Expenses by department are summarized below:

OPERATING EXPENSES BY DEPARTMENT

	2016	2015	Net Increase (decrease) 2016 vs. 2015	
Operations	\$ 5,672,249	\$ 5,020,049	\$ 652,200	13%
Maintenance	1,833,451	1,709,175	124,276	7%
Administration	995,849	1,119,252	(123,403)	-11%
Depreciation	1,519,542	1,788,662	(269,120)	-15%
Total Expense	<u>\$ 10,021,091</u>	<u>\$ 9,637,138</u>	<u>\$ 383,953</u>	4%

CAPITAL ASSETS

At the end of 2016, CTS had \$23.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note 3 to the financial statements. Capital asset acquisitions in 2016 totaled approximately \$440,000 and included \$216,000 for vehicles, \$102,000 for HVAC improvements, \$61,000 for improved video surveillance, and \$61,000 for a new pedestrian tunnel under Highway 101 allowing passengers a safe alternative for crossing the highway.

ECONOMIC FACTORS AND FUTURE OUTLOOK

CTS relies on county-wide sales tax receipts of 0.6 percent as its primary source of revenue. Sales tax for 2016 increased by 7.13 percent over 2015 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.

A secondary source of revenue for CTS is the state and federal operating and capital dollars provided to rural PTBAs based both on a formula and also competitively based on needs. CTS was awarded an operating grant of \$1.41 million operating dollars for the 2015-2017 biennium which covers the time period from July 1, 2015 through June 30, 2017. CTS receives both federal and state grant funds with the state grant funds being specifically identified for paratransit and special needs services. In 2016, CTS received

\$797,951 of these grant funds for operating expenses. CTS has been awarded approximately \$1.5 million operating dollars for the 2017-2019 biennium which begins July 1, 2017.

The 2017 budget is summarized below:

Operating Revenues	\$ 1,082,000
Operating Grants	787,000
Capital Grants	1,469,000
Non-Transportation Revenues	111,000
Sales Tax Revenues	<u>6,995,000</u>
Total Budgeted Revenues	<u>\$10,444,000</u>
Operating Expenses	\$ 8,729,000
Capital Projects	<u>1,469,000</u>
Total Expenditures	<u>\$10,198,000</u>

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, 2016

ASSETS

Current Assets:

Cash and cash equivalents	\$ 4,400,108
Accounts receivable	29,748
Taxes receivable	1,251,889
Interest receivable	4,337
Due from other governments	328,189
Prepaid expenses	43,458
Inventory	131,169
Investments	1,951,792
Total Current Assets	<u>8,140,690</u>

Noncurrent Assets:

Capital assets not being depreciated	
Land	4,160,000
Construction in progress	-
Capital assets being depreciated, net	
Buildings and grounds	12,998,851
Shelters and improvements	74,975
Vehicles and related equipment	5,365,402
Computers, equipment & major capital improvements	703,378
Total Noncurrent Assets	<u>23,302,606</u>

TOTAL ASSETS 31,443,296

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on pensions	822,411
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TOTAL DEFERRED OUTFLOWS OF RESOURCES 822,411

LIABILITIES

Current Liabilities

Accounts payable	32,676
Payroll and related expenses payable	301,797
Employee leave benefits	155,486
Total Current Liabilities	<u>489,959</u>

Noncurrent liabilities

Employee leave benefits	209,354
CTS post-employment healthcare insurance credits	145,705
Other post-employment benefits (PEBB)	2,717,917
Pension benefits	4,006,121
Total Noncurrent Liabilities	<u>7,079,097</u>

TOTAL LIABILITIES 7,569,056

DEFERRED INFLOWS OF RESOURCES

Deferred amount on pensions	143,258
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TOTAL DEFERRED INFLOWS OF RESOURCES 143,258

NET POSITION

Net investment in capital assets	23,302,606
Unrestricted	1,250,788
TOTAL NET POSITION	<u><u>\$ 24,553,394</u></u>

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

CLALLAM TRANSIT SYSTEM
Statement of Revenue, Expense, and Changes in Net Position
For the Year Ended December 31, 2016

OPERATING REVENUE:

Passenger fares	\$ 634,783
Special services	89,330
Vanpool	277,690
Paratransit	37,423
Other operating revenue	<u>15,317</u>
Total operating revenue	1,054,543

OPERATING EXPENSE:

Operations	3,832,213
Vanpool	199,196
Paratransit	1,640,840
Maintenance	1,833,451
Administration and public education	995,849
Depreciation	<u>1,519,542</u>
Total operating expense	10,021,091

OPERATING INCOME (LOSS) (8,966,548)

NONOPERATING REVENUE (EXPENSE)

Sales tax	7,284,128
External operating subsidies	809,834
Interest income	31,481
Other nonoperating revenue (expense)	<u>90,718</u>
Total nonoperating revenue (expense)	8,216,161

Loss before capital contributions (750,387)

Capital contributions 289,886

Increase/(Decrease) in net position (460,501)

Total net position - beginning of period 25,013,895

Net position - end of period **\$ 24,553,394**

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

CLALLAM TRANSIT SYSTEM
Statement of Cash Flows
For the Year Ended December 31, 2016

CASH FLOWS from OPERATING ACTIVITIES

Receipts from customers	\$ 1,102,623
Payments to suppliers	(1,633,781)
Payments to employees	(6,065,706)
Net cash used by operating activities	<u>(6,596,864)</u>

CASH FLOWS from NON CAPITAL FINANCING ACTIVITIES

Operating grant receipts	992,749
Sales tax receipts	7,193,320
Other nonoperating receipts	77,665
Net Cash provided by noncapital financing activities	<u>8,263,734</u>

CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES

Capital grant receipts	289,886
Proceeds from asset sales & related receipts	13,053
Purchases of capital assets	(321,714)
Net cash used by capital and related financing activities	<u>(18,775)</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest	27,144
Purchase of investments	82,296
Net cash used by Investing activities	<u>109,440</u>

Net increase in cash and cash equivalents	1,757,535
Balance - beginning of the year	2,642,573
Balance - end of the year	<u><u>\$ 4,400,108</u></u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Net Operating Loss	\$ (8,966,548)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	1,519,542
Change in assets and liabilities:	
Receivables, net	48,080
Inventories	(2,614)
Prepaid Insurance	59,891
Accounts payable	(41,612)
Wages/expenses payable	143,459
Employee leave payable	-
Change in Employee Leave Benefit	543,266
Change in Accrued Post-Empl Health - PEBB	(79,861)
Change in Deferrals	(870,498)
Change in Pension Liability	1,050,031
Net cash used in operating activities	<u><u>\$ (6,596,864)</u></u>

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, 2016

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 financial statements for the Clallam County Public Transportation Benefit Area, d/b/a Clallam Transit System (CTS) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are described below:

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.

A. Reporting Entity for Financial Reporting Purposes

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.

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. CTS uses the *Budgeting, Accounting and Reporting System* 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 or noncurrent) associated with their activity are included on their 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 capitalized when acquired and placed in service, 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)

It is the policy of CTS to invest all temporary cash surpluses.

For purposes of the statement of cash flows, CTS 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 to and From Other Governments

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

4. Inventories

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

5. Compensated Absences

Compensated Absences are earned by employees for vacation, sick, and personal time off. Based upon provisions of their contract, bargaining unit employees accumulate general leave at the rate of 16 to 34 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 680 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 use 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 Account (HRA) Voluntary Employees' Beneficiary Association (VEBA) plan for their benefit.

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

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

CTS pays premiums or contributions to third parties for the administration for the following benefits: 1) employee retirement, 2) insurance, and 3) healthcare reimbursement accounts. In addition, CTS provides a Post-employment Healthcare Benefits plan (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

CTS'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	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents and Investments	\$ 6,351,900	\$ 4,676,661
Designated Funds for:		
Maintaining Service Levels	2,700,000	2,376,606
Employee Leave and Post-Employment Healthcare Benefits	1,280,545	499,487
Vehicle Replacement	1,255,000	183,939
Vanpool Replacement	175,707	34,692
Major Projects	200,000	49,747
Facility Maintenance	60,000	191,086
Total Designated Funds	5,671,252	3,335,557
Undesignated Funds used for Working Capital	\$ 680,648	\$ 1,341,104

DEPOSITS & INVESTMENTS

All deposits and certificates are covered by federal depository insurance corporation (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.

Investments Measured at Amortized Cost

As of December 31, 2016, the District held \$3,046,148 in the State Investment Pool, which is valued at amortized cost.

As of December 31, 2016, 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	<u>2016</u>	<u>2015</u>
Demand Deposits		
Bank Deposits	\$ 1,594,638	\$ 743,393
Local Government Investment Pool	2,805,470	1,899,180
Total Cash and Cash Equivalents	\$ 4,400,108	\$ 2,642,573
 Investments maturing in less than 1 year		
Certificates of Deposits	\$ -	\$ 1,032,601.00
Investments Maturing in 1 year or more		
Certificates of Deposits	708,132	258,003
Notes and Bonds	1,243,660	743,484
Total Investments	\$ 1,951,792	\$ 2,034,088

The book value of deposits does not differ materially from the bank balance of deposits. Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Management intends to hold investments until maturity. CTS's deposits in the State Local Government Investment Pool are recorded at amortized cost in accordance with GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

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 of more than 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 acquisition value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. 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 recorded.

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. Impaired Capital Assets - None were considered permanently impaired before the end of their useful lives in 2016.

C. Summary of Capital Asset Transactions during 2016:

Changes in Capital Assets

	<u>12/31/15</u>			<u>12/31/16</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>
	<u>Balance</u>			<u>Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 4,160,000	\$ -	\$ -	\$ 4,160,000
Construction in Progress	98,864	-	98,864	-
Subtotal	4,258,864	-	98,864	4,160,000
Capital Assets, Being Depreciated:				
Buildings & Grounds	18,141,713	101,358		18,243,071
Shelters	302,309			302,309
Vehicles	13,093,211	215,464	130,094	13,178,581
Major Improv/Computers/ Equipment	1,970,057	122,131	230,891	1,861,297
Subtotal	33,507,290	438,953	360,985	33,585,258
Less Accumulated Depreciation for:				
Buildings & Grounds	4,889,500	354,720	-	5,244,220
Shelters	220,135	7,199	-	227,334
Vehicles	6,870,671	1,054,226	111,718	7,813,179
Major Improvement/Computers/ Equipment	1,285,415	103,396	230,892	1,157,919
Subtotal	13,265,721	1,519,541	342,610	14,442,652
Total Capital Assets, Net of Accumulated Depreciation	\$ 24,500,433	\$ (1,080,588)	\$ 117,239	\$ 23,302,606

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. PENSION 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 2016:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 4,006,121
Pension assets	\$ -
Deferred outflows of resources	\$ 822,412
Deferred inflows of resources	\$ 143,257
Pension expense/expenditures	\$ 609,049

State Sponsored Pension Plans

Substantially all CTS 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.

Public Employees' Retirement System (PERS)

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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

The CTS actual PERS plan contributions were \$189,763 to PERS Plan 1 and \$239,753 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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.

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. 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, 2016, 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 the Net Pension Liability/(Asset)

The table below presents the CTS proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the 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.

Your Allocation % Here	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
PERS 1	6,476,248,000	5,370,471,000	4,418,882,000
0.034402%	2,227,959	1,847,549	1,520,184
PERS 2/3	9,270,195,000	5,034,921,000	(2,620,967,000)
0.042872%	3,974,318	2,158,571	(1,123,661)

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, 2016, the CTS reported a total pension liability of \$ 4,006,121 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,847,549
PERS 2/3	\$ 2,158,572
TOTAL	\$ 4,006,121

The collective net pension liability (asset) was measured as of June 30, 2016, 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, 2016, the CTS recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 300,007
PERS 2/3	\$ 309,042
TOTAL	\$ 609,049

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, CTS 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	\$ 0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$ 46,518	\$0
Changes of assumptions	\$ 0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$0
Contributions subsequent to the measurement date	\$ 96,624	\$0
TOTAL	\$143,142	\$0

PERS 2-3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$114,942	(\$71,258)
Net difference between projected and actual investment earnings on pension plan investments	\$264,147	\$0
Changes of assumptions	\$ 22,311	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$155,651	(\$71,999)
Contributions subsequent to the measurement date	\$122,219	\$0
TOTAL	\$679,270	(\$143,257)

Total PERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$114,942	(\$71,258)
Net difference between projected and actual investment earnings on pension plan investments	\$310,665	\$0
Changes of assumptions	\$ 22,311	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$155,651	(\$71,999)
Contributions subsequent to the measurement date	\$218,843	\$0
TOTAL	\$822,412	(\$143,257)

Deferred outflows of resources related to pensions resulting from the CTS contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. 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
2017	(11,454)
2018	(11,454)
2019	42,722
2020	26,704
2021	
Thereafter	
TOTAL	46,518

Year ended December 31	PERS 2/3
2017	20,132
2018	20,132
2019	238,612
2020	134,918
2021	
Thereafter	
TOTAL	413,794

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 \$17,390 for shop rental in 2016.

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 CTS auto liability, general liability, public official's liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2016, CTS retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. CTS has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

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 agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving 12 months notice. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the WSTIP Board of Directors. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

CTS has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Here is a summary of coverage provided in 2016:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage	\$60,000	Per occurrence	\$0
PUBLIC OFFICIALS LIABILITY	\$20 million	Per occurrence and aggregate	\$5,000
PROPERTY COVERAGE All perils subject to the following sub-limits:	\$500 million	Per occurrence, all	\$5,000

		perils and insureds/ members combined	
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,00 minimum per occurrence per unit
Auto Physical Damage	Fair market value	Limited to \$1 million any one vehicle	\$5,000
Auto Physical Damage if the vehicle is less than 10 years old and valued over \$250,000	Replacement Cost		\$5,000
Information Security and Privacy with electronic media (Cyber Liability) with the following sub- limits:	\$2 million	Annual aggregate	\$50,000
Privacy Notification costs	\$500,000		
Regulatory Defense and Penalties	\$2 million		
PCI Fines and Penalties	\$100,000		
Website Media Liability	\$2 million		
Data Protection Loss	\$2 million		
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

NOTE 8. LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

**CLALLAM TRANSIT SYSTEM
LIABILITIES
For the Year Ended December 31, 2016**

		1	2	3	4
ID No.	Description	Beginning Balance 1/1/16	Additions	Reductions	Ending Balance 12/31/16
263.98	Compensated absences noncurrent	\$195,444	\$13,910		\$209,354
263.93	Clallam Transit Retiree Health Insurance Benefit	145,705		-	145,705
263.93	OPEB Liability HCA Implicit Retiree Subsidy	2,174,651	543,266	-	2,717,917
263.93	Pension Liability	2,956,090	1,050,031		4,006,121
TOTAL LIABILITIES		\$5,471,890	\$1,607,207	\$ -	\$7,079,097

NOTE 9. EMPLOYEE BENEFIT INSURANCE

A. Unemployment Insurance - CTS remained self-insured for unemployment compensation. During 2016, CTS paid \$14,459 in unemployment benefits.

B. Industrial Insurance is provided by the Washington State Department of Labor & Industries Program. CTS paid \$165,032 in insurance premiums to the Program for 2016.

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 \$975,570 in net premiums for medical, dental, vision and life plans for 2016.

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 2016.

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, 2016 included 3 separated employees and 22 active vested employees; together with the 31 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 retirements of their respective PERS Plans (see Note 5) are eligible to participate in PEBB group plans on a self-pay basis so long as 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):

<u>Monthly UMP Medical & UDP</u>			
<u>Dental Coverage Rates</u>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retiree (Individual) < 65	\$ 621.41	\$ 623.73	\$ 595.75
Retiree + Spouse or Domestic Partner < 65	1,236.79	1,241.21	1,185.28
Medicare Eligible Individual	312.52	279.91	268.59

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 in 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). Health 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 four Years Ending December 31:

	<u>2016</u>		<u>2015</u>		<u>2014</u>		<u>2013</u>	
Annual OPEB Cost								
Annual Required Contribution	\$	618,452	\$	589,287	\$	345,834	\$	358,295
Net OPEB Obligation Interest		86,986		65,630		54,289		41,266
Net OPEB Obligation Amortized		(125,760)		(94,884)		(78,489)		(59,661)
Annual OPEB Cost	\$	579,678	\$	560,033	\$	321,634	\$	339,900
Net OPEB Obligation (NOO)								
Starting NOO	\$	2,174,651	\$	1,640,739	\$	1,357,232	\$	1,031,668
Annual OPEB Cost		579,677		560,032		321,635		339,900
Contributions		(36,411)		(26,120)		(38,128)		(14,336)
Net OPEB Obligation (NOO)	\$	2,717,917	\$	2,174,651	\$	1,640,739	\$	1,357,232
Increase in Net OPEB	\$	543,266	\$	533,912	\$	283,507	\$	325,564
Employer percentage Contributions		6%		5%		12%		4%

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
12/31/14	\$ -	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%
12/31/16	-	4,299,782	4,299,782	0%	3,611,514	119%
-	-	-	-	-	-	-

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/14	321,635	38,128	12%	1,640,739
12/31/15	560,032	26,120	5%	2,174,651
12/31/16	579,677	36,411	6%	2,717,917

Schedules of Required Supplementary Information

SCHEDULE OF THE CLALLAM TRANSIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PERS Pension Plans June 30, 2016 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

<u>PERS # 1</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Transit's proportion of the net pension liability (asset)	0.03440%	0.03060%	0.03346%	0.03595%
Transit's proportionate share of the net pension liability (asset)	\$ 1,847,549	\$ 1,600,508	\$ 1,685,664	\$ 2,100,708
Transit's covered-employee payroll	54,696	42,132	76,782	77,613
Transit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	3378%	3799%	2195%	2707%
Plan fiduciary net position as a percentage of the total pension liability	57%	59%	61%	57%

<u>PERS # 2/3</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Transit's proportion of the net pension liability (asset)	0.04287%	0.03794%	0.04111%	0.03794%
Transit's proportionate share of the net pension liability (asset)	\$ 2,158,571	\$ 1,355,582	\$ 830,961	\$ 1,917,664
Transit's covered-employee payroll	\$ 3,849,995	\$ 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	56%	35%	23%	54%
Plan fiduciary net position as a percentage of the total pension liability	85%	89%	93%	85%

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

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

Schedules of Required Supplementary Information

SCHEDULE OF THE TRANSIT CONTRIBUTIONS

PERS Pension Plans
December 31, 2016
Last 10 Fiscal Years*

<u>PERS # 1</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 189,763	\$ 170,468	\$ 150,583	\$ 117,383
Contributions in relation to the contractually required contribution	\$ (189,763)	\$ (170,468)	\$ (150,583)	\$ (117,383)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Transit's covered-employee payroll	\$ 54,696	\$ 42,132	\$ 76,782	\$ 77,613
Contributions as a percentage of covered-employee payroll	347%	405%	196%	151%

<u>PERS # 2/3</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 239,753	\$ 213,408	\$ 177,787	\$ 167,991
Contributions in relation to the contractually required contribution	\$ 239,753	\$ (213,408)	\$ (177,787)	\$ (167,991)
Contribution deficiency (excess)	0	0	0	0
Transit's covered-employee payroll	\$ 3,849,995	\$ 3,847,937	\$ 3,636,440	\$ 3,566,047
Contributions as a percentage of covered-employee payroll	6.227%	5.546%	4.889%	4.711%

Notes to Required Supplementary Information
for the Year Ended December 31, 2016

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

Changes of assumptions: Amounts reported in 2016 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.

**Ciallam County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Cluster									
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)		Federal Transit Capital Investment Grants	20.500	GCB-1318(B) Dispatch & MDTs	8,516	-	8,516	-	1,7
			Total Federal Transit Cluster:		8,516	-	8,516	-	
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)		Formula Grants for Rural Areas	20.509	GCB 2518/WA- 2016-065	44,631	-	44,631	-	1,7
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)		Formula Grants for Rural Areas	20.509	GCB 2070	707,104	-	707,104	-	1,7
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)		Formula Grants for Rural Areas	20.509	RTAP Funds	7,383	-	7,383	-	1,7
			Total CFDA 20.509:		759,118	-	759,118	-	
			Total Federal Awards Expended:		767,634	-	767,634	-	

The accompanying notes are an integral part of this schedule.

CLALLAM TRANSIT SYSTEM
(City/County/District)

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Notes 1 and 7 are required for all governments. Disclose other notes only if applicable to the government's circumstances.

Note 1 – Basis of Accounting

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

Note 7 – Indirect Cost Rate

The System has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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