



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**

**Chelan-Douglas Public Transportation  
Benefit Area  
(Link Transit)**

**Chelan County**

**For the period January 1, 2016 through December 31, 2017**

**Published July 16, 2018**

**Report No. 1021548**





**Office of the Washington State Auditor  
Pat McCarthy**

July 16, 2018

Board of Directors  
Link Transit  
Wenatchee, Washington

**Report on Financial Statements and Federal Single Audit**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
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.....	6
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance .....	8
Independent Auditor's Report on Financial Statements.....	11
Financial Section.....	14
About the State Auditor's Office.....	57

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Link Transit  
Chelan County  
January 1, 2017 through December 31, 2017**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

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

Internal Control over Financial Reporting:

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

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

#### Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the Transit Authority's compliance with requirements applicable to 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>
20.523	ARRA - Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions

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

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

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

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

**Link Transit  
Chelan County  
January 1, 2016 through December 31, 2017**

Board of Directors  
Link Transit  
Wenatchee, 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 Link Transit, Chelan County, Washington, as of and for the years ended December 31, 2017 and 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 July 6, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits 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

July 6, 2018

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

**Link Transit  
Chelan County  
January 1, 2017 through December 31, 2017**

Board of Directors  
Link Transit  
Wenatchee, Washington

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

We have audited the compliance of the Link Transit, Chelan 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, 2017. 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, 2017.

## **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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy  
State Auditor  
Olympia, WA

July 6, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Link Transit Chelan County**

**January 1, 2016 through December 31, 2017**

Board of Directors  
Link Transit  
Wenatchee, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Link Transit, Chelan County, Washington, as of and for the years ended December 31, 2017 and 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Link Transit, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audits were conducted for the purpose of forming opinions 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 July 6, 2018 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

July 6, 2018

## **FINANCIAL SECTION**

**Link Transit  
Chelan County  
January 1, 2016 through December 31, 2017**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management Discussion and Analysis – 2017 and 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017 and 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – 2017 and 2016

Statement of Cash Flows – 2017 and 2016

Notes to Financial Statements – 2017 and 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –  
2017 and 2016

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017 and 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

# Link Transit

## Management Discussion and Analysis

### For the Years Ending December 31, 2017 & 2016

---

Chelan/Douglas Public Transportation Benefit Area's (Link Transit) Management Discussion and Analysis (MD&A) is designed to:

1. Assist the reader in understanding the different kinds of financial statements presented within this report
2. Assist the reader in focusing on significant financial issues
3. Provide an overview of Link Transit's financial and service activity
4. Identify changes in Link Transit's financial position
5. Provide information on challenges in the next and subsequent years

The MD&A is designed to focus on the current year's activities and should be read in conjunction with Link Transit's financial statements.

### Link Transit's Financial Statements

Link Transit's financial statements are designed so that all activities are reported as one total for the entire year. They are designed to display the financial position and activity of Link Transit as a whole. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. Link Transit is reported as a single standalone enterprise fund. Enterprise funds utilize the accrual basis of accounting, and are reported in the same method as used in private sector accounting. These statements include:

1. Statement of Net Position: The Statement of Net Position, more commonly referred to as the Balance Sheet, reports all financial and capital resources of Link Transit. The statement is prepared using the balance sheet format.  $\text{Assets} = \text{liabilities} + \text{net position}$  (formerly known as equity). They are classified as "Current and Non-Current". Liabilities whose maturities are greater than one-year are reported in two components – the amount due within one-year and the amount due after one-year. The net position is one way to measure Link Transit's financial health and, over time, increases and decreases are indicators of its financial health.

The focus of the Statement of Net Position is designed to present the net position available to Link Transit. The Net Positions are reported in three categories:

- Restricted for (stated purpose): Restricted assets are temporary restricted cash and cash equivalents in which the FTA restricts the use of proceeds for specific purposes.
- Net Investment in Capital Assets: This component consists of all capital assets, net of depreciation. It does not discount any bonds owed or notes due that have

contributed in the construction or improvements of Link Transit's facilities or equipment.

- Unrestricted Net Position: This component consists of all cash available for operations, receivables, inventory and all other net assets.

2. Statement of Revenues, Expenses and Changes in Fund Net Position:  
This statement is similar to an income statement and includes operating revenue, which is fare revenue, operating expenses, which includes all administrative, operations, maintenance expenses and depreciation. This statement also includes all non-operating revenues and expenses, including sales tax, grants, rental and advertising income, investment income and interest expense.

The focus of the "Statement of Revenues, Expenses and Changes in Fund Net Position" is the "Change in Net Position". This is similar to Net Income or Loss.

3. Statement of Cash Flows: This statement shows net cash provided by, or used for, operating activities, non-capital financing activities and capital activities. The cash flow statement is a financial statement that shows how changes in balance sheet accounts and income affected cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities.

**Financial Highlights:**

Following are summaries of Link Transit's Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position as of December 31, 2017, 2016 and 2015 respectively.



### Summarized Statement of Net Position

	2017	2016	2015	2017 Increase (Decrease) Over 2016	2016 Increase (Decrease) Over 2015
<b>Assets:</b>					
Current Assets	\$ 18,067,087	\$ 16,150,518	\$ 13,111,994	\$ 1,916,569	\$ 3,038,524
Non-Current Assets	<u>21,392,852</u>	<u>19,621,671</u>	<u>21,129,736</u>	<u>1,771,181</u>	<u>(1,508,065)</u>
<b>Total Assets</b>	<b>\$ 39,459,939</b>	<b>\$ 35,772,189</b>	<b>\$ 34,241,730</b>	<b>\$ 3,687,750</b>	<b>\$ 1,530,459</b>
<b>Deferred Outflow of Resources:</b>	<b>\$ 784,536</b>	<b>\$ 1,224,508</b>	<b>\$ 633,805</b>	<b>\$ (439,972)</b>	<b>\$ 590,703</b>
<b>Liabilities:</b>					
Current Liabilities	\$ (1,196,481)	\$ (1,323,018)	\$ (1,242,771)	\$ 126,537	\$ (80,247)
Non-Current Liabilities	<u>(4,671,404)</u>	<u>(6,072,976)</u>	<u>(4,681,067)</u>	<u>1,401,572</u>	<u>(1,391,909)</u>
<b>Total Liabilities</b>	<b>\$ (5,867,885)</b>	<b>\$ (7,395,994)</b>	<b>\$ (5,923,838)</b>	<b>\$ 1,528,109</b>	<b>\$ (1,472,156)</b>
<b>Deferred Inflow of Resources:</b>	<b>\$ (755,709)</b>	<b>\$ (104,390)</b>	<b>\$ (694,979)</b>	<b>\$ (651,319)</b>	<b>\$ 590,589</b>
<b>Net Position:</b>					
Invested in Capital Assets	\$ 21,248,487	\$ 19,477,306	\$ 20,985,372	\$ 1,771,181	\$ (1,508,066)
Restricted Funds	144,365	144,365	144,365	0	0
Unrestricted Funds	<u>12,228,029</u>	<u>9,874,641</u>	<u>7,126,981</u>	<u>2,353,388</u>	<u>2,747,660</u>
<b>Total Net Position</b>	<b>\$ 33,620,881</b>	<b>\$ 29,496,313</b>	<b>\$ 28,256,718</b>	<b>\$ 4,124,569</b>	<b>\$ 1,239,595</b>

Link Transit's assets exceeded its liabilities by \$33,620,881 as of December 31, 2017; \$29,496,313 as of December 31, 2016 and \$28,256,718 as of December 31, 2015. Link Transit's total net position increased by \$4,124,569 in fiscal year 2017, which followed an increase of \$1,239,595 in 2016. The increase in net position for 2017 is due to a reduction in the pension liability of \$1,401,572, and increase in fixed assets. The increase in net position in 2016 is due from above average sales tax increases. The decrease in Net Position for 2015 is due to a new accounting standard, GASB 68, which requires all agencies who participate in the Public Employees Retirement System (PERS) to book their portion of the unfunded liability. For 2015, this liability was \$4,681,067, and for 2016 it increased to \$6,072,976.

The majority of the increase in assets of \$3,687,750 for 2017 is contributed to the purchase of five (5) 35' BYD Buses and two (2) Startrans cutaways. For the year ending 2017, sales tax revenue had a small increase of \$37,748 over 2016, in comparison, in 2016, sales tax collections increased by \$1,016,003 or 9.4% over 2015 and in 2015 sales

tax increased \$994,880 or 10.1% over 2014. The sales tax increases over the past few years has put Link Transit in a good “cash” position which allows for replacement and upkeep of equipment and adding additional service beginning in July 2018.

Part of the annual budget process is to set aside money to fund the future replacement of capital assets. These can be new assets or upkeep or replacement of current assets. Link has established reserve accounts which are separated into four categories:

- 1) Vehicle reserves
- 2) Facility and equipment reserves
- 3) Operating contingency reserves
- 4) Restricted Reserves

In 2017, \$2,000,000 was transferred to vehicle reserves, \$800,000 to facility and equipment reserves and \$20,000 to operating contingency reserves. In 2016, \$1,000,000 was transferred to vehicle reserves, \$550,000 to facility and equipment reserves and \$20,000 to operating contingency reserves. In 2015, \$500,000 was transferred to vehicle reserves, \$750,000 to facility and equipment reserves and \$20,000 to operating contingency reserves.

The *Vehicle and Facility & Equipment Reserve* are funds set aside for the replacement of buses, new shelters, upkeep of facilities, replacement of old equipment and replacement of and expansion Link Transit’s computer and technology needs.

The *Operating Contingency Reserve* is set up to have two (2) months of operating funds available due to any unforeseen interruptions in Link Transit’s monthly sales tax collections.

The *Restricted Reserves* are funds set aside from the sale of buses that were purchased with Federal Grant Funds. Once the vehicles are declared surplus, and if the sale value received is over \$5,000, Link Transit is required to set aside those funds to spend on future federally funded purchases. Link Transit anticipates using these funds in 2018 for replacement buses.

The ongoing challenge is to fund the reserve accounts to meet the capital needs going forward while balancing the demand of operating daily service. Current pricing for a new 40’ diesel coach is over \$500,000, a new 35’ electric vehicle costs over \$700,000 and cutaways are approximately \$155,000. All vehicles have a “useful” life, which is determined by miles and years of service. Link Transit has a replacement schedule for all vehicles; the challenge is getting funding, wither through grants or savings, to meet the replacement needs.

Link’s Columbia Station is 20 years old and the Operations and Maintenance Base is 17 years old. These facilities are in need of updates and repairs. To fully fund the vehicle replacement needs, an annual savings of \$1 million is projected to fund the vehicle reserve account and \$200,000 annually to fund the facility and equipment account. These

amounts only fund the replacement of current equipment or upgrades to the current facilities. This will not cover new equipment and/or new facilities.

On December 4, 2015, congress passed a five (5) year transportation package called FAST (*Fixing America's Surface Transportation Act*). This bill funds Link's 5307 formula grant with modest increases and has new money (*grants*) for both facilities and bus replacement. These discretionary funds for bus and bus facility replacement pay 80% of the cost, if awarded.

In 2008, Link prepared a plan that identified key areas that a Park & Ride lot would be beneficial. Rock Island was one of the locations that was identified. In 2015, an acre close to Highway 28 was purchased for a future park and ride lot. Link has no immediate plans to build this lot. The lot will be developed as demand dictates. Another park and ride project in the works is the Leavenworth Park & Ride lot. Link has purchased 1.5 acres to build a 90 space park and ride lot at the east end of Leavenworth behind Safeway. This lot would alleviate the need for our commuter bus to travel through town, which causes delays due to the many festivals and the heavy traffic on Highway 2. A new shuttle would operate downtown and connect to the new park and ride. Design work is completed and ready to go out for bid. If all goes well, construction will begin in the summer of 2018 and be completed by June 2019.

Link solicited a bid in December 2017, for a new Computer Aided Dispatch (CAD), Automatic Vehicle Locator (AVL), fare payment system and real-time bus location system for both dispatch and guests. The RFP was sent out in December and Link Transit is recommending that Avail Technologies be awarded the contract. The implementation will take approximately 12 months. Avail also recently purchased FleetNet, which is Link's integrated software system. The new CAD/AVL system will allow staff to track ridership at each bus stop and each trip to make decisions for future routes and stops. Link's guests will be able to download a smartphone "app" that will display real-time information of where their bus is and how long it will take to get to their stop.

Link went out to bid in early 2018 to remodel the 3<sup>rd</sup> floor of Columbia Station, the administrative building at Link's operation base, and to build the coach operator breakroom at Columbia Station. This will allow some staff to relocate from the operations base to the 3<sup>rd</sup> floor to free up administrative office space which has reached its capacity at the operations base. The remodel should be completed by the summer of 2018.

Overall, Link is in a good capital financial position. Revenues have come in stronger than projected, which enables more funds to be put into reserve accounts to help fund these capital needs. As in past years, Link will continue to apply for grants for capital projects, to replace the full size coaches and cutaways, and for facility upgrades, expansions and improvements.

### **Operating:**

Below is the "Summarized Statement of Revenues, Expenses and Changes in

Fund Net Position”, which is commonly known as the “Income Statement”. This report is in summary form showing total revenues less operating expenses for a two year period.

### Summarized Statement of Revenues, Expenses and Changes in Fund Net Position

	2017	2016	2015	2017 Increase (Decrease) Over 2016	2016 Increase (Decrease) Over 2015
Operating Revenue	\$ 635,163	\$ 636,597	\$ 657,487	\$ (1,434)	\$ 20,890
Operating Expenses	(14,923,045)	(14,971,464)	(13,532,531)	48,419	1,438,929
<b>Operating Loss</b>	<b>\$ (14,287,882)</b>	<b>\$ (14,334,867)</b>	<b>\$ (12,875,044)</b>	<b>\$ 46,985</b>	<b>\$1,459,819</b>
Sale Tax Income	11,910,262	11,872,514	10,856,510	37,748	(1,016,004)
Non-Operating Rev.	224,439	165,934	160,100	58,505	(5,834)
Grants	3,651,407	3,540,612	2,966,426	110,795	(574,186)
<b>Total Non-Operating Rev.</b>	<b>\$ 15,786,108</b>	<b>\$ 15,579,060</b>	<b>\$13,983,036</b>	<b>\$207,048</b>	<b>\$ (1,596,024)</b>
Net Income(Loss) Before Capital Contributions	1,498,225	1,244,197	1,107,992	254,033	136,205
Capital Contributions	2,626,341	(4,601)	387,108	2,630,942	(391,709)
Net Position (Beginning of Period)	29,496,313	28,256,721	31,568,978	1,239,595	(3,312,257)
Adjustment for a Change Accounting Principle GASB 68	0	0	(4,807,359)	0	4,807,359
<b>Net Position – End of Period</b>	<b>\$ 33,620,880</b>	<b>\$ 29,496,313</b>	<b>\$ 28,256,718</b>	<b>\$ 4,124,567</b>	<b>\$ 1,239,595</b>

**Budget to Actual Spent** – Link ended 2017 under budget by \$659,692 prior to yearend adjustments. The majority of the budget savings was an adjustment made to GASB 68 Pension. GASB 68 requires entities, such as Link, to record the “unfunded” liability of Link’s portion of the state retirement fund. This amount adjusts annually, sometimes up and sometimes down, depending on how the investments of the pension perform and how much liability Link holds for the future of our retirees.

For 2017, the pension expenditures were reduced by \$310,280. For year ending 2016, the operating budget was \$169,559 under budget prior to the GASB 68\* yearend adjustment of \$210,616, which required a budget amendment in the amount of \$41,057 to balance the operating budget. For year ending 2015, the operating budget was \$161,560 under budget.

When developing Link’s Operating Budget, staff strives to keep the increase in expenses no higher than the revenue projection, which has been an 5.8% average per year since 2001. When developing the Operating Budget, expenses are based on the previous year’s actual expenditures and any increase is due to an increased cost in goods and/or services that can be anticipated or new employees and/or new service. Each department has their own budget and each manager is responsible for keeping within budget for the

current year. If an unexpected expense does arise, staff can, and has, approached the Board to request a budget amendment.

\* GASB 68 was new in 2015, which requires all public agencies to expense the unfunded portion of the state retirement pension, PERS.

## Revenue Overview:

Revenue Source	2017	2016	2015	2017 Increase (Decrease) Over 2016	2016 Increase (Decrease) Over 2015
<b>Operating Revenues</b>					
Passenger Fares	\$ 635,163	\$ 636,597	\$ 657,487	\$ (1,434)	\$ (20,890)
Advertising	2,975	42,060	38,863	(39,085)	3,197
<b>Total Federal Operating Assistance</b>	<b>\$ 638,138</b>	<b>\$ 678,657</b>	<b>\$ 696,350</b>	<b>\$ (40,519)</b>	<b>\$ (17,693)</b>
<b>Non-Operating Revenue</b>					
Sale Tax	11,910,262	11,872,514	10,856,510	37,748	1,016,004
Federal Operating Grants	2,695,701	2,622,896	2,329,718	72,805	293,178
State Operating Grants	952,706	915,216	563,204	37,490	352,012
Other Non-Operating Revenue ( <i>Rent</i> )	70,266	72,361	67,811	(2,095)	4,550
Other Non-Operating Revenue ( <i>Misc</i> )	151,197	51,513	53,426	99,684	(1,913)
WSTIP - Safety & Security Grant	3,000	2,500	2,500	500	0
State Transit Operating Grant	0	0	71,004	0	(71,004)
<b>Total Grants &amp; Operating Assistance</b>	<b>\$ 15,783,132</b>	<b>\$ 15,537,000</b>	<b>\$ 13,944,173</b>	<b>\$ 246,132</b>	<b>\$ 1,592,827</b>
<b>Total Revenue</b>	<b>\$ 16,421,270</b>	<b>\$ 16,215,657</b>	<b>\$14,640,523</b>	<b>\$ 205,613</b>	<b>\$ 1,575,134</b>

- **Sales Tax** – Link’s main source of revenue comes in the form of local sales tax collections of 4/10<sup>th</sup> of one-percent. This accounts for 72% of Link’s revenues. 2017 sales tax collections were \$11,910,262 which came in barely over 2016 by \$37,747, but 3.8% under the budget. In 2016, Link’s sales tax collections were \$11,872,514, which was \$1,016,003 or 9.4% higher than collected in 2015 and \$1,372,554 or 15% higher than budgeted. In 2015, Link collected \$10,856,510 in sales tax revenues, which was \$994,880 or 10% higher than collected in 2014 and \$1,451,088 or 15% above the 2015 budgeted amount. Sales tax is received two months after it is earned, which means November and December’s sales tax is received in January and February, respectively, of the next calendar year.

Link receives a sales tax report from a company called MicroFlex, which breaks the collections down by county (*Chelan and Douglas*) by city (*Wenatchee, East Wenatchee, Waterville, Entiat, Chelan, Cashmere, Leavenworth and Rock Island*) and by sales category.

Below are the changes in sales tax collections by category for 2017 versus 2016:

- Construction was down -2% or (\$46,380)

- Retail sales were up 1% or \$26,692
- Real estate sales were up 33% or \$108,080
- Food and accommodations were up 5% or \$67,738
- Professional Science Technical Services were down -22% or (\$103,290)
- Information was down -22% or (\$103,290)
- Finance and Insurance was up 90% or \$31,518
- Wholesale trade was down -4% or (\$33,336)

Sales tax was not quite as robust as it has been in the past several years, implying that if the growth bubble has slowed down. One of the reasons sales tax was down from 2016 was due to a refund to a local “data farm” (*a company that has many servers and stores data*) which had purchased tax exempt equipment, but did not request the refund for three (3) years. Link’s portion of the sales tax refund was \$196,000. Without the refund, Link would have been over 2016 collections by \$233,747 or 2%, but still under budget by \$270,178. For 2018 budgeting was a bit more conservative, projecting a 3% increase.

- **Fares** – For 2017, Link collected \$635,165 in fares, which was \$1,424 or .2% less than 2016. Link received \$636,597 in fares for 2016, \$20,890 or 3% less than in 2015. Fares for 2015 were \$657,487, \$31,604 or 5% less than in 2014. Fares are down mostly due to the 2.7% drop in ridership for 2017. With low unemployment and a good economy transit ridership does drop a bit which is common nationwide. Link’s free “Downtown Trolley Service” in the Wenatchee and East Wenatchee’s core business district has become three of the most popular routes. The three free trolleys account for approximately 40% of our ridership. Where these free routes do take some fare revenue away, keeping the boardings up is an important part of the federal funds we receive.
- Link’s federal grant formula includes earning \$191,038 per incentive for meeting or exceeding the FTA’s medium size system ridership averages. There are a total of six (6) incentives and Link received all six (6) in 2016 and 2017 for a total of \$1,136,591 for 2016 and \$1,146,228 in 2017.
- **Other Non-Operating Revenue** – Consists of the following revenues:

	<u><b>2016</b></u>	<u><b>2017</b></u>
▪ Advertising on buses	\$ 42,061	\$ 2,975
▪ Interest income	\$ 47,068	\$ 147,317
▪ Rental income	\$ 72,361	\$ 70,267
▪ Sale of Fixed Assets	\$ (4,601)	\$ (4,569)
▪ Miscellaneous income	\$ 4,444	\$ 3,880

Other Non-Operating Revenues total \$219,870 for 2017, \$161,333 for 2016 and \$175,870 for 2015. Advertising decreased in 2017 because the advertising program was eliminated in 2016. Link determined the Advertising Program did not net a profit due to the damage on the buses when the ads were removed.



Interest income increase dramatically due to investing in several short-term certificates of deposit (CD's) with higher interest rates than the state pool where the majority of Link's funds are kept.

- **Grants** – Link Transit receives both Federal and State Grant assistance. The bulk of Link's grants come from the Federal Transit Administration (FTA) as a direct recipient and from the Washington State Department of Transportation (WSDOT). The Federal Grants include a 5307 Formula Grant which is used for wages and benefits, which accounts for 60% of the grant funds. The remaining grants come from the WSDOT through a competitive grant application process. The consolidated grants program from the WSDOT has a two-year cycle from July 1, 2015 through June 30, 2017 and July 1, 2017 to June 30, 2019. Link receives both federal and state grants through the DOT's grant program.
- Link was awarded the following three (3) grants:

	<u>2015-2017</u>	<u>2017-2019</u>
▪ Commuter Routes	\$ 675,000	\$ 775,000
▪ Leavenworth DART	\$ 120,000	\$ 130,000
▪ Mobility Manager	\$ 120,000	\$ 160,000

- The consolidated grants through WSDOT are operating grants with the commuter routes being funded at 50%, the Leavenworth DART being funded at 49.9%, the Mobility Manager being funded at 72% with Link matching 50%, 50.1% and 28% respectively.
- Link also received a four-year Regional Mobility operating grant in 2015 to help fund a new route, Current B, that serves Riverside Drive and to the Wenatchee Valley College. This \$2,520,000 grant pays for 50% of the cost and is matched by local funds from Link. This grant will expire in June 30, 2019. Link plans to continue funding this route with local funds.
- Link also receives a state funded Special Needs Grant. These funds help pay for Link's paratransit service, LinkPlus. This service provides transportation for the elderly and disabled.

## Grant Overview:

				2017 Increase (Decrease) Over 2016	2016 Increase (Decrease) Over 2015
<b>Operating Assistance Grants</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>		
<b>Federal Transit Administration</b>					
Section 5307 Operating Assistance	\$ 2,195,750	\$ 2,160,420	\$ 1,775,302	\$ 35,330	\$ 385,118
Section 5311 Operating Assistance	425,000	397,500	364,516	27,500	32,984
Section 5310 Operating Assistance	74,951	0	77,400	74,951	(77,400)
Section 5316 JARC Assistance	0	64,976	112,500	(64,976)	(47,524)
<b>Total Federal Operating Assistance</b>	<b>\$ 2,695,701</b>	<b>\$ 2,622,896</b>	<b>\$ 2,329,718</b>	<b>\$ 72,805</b>	<b>\$293,178</b>
<b>State Operating Assistance</b>					
Special Needs Grant	328,706	291,216	251,204	37,490	40,012
Regional Mobility Grant	624,000	624,000	312,000	0	312,000
State Transit Operating Grant	0	0	71,004	0	(71,004)
<b>Total State Operating Assistance</b>	<b>\$ 952,706</b>	<b>\$ 915,216</b>	<b>\$ 634,208</b>	<b>\$ 37,490</b>	<b>\$ 281,008</b>
<b>Other Operating Assistance</b>					
WSTIP - Safety & Security Grant	3,000	2,500	2,500	500	0
<b>Total Operating Grant Assistance</b>	<b>\$ 3,651,407</b>	<b>\$ 3,540,612</b>	<b>\$ 2,966,426</b>	<b>\$ 110,795</b>	<b>\$ 574,186</b>

## Capital Grants:

Link Transit has one open active capital grant:

- In 2016, Link was awarded a Lo-No Grant, which refers to “Low to No” Emissions Vehicle Program. This grant award for \$3,768,489 will purchase five (5) battery electric buses and a fast charger. Link Transit expects to obligate this grant by awarding a contract for the five additional battery electric buses to BYD. The expected delivery date will be in 2020.

## Financial Analysis of Link Transit:

Link Transit is in a strong financial position. With strong revenues the past few years, Link Transit was able to put additional funds into the reserve accounts for vehicle replacement, facility upgrades, new technical equipment and software and a small service expansion beginning July 2018. The increase in service will fund service beginning at 5:30a.m. and running until 10:00 pm. Additional trips will be put on the Chelan route (21) to fill the gaps in the afternoon. These extra funds also allow for the replacement of some



older diesel buses with smaller cutaways that will meet the route needs at a much lower cost.

Part of the budget process is to update the Board with a 10-year sustainability plan. This plan shows a conservative growth of 3 - 5% in sales tax annually, grants growing at 2% and most other revenues held constant. Expenses are projected to grow at 5.6% per year, which is the historical 12 year average. Link's Operating Budget has a goal not to exceed the average of 5.6% per year, unless one can justify the need for additional cost to the GM, management team and Board. Based on both revenues and expenses, which are adjusted annually, Link has enough funds to continue operating at the same level for the next 10 years. This also includes transferring money into the reserve accounts for vehicle replacements, facility improvements and equipment replacement.

In 2016, Link hired a local consultant to reach out to the community and get a well-planned survey to find out: "What do you think Link should be to the community, now and in the future, 10 to 20 years out". The survey was completed in 2017 with favorable results to expand our service with higher frequency and longer hours. If we do decide to expand, are the citizens willing to support a sales tax increase? Link is currently at 4/10<sup>th</sup> of one-percent and has the authority to go up to 9/10<sup>th</sup> of one-percent. In 2017 dollars, each 10<sup>th</sup> is equal to approximately \$2.9m. Link Transit would ask the citizens of Chelan and Douglas county to support a 2/10<sup>th</sup> of one percent sales tax increase.

One indicator of measurement can be the differences between assets and liabilities and whether assets continue to rise without incurring additional debt (or increase liability). Another important factor that plays directly into the financial health of Link Transit is the economic health of Link Transit's service area, such as population growth and industry trends, which play a direct role in Link Transit's main revenue source, sales tax.

For 2017 and 2016, the economy continued to improve in Chelan and Douglas Counties. Although sales tax collections for 2017 were flat, the past two years sales tax grew over 9% per year, well above the historical average of 5% per year. These extra funds are being kept in Link's investment account for future operating or capital needs. Link Transit is very grateful for the additional sales tax collections, but is cautious as not to expect this kind of increase every year.

In summary, Link Transit is in good financial health. The economy continues to be strong and the reserve accounts are being funded for future vehicle replacement and facility upgrades. Link Transit anticipates adding some service in 2018, and continually working on replacing the aging diesel fleet with new green electric technology. Link Transit feels optimistic about the future of the organization and looks forward to continue to serve Chelan and Douglas Counties.

**Link Transit**  
**Statement of Net Position**  
**December 31, 2017 & 2016**

	2017	2016
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 3,767,338	\$ 1,018,524
Investments	11,051,207	10,008,852
Receivables	2,988,911	4,851,473
Inventory	241,996	254,033
Prepayments	17,635	17,635
Total current assets	<u>18,067,087</u>	<u>16,150,518</u>
Noncurrent Asset		
Restricted Cash	<u>144,365</u>	<u>144,365</u>
Capital Assets		
Capital Assets Not Being Depreciated:		
Land	5,945,962	5,611,526
Construction in progress	454,591	275,910
Capital Assets Net of Accumulated Depreciation:		
Buildings	14,664,567	14,565,298
Vehicles	16,283,743	13,096,047
Equipment	3,509,641	3,876,598
Park & Rides	1,149,362	1,149,361
Less accumulated depreciation	<u>(20,759,379)</u>	<u>(19,097,434)</u>
Total Capital Assets	<u>21,248,487</u>	<u>19,477,306</u>
<b>TOTAL ASSETS</b>	<u>39,459,939</u>	<u>35,772,189</u>
Deferred Outflows of Resources		
Deferred Outflows - Contributions	784,536	1,224,508
Total Deferred Outflows	<u>\$ 784,536</u>	<u>\$ 1,224,508</u>

The accompanying notes are an integral part of the financial statements

**Link Transit**  
**Statement of Net Position**  
**December 31, 2017 & 2016**

	2017	2016
<b>LIABILITIES</b>		
Current Liabilities		
Accounts/warrants payable	\$ 503,923	\$ 630,834
Accrued payroll direct deposit	190,482	205,038
Compensated Absences	325,040	305,918
Accrued expenses	171,039	168,314
Prepaid bus service	5,997	12,914
Total current liabilities	1,196,481	1,323,018
Noncurrent Liabilities		
Compensated Absences		
Net Pension Obligation	4,671,404	6,072,976
Total non-current liabilities	4,671,404	6,072,976
<b>TOTAL LIABILITIES</b>	5,867,885	7,395,994
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows - Contributions	755,709	104,390
Total Deferred Infows of Resources	755,709	104,390
<b>NET POSITION</b>		
Net Invested in Capital Assets	21,248,487	19,477,307
Restricted funds	144,365	144,365
Unrestricted	12,228,029	9,874,641
Total Net Position	\$ 33,620,881	\$ 29,496,313

The accompanying notes are an integral part of the financial statements

**Link Transit**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Position**  
**For the Years Ended December 31, 2017 & 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 635,163	\$ 628,226
Special transit fares		8,371
Total operating revenue	<u>635,163</u>	<u>636,597</u>
<b>OPERATING EXPENSES</b>		
Operations	5,975,047	5,977,639
Maintenance	3,459,817	3,362,866
Administrative	3,158,036	3,208,031
Depreciation/amortization	2,330,145	2,422,928
Total operating expenses	<u>14,923,045</u>	<u>14,971,464</u>
Operating income (loss)	<u>(14,287,882)</u>	<u>(14,334,867)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Sales tax	11,910,262	11,872,514
Transit Operating Special Assessment - Department of Revenue		-
Interest income	147,317	47,068
Other nonoperating revenues	77,122	118,866
State operating grant revenue	952,706	915,216
Other grant - Washington State Insurance Pool	3,000	2,500
Federal grant revenue	2,695,701	2,622,896
Total nonoperating revenues (expenses)	<u>15,786,108</u>	<u>15,579,060</u>
Income (loss) before capital contributions, extraordinary and special items	<u>1,498,225</u>	<u>1,244,193</u>
Capital contributions - grants	2,630,910	-
Special Item - sale of capital assets	<u>(4,569)</u>	<u>(4,601)</u>
Total contributed capital & sale of capital assets	<u>2,626,341</u>	<u>(4,601)</u>
Increase (decrease) in net position	4,124,566	1,239,592
Total Net Position - beginning of year	29,496,313	28,256,721
<b>Total Net Position - end of year</b>	<u><b>\$ 33,620,880</b></u>	<u><b>\$ 29,496,313</b></u>

The accompanying notes are an integral part of the financial statements

**Link Transit**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Years Ended December 31, 2017 & 2016**

	2017	2016
<b>CASH FLOWS from OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 635,163	\$ 636,597
Payments to suppliers	(3,355,427)	(2,360,342)
Payments to employees	(9,726,524)	(9,858,738)
Net cash provided (used) by operating activities	<u>(12,446,788)</u>	<u>(11,582,483)</u>
<b>CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from state sales tax	11,695,523	11,989,174
Cash received from sales tax interest	10,234	14,308
Cash received from advertising	2,975	42,061
Grant proceeds	5,801,516	3,136,147
Other nonoperating income	74,147	76,805
Net cash provided (used) by noncapital financing activities	<u>17,584,395</u>	<u>15,258,495</u>
<b>CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	(4,569)	(4,601)
Purchase of capital assets	(4,101,324)	(914,864)
Grant proceeds	2,630,910	-
Net cash provided (used) by capital and related financing activities	<u>(1,474,983)</u>	<u>(919,465)</u>
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		
Purchase of investment securities	(1,241,000)	(645,514)
Proceeds from maturities of investment securities	198,645	(2,891,005)
Interest on investments	128,546	29,157
Net cash provided by investing activities	<u>(913,810)</u>	<u>(3,507,362)</u>
 Net Increase (decrease) in cash and cash equivalents	 2,748,814	 (750,814)
Balances - beginning of year	<u>1,018,524</u>	<u>1,769,334</u>
<b>Balances - end of year</b>	<b><u>\$ 3,767,338</u></b>	<b><u>\$ 1,018,524</u></b>

The accompanying notes are an integral part of the financial statements

**Link Transit**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Years Ended December 31, 2017 & 2016**

---

RECONCILIATION OF OPERATING INCOME (LOSS)  
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	<u>\$ (14,287,882)</u>	<u>\$ (14,334,867)</u>
Adjustments to reconcile net operating income to net cash provided (used) by operating activities		
Depreciation expense	2,330,146	2,422,930
Pension Expense - GASB 68	(310,281)	210,616
Changes in assets and liabilities		
Receivable net	(64,271)	(10,082)
Inventory	12,038	45,677
Prepayments	(6,916)	2,997
Accounts and other payables	(126,911)	203,273
Accrued payroll direct deposit	(14,556)	14,134
Accrued expenses	2,725	(159,872)
Employee leave benefits	<u>19,122</u>	<u>22,714</u>
<b>Net cash provided by operating activities</b>	<b><u><u>\$ (12,446,789)</u></u></b>	<b><u><u>\$ (11,582,480)</u></u></b>

The accompanying notes are an integral part of the financial statements

# LINK TRANSIT

## NOTES TO FINANCIAL STATEMENTS For Years Ending December 31, 2017 & 2016

---

### NOTE 1 – ORGANIZATION AND OPERATION

The Chelan-Douglas Public Transportation Benefit Area (PTBA), known as Link Transit, was incorporated on November 21, 1989. The financial statements of Link Transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

#### **A. Reporting Entity**

Link Transit is a special purpose government formed under authority of Chapter 36.57A of the Revised Code of Washington. Link provides fixed route and paratransit transportation services to the general public and is supported primarily through .4% of local sales tax revenue.

Link Transit is governed by an elected twelve-member board appointed from the eight city and two county governments within the benefit area. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Link Transit has no component units.

#### **B. Basis of Accounting and Reporting**

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

Funds are accounted for on a cost of services or “economic resources” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the Statement of Net Position. The reported Net Position is segregated into: Net Invested in Capital Assets, Restricted and Unrestricted. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in Net Position. Link Transit discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

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

The Transit distinguishes between operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a

Transit's principal ongoing operations. The principal operating revenues of the transit are charges to customers for fares. Operating expenses for the transit include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **C. 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 the Public Employees Retirement Systems (PERS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

### **D. Assets, Liabilities and Net Position**

#### **1. Cash and Cash Equivalents**

It is Link Transit's policy to invest all temporary cash surpluses. At December 31, 2017, the treasurer was holding \$3,767,338 in short-term residual investments of surplus cash. At December 31, 2016, the treasurer was holding \$1,018,524 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash.

For purposes of the statements of cash flows, the transit considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **2. Temporary Investments – See Note 2 – Deposits and Investments**

#### **3. Receivables**

- Taxes Receivable as of December 2017, consist of sales tax in the amount of \$2,330,018 and \$2,115,280 for 2016. Sales tax is collected two months after earned, November's sales tax is collect in January and December's sales tax is collected in February. These amounts are reflected in the taxes receivable amount.
- Accrued interest receivable, in the amount of \$14,032 for 2017 and \$5,495 for 2016, consists of amounts earned on investments, notes, and contracts at the end of the year.
- Grants Receivable consists of grants earned but not yet received. These grants consist of both federal and state funds and are described below for years ending 2017 and 2016.



As of December 31, 2017, federal grants consist of three (3) operating grants for a total of \$132,202, one (1) capital grant for a total of \$130,910, and two (2) state operating grants for \$ 247,549. Total grants receivable for 2017 are \$510,661.

As of December 31, 2016, federal grants consist of four (4) operating grants for a total of \$ 2,275,966, two (2) state operating grants for \$384,804. Total grants receivable for 2016 are \$2,660,770.

- Accounts Receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared in the amount of \$ 134,199 for 2017 and \$ 69,928 for year ending 2016.

Total Receivables are \$ 2,988,911 for 2017 and \$ 4,851,473 for 2016.

#### **4. Amounts Due to and From Other Governments**

These accounts include amounts due to or from other governments for entitlements, temporary loans, taxes and charges for services. As of December 31, 2017 and as of December 31, 2016, there were no amounts due from Other Governments.

#### **5. Inventories**

Inventories are valued by the weighted average method which approximates the market value. This method averages the cost of each inventoried item to give Link an inventory cost, which is then compared to the general ledger balance.

#### **6. Restricted Assets**

Restricted assets are temporary restricted cash and cash equivalents in which the FTA restricts the use of proceeds for specific purposes.

*An example: when a bus is purchased with FTA funds and sold for more than \$5,000, FTA “restricts” these funds and requires the agency to either: reimburse the FTA or use those funds to purchase another FTA funded vehicle.*

As of December 31, 2016 and 2017, Link Transit had \$144,365 in restricted funds for the sale of four (4) buses with federal interest. This amount will be used for future vehicle purchases or other expenses that will meet the FTA’s requirements.

#### **7. Capital Assets and Depreciation**

See Note 3 – Capital Assets and Related Depreciation

#### **8. Compensated Absences**

Compensated absences are paid vacation and sick leave which is accrued monthly. Link uses **“General Leave”** for both vacation and sick leave. General leave is recorded monthly as an expense to each department and on the Statement of New Position under **“Current Liabilities”**. General leave is recorded in current liabilities since all general leave may be used or cashed out in the current year.

General Leave, which may be accumulated up to 45 days or 360 hours is payable upon resignation, retirement, or death.

**9. Other Accrued Liabilities**

These accounts consist of accrued wages and accrued employee benefits.

**10. Long-Term Debt – N/A**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

Link Transit’s deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**B. Investments**

All investments for Link Transit are reported at amortized cost. The Chelan County Treasurer’s Office acts as Link Transit’s Treasurer and operates in accordance with appropriate state laws and regulations.

Link Transit has several options for investment opportunities, which are considered to be under the umbrella of the Local Government Investment Pool; State Pool, Municipal Money Market and Certificate of Deposits. As of December 31, 2017 and 2016, Link Transit had the following investments:

<u>Investment</u>	<u>Value</u>
2017 Washington State Pool	\$ 5,993,568
2016 Washington State Pool	\$ 6,192,213

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction Link Transit would not be able to recover the value of the investment or collateral securities. Of Link Transit’s total position, zero amount is exposed to custodial risk because the investments are held by the Chelan County Treasurer.

### NOTE 3 - CAPITAL ASSETS AND RELATED DEPRECIATION

- A. Capital expenditures in excess of \$5,000 are recorded as capital assets, including capital leases and major repairs that increase useful lives. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets). (Donations by developers [and customers] are recorded at the contract price or donor cost or appraised value.)

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

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from Link Transit's asset accounts, accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of four (4) to thirty (30) years.

Below are the estimated useful lives for Link Transit's assets:

- |  |               |
|--|---------------|
| • Buildings and Shelters                         | 20 – 30 years |
| • Revenue Vehicles ( <i>buses</i> )              | 4 – 12 years  |
| • Non-Revenue Vehicles ( <i>staff vehicles</i> ) | 4 – 10 years  |
| • Shop Equipment                                 | 10 – 12 years |
| • Office Equipment ( <i>electronic</i> )         | 5 years       |
| • Office Furniture/Equipment ( <i>other</i> )    | 10 – 15 years |
| • Bakery Equipment                               | 7 – 15 years  |

**B. Capital assets activity for the year ended December 31, 2017, was as follows:**

	Beginning Balance 01/01/2016	Increases	Decreases	Ending Balance 12/31/2016	Increases	Decreases	Ending Balance 12/31/2017
<b>Capital Assets not being Depreciated</b>							
Land	\$ 5,517,908	\$ 93,618	\$ -	\$ 5,611,526	\$ 334,436	\$ -	\$5,945,962
WIP – Park & Ride	98,257	23,122	(93,618)	27,761	120,952	-	148,713
WIP – CAD/AVL	-	-	-	-	19,934	-	19,934
WIP – Shelters	31,752	-	(26,670)	5,082	-	-	5,082
WIP – E-Bus Project	-	-	-	-	-	-	-
WIP – BYD Bus	1,500	207,015	-	208,515	-	(208,515)	-
WIP – Security Gate	20,897	-	(20,897)	-	-	-	-
WIP – Platform	-	29,552	-	29,552	10,121	-	39,673
Breakroom	-	5,000	-	5,000	-	-	5,000
WIP - Low-No Bus	-	-	-	-	201,095	-	201,095
Grant	-	-	-	-	251	-	251
WIP – BYD Bus Chg –	-	-	-	-	18,503	-	18,503
LTOB	-	-	-	-	16,341	-	16,341
WIP – BYD Bus Chg –							
CS							
WIP – Standby							
Generator							
WIP – Columbia Station							
Impr.							
<b>Total Capital Assets not being Depreciated</b>	<b>5,670,314</b>	<b>358,307</b>	<b>(141,185)</b>	<b>5,887,436</b>	<b>721,633</b>	<b>(208,515)</b>	<b>6,400,554</b>
<b>Capital Assets being Depreciated</b>							
Shelters	1,041,146	26,670	-	1,067,816	-	-	1,067,816
Building & Structures	13,392,099	32,403	-	13,424,502	99,268	-	13,523,769
Building & Structure	72,981	-	-	72,981	-	-	72,981
Impr.							
FR Revenue Equipment	12,163,887	244,063	(25,500)	12,382,450	3,446,781	(204,030)	15,625,200
PT Revenue Equipment	679,452	34,147	-	713,599	-	(55,056)	658,543
Vehicle Charging	831,201	-	-	831,201	-	-	831,201
Equipment							
Service Equipment	330,243	59,948	(41,741)	348,450	-	-	348,450
Garage/Shop Equip.	921,929	310,412	(66,611)	1,165,730	15,285	(42,171)	1,138,844
Office Furniture/Equip.	561,309	-	-	561,309	7,700	(16,119)	552,889
Computer Equipment	121,699	-	-	121,699	17,484	(56,946)	82,238
Computer Software	694,037	-	-	694,037	6,259	(295,308)	404,988
Miscellaneous Equip.	51,012	-	-	51,012	-	-	51,012
Park & Rides	319,559	-	-	319,559	-	-	319,559
Deli at Columbia Stn	103,158	-	-	103,158	-	(3140)	100,019
Rail	829,802	-	-	829,802	-	-	829,802
<b>Total Capital Assets being Depreciated</b>	<b>32,113,515</b>	<b>707,643</b>	<b>(133,852)</b>	<b>32,687,305</b>	<b>3,592,777</b>	<b>(672,770)</b>	<b>35,607,312</b>
<b>Less accumulated depreciation:</b>							
Buildings	(5,905,579)	(381,628)	443	(6,286,764)	(384,508)	(443)	(6,671,715)
Improvements other than buildings	(1,365,306)	(113,151)	(443)	(1,478,900)	(103,775)	443	(1,582,232)
Machinery and equipment	(8,151,897)	(1,830,099)	119,152	(9,862,846)	(1,747,175)	296,687	(11,313,334)
Office Equipment and Computers	(516,957)	(49,881)	-	(566,837)	(51,390)	73,065	(545,163)
Software	(657,323)	(24,050)	-	(681,373)	(13,564)	295,308	(399,629)
Other	(201,395)	(24,119)	4,800	(220,714)	(29,733)	3,140	(247,306)
<b>Total Accumulated Depreciation</b>	<b>(16,798,457)</b>	<b>(2,422,928)</b>	<b>123,952</b>	<b>(19,097,434)</b>	<b>(2,330,145)</b>	<b>668,200</b>	<b>(20,759,379)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>\$20,985,372</b>	<b>\$(1,356,978)</b>	<b>\$(24,085)</b>	<b>\$ 19,477,307</b>	<b>\$ 1,984,265</b>	<b>\$(213,085)</b>	<b>\$ 21,248,487</b>

C. **Construction Commitments** - As of December 31, 2017, Link has capital construction commitments as listed in Work in Progress.

D. **Work-in-Progress** – Currently Link Transit has seven (7) “Work-in-Progress” (WIP) projects in the works.

- **Leavenworth Park & Ride:** Link is working with a developer to build a park & ride lot and access road in Leavenworth behind Safeway. So far, this 29 acre parcel will house two hotels, 150 unit apartment complex and Link’s Park & Ride. In 2017, Link purchased one and one-half (1.5) acres to construct the 90 space park & ride lot. The park & ride lot will include two shelters, electricity for a future electric charger if needed and comfort station for our coach operators, which will also include two (2) public restrooms that the City of Leavenworth will maintain. Along with the park & ride lot, a Transit access road off highway 2 will provide direct access to the park & ride lot. Link was awarded a Regional Mobility Grant in 2016 for \$3.2m for this project. Grant funds will be available to start spending in July of 2017, at which time the final design will be completed and a RFB will be issued in 2018 with construction to be completed by the fall of 2018 or the spring of 2019.
- **Rock Island Park & Ride:** In 2016, Link purchased .82 acres for a future park & ride lot. In 2008, a study was performed to determine the future park & ride lot needs and one of the locations was Rock Island. This piece of land is located on Rock Island Drive right off of highway 28. Service demands will help dictate when this land is development.
- **Shelters:** Shelters and accessibility is an ongoing project from year-to-year. Each year Link has a goal to install shelters and improve accessibility to bus stops throughout the system. The WIP amount is the value of shelters that are available to be installed.
- **Platform Restroom, Columbia Station and Operation Base Remodel:** A coach operator breakroom has been designed and ready to construct on the platform at Columbia Station, unfortunately, due to a favorable construction market, getting a contractor to bid on this contract was difficult. Link combined this project with remodeling of Columbia Station and the operation’s base to make a more attractive project. The three projects went out to bid in January 2018 and a contractor was selected. All projects will be completed by summer of 2018 with a budgeted cost of \$585,000.
- **Low-No Bus Grant:** In 2017 Link was awarded a Low or No Emission (Low-No) Bus Grant for five (5) zero-emission, battery electric buses including slow chargers and a fast charger. Link has not entered into an

agreement with a vendor, but plans to once the five (5) BYD buses we currently have in service prove themselves as reliable vehicles for our service. Depending on the quality and performance of the BYD buses, Link will place the order with BYD in 2018 with delivery expected in late 2019.

- **CAD/AVL:** In December 2017 Link released a Request for Proposals (RFP) to purchase a Computer Aided Dispatch (CAD)/Automatic Vehicle Locator (AVL) and electronic fare payment system. The proposals were due back in March 2018 and a vendor, Avail, was selected. This program will provide staff and our guests with real time bus location, along with actual ridership data by stop and an electronic pass program system. The total budget approved for this project was \$1,000,000.
- **Standby Generator:** Link was award a grant for \$110,000 to purchase and install a generator to power Links facility in case of an emergency. However this project has been placed on hold due to unanticipated costs. Link is in the process of finding another alternative to power the facility as needed. Link has until June 30, 2019 to spend down this grant.

#### **NOTE 4 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of financial-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 2017:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$(4,671,404)
Pension assets	\$ 0
Deferred outflows of resources	\$ 784,536
Deferred inflows of resources	\$ (755,709)
Pension expense/expenditures	\$ 443,295

#### **State Sponsored Pension Plans**

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

public employee defined benefit 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](http://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 (2%) 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 2017 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January through June 2017		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July through December 2017		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

\* For employees participating in JBM, the contribution rate was 12.26%

Link Transit's actual contributions to the plan were \$38,354 for the year ended December 31, 2017 and \$41,160 for the year ended December 31, 2016..

**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 (3%) 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 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January through June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.12%
July through December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

\* For employees participating in JBM, the contribution rate was 15.30%

Link Transit's actual contributions to the plan were \$ 1,159,093 for the year ended December 31, 2017 and \$ 1,022,607 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 2017 with a valuation date of June 30, 2016. 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 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016 to June 30, 2017 reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

## 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, 2017 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

## Sensitivity of NPL

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

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1 – 2017	\$ 3,062,520	\$ 2,513,990	\$ 2,038,845
PERS 2/3 – 2017	\$ 5,847,458	\$ 2,170,464	\$ (842,287)
PERS 1 – 2016	\$ 3,510,216	\$ 2,910,795	\$ 2,395,034
PERS 2/3 – 2016	\$ 5,822,146	\$ 3,162,182	\$(1,646,098)

### **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, 2017 Link Transit reported a total pension liability of \$4,671,405 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1 – 2017	\$ 2,500,941
PERS 2/3 - 2017	\$ 2,170,464
PERS 1 – 2016	\$ 2,910,792
PERS 2/3 – 2016	\$ 3,162,182

At June 30, 2017 Link Transit's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/16</b>	<b>Proportionate Share 6/30/17</b>	<b>Change in Proportion</b>
PERS 1	.0524200%	.05270600%	.00286%
PERS 2/3	.062805%	.062468%	.00337%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2017 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the year ended December 31, 2017 Link Transit recognized pension expense as follows:

	Pension Expense
PERS 1 – 2017	\$ 73,761
PERS 2/3 – 2017	\$369,534
PERS 1 – 2016	\$378,880
PERS 2/3 – 2016	\$505,788

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, Link 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	\$ 0	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ (93,328) 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	\$ 165,720	\$ 0
TOTAL	\$ 165,720	\$ (93,328)

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 219,919	\$ (71,383)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ (578,594)
Changes of assumptions	\$ 23,054	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 146,308	\$ (12,404)
Contributions subsequent to the measurement date	\$ 229,534	\$ 0
<b>TOTAL</b>	<b>\$ 618,816</b>	<b>\$ (662,380)</b>

Deferred outflows of resources related to pensions resulting from Link 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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
2017	\$ (18,045)	\$ 78,894
2018	\$ (63,084)	\$ (155,798)
2019	\$ 19,917	\$ 119,476
2020	\$ (4,624)	\$ (42,542)
2021	\$ (45,536)	\$ 234,681
2022	\$ 0	\$ 17,586
Thereafter	\$ 0	\$ 22,861

## **NOTE 6 – Risk Management**

Link Transit 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 Link Transit auto liability, general liability, public officials liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

As of year ending December 31, 2017, Link Transit retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Link Transit 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.

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

The Insurance Pool provides for the following coverage:

## **B. Coverage**

Link Transit carries the following policies of insurance with the indicated limits of liability.

<b>RISK / EXPOSURE</b>	<b>COVERAGE AMOUNT</b>	<b>COVERAGE</b>	<b>DEDUCTIBLE</b>
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 sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
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 sublimits:	\$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

Limits apply to all Pool Members and do not apply on an individual basis.

Coverage for public official liability is on a "claims made basis". All other coverages are on an "occurrence" basis.

## **NOTE 7 – CONTINGENCIES AND LITIGATION**

Link Transit has recorded in its financial statements all material liabilities. In the opinion of management, Link Transit's insurance policies are adequate to pay all known pending claims.

Link has eighteen (18) unresolved claims against it as of December 31, 2017 and nine (9) unresolved claims as of December 31, 2016. Financial Accounting Standards Statement 5 requires an accrual of potential losses if:

- (a) there is significant information to indicate a loss is likely to occur, and
- (b) the amount of the loss can be reasonably estimated.

None of the claims or suits requires a loss accrual under these criteria.

In the opinion of management, such claims will be immaterial and will not have any significant effect on the financial position of Link. The Washington State Transit Insurance Pool (WSTIP) covers all current claims under the pools coverage limits and will not have any impact on Link's financial position.

Link Transit participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Link Transit's management believes that such disallowances, if any, will be immaterial.

## **NOTE 8 – RESTRICTED FUNDS**

The Federal Transit Administration (FTA) Circular 5010.1E states; after the service life of project ("bus") is reached, rolling stock and equipment with a current market value exceeding \$5,000 per unit, the grantee must either reimburse the FTA their portion or percentage of the fair market value or retain the funds in a separate account to be used

for future purchase of a “like-kind” bus. Link has retained \$144,365 in a separate account for year ending 2016 and 2017. These funds will be used for future bus procurements or other qualified federal expenditures.

## **NOTE 9 – CHANGES IN ACCOUNTING PRINCIPLES**

A. Change in Accounting Principles – No changes in 2017.

## **NOTE 10 – OTHER DISCLOSURES**

B. Major Receivables – Link Transit has federal grants which constitute Major Receivables. Grants Receivable consists of grants earned by December 31, 2017 and 2016, respectively, but not yet received. These grants consist of both federal and state funds.

- The federal grants for 2017 consist of three (3) operating grants pass through from the Washington State Department of Transportation (WSDOT) for a total of \$132,202.
- There are two (2) state operating grants from the WSDOT for \$247,549
- There is one (1) capital grant from WSDOT for \$130,910.

Total grants receivable for 2017 are \$510,661. This information is also explained in Note 1 Part C3 and all the grants are listed in the Grants Receivable Section, in Link’s Asset File.

- The federal grants for 2016 consist of four (4) operating grants pass through from the Washington State Department of Transportation (WSDOT) for a total of \$427,546, and one (1) received directly from the Federal Transit Administration for \$2,160,420.
- There is one (1) state operating grant from the WSDOT for \$72,804.

Total grants receivable for 2016 are \$2,660,770. This information is also explained in Note 1 Part C3 and all the grants are listed in the Grants Receivable Section, in Link’s Asset File.

**Chelan Douglas PTBA**  
**DBA Link Transit**  
 Schedule of Proportionate Share of the Net Pension Liability  
 Pers 1  
 As of June 30 2017 and 2016  
 Last 10 Fiscal Years\*

	2015		2016		2017
<u>Employer's proportion of the net pension liability</u>	%	0.004996	%	0.00542	% 0.0052706
<u>Employer's proportionate share of the net pension</u>	\$	2,613,268	\$	2,910,795	\$ 2,500,941
<u>Employer's covered employee payroll</u>	\$	261,412	\$	257,009	\$ 234,131
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>		999.7%		1133%	1068%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>		59.10%		57.03%	61.24%

\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

**Chelan Douglas PTBA**  
 DBA Link Transit  
 Schedule of Proportionate Share of the Net Pension Liability  
 PERS 2/3  
 As of June 30, 2017 and 2016  
 Last 10 Fiscal Years\*

	2015	2016	2017
Employer's proportion of the net pension liability (asset)	% 0.0057872 %	0.0062805 %	0.0062468
Employer's proportionate share of the net pension liability	\$ 2,067,800	\$ 3,162,182	\$ 2,170,464
Employer's covered employee payroll	\$ 5,149,127	\$ 5,666,295	\$ 6,131,089
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.2%	55.8%	35.4%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%

\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

**Chelan Douglas PTBA**  
 DBA Link Transit  
 Schedule of Employer Contributions  
 Pers 1  
 As of December 31, 2017 and 2016  
 Last 10 Fiscal Years\*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Statutorily or contractually required</u>	\$ 261,542	\$ 307,704	\$ 327,920
<u>to the statutorily or contractually required contributions</u>	\$ <u>(261,542)</u>	\$ <u>(307,704)</u>	\$ (327,577)
<u>Contribution deficiency (excess)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<u>Covered employer payroll</u>	\$ 253,943	\$ 245,291	\$ 209,603
<u>Contributions as a percentage of covered</u>	102.99%	125.44%	156.45%

\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

**Chelan Douglas PTBA**  
 DBA Link Transit  
 Schedule of Employer Contributions  
 PERS 2/3  
 As of December 31, 2017 and 2016  
 Last 10 Fiscal Years\*

	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Statutorily or contractually required contributions</u>	\$ 303,209	\$ 366,348	\$ 425,657
<u>Contributions in relation to the statutorily or contractually required</u>	\$ <u>(303,209)</u>	\$ <u>(366,348)</u>	\$ (425,657)
<u>Contribution deficiency (excess)</u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
<u>Covered employer payroll</u>	\$ 5,375,022	\$ 5,882,445	\$ 6,220,116
<u>Contributions as a percentage of covered employee payroll</u>	5.6%	6.2%	6.8%

\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

**Chelan-Douglas Public Transportation Benefit Area**  
**DBA Link Transit**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2017**

Federal Agency Name/Pass-Through Agency Name	Cluster Title/Federal Program	CFDA Number	Other Award Number	From Pass-Through Awards	From Direct Awards	Total Amount	Passed Through to Subrecipients	Note
Department of Transportation-Federal Transit Administration	Federal Transit Cluster - Formula Grants	20.507	WA2017088	-	2,195,750	2,195,750	\$ -	1 - 2
Department of Transportation-Federal Transit Administration/WSDOT	Federal Transit Cluster Bus and Bus Facilities Formula Program	20.526	GCB2609B	130,910	-	130,910	-	1 - 2
<b>Total Federal Transit Cluster</b>				<b>130,910</b>	<b>2,195,750</b>	<b>2,326,660</b>		
Department of Transportation-Federal Transit Administration	Assistance Program for Reducing Energy Consumption and Greenhouse Gas emissions	20.523 *	WA-88-0004-00		2,500,000	2,500,000	-	3 - 4
<b>Total ARRA Grants</b>				<b>-</b>	<b>2,500,000</b>	<b>2,500,000</b>		
Department of Transportation-Federal Transit Administration/WSDOT	Formula Grants for Rural Areas	20.509	GCB2610	32,500	-	32,500	-	1 - 2
Department of Transportation-Federal Transit Administration/WSDOT	Formula Grants for Rural Areas	20.509	GCB2074	30,000	-	30,000	-	1 - 2
Department of Transportation-Federal Transit Administration/WSDOT	Formula Grants for Rural Areas	20.509	GCB2610	193,750	-	193,750	-	1 - 2
Department of Transportation-Federal Transit Administration/WSDOT	Formula Grants for Rural Areas	20.509	GCB2074	168,750		168,750	-	1 - 2
<b>Total Formula Grants for Rural Areas</b>				<b>425,000</b>		<b>425,000</b>		
Department of Transportation-Federal Transit Administration/WSDOT	Transit Services Program - New Freedom Program	20.521	GCB2610	37,973		37,973	-	1 - 2
Department of Transportation-Federal Transit Administration/WSDOT	Transit Services Program - New Freedom Program	20.521	GCB2074	36,978	-	36,978	-	1 - 2
<b>Total Transit Services Program Cluster</b>				<b>74,951</b>		<b>74,951</b>		

<b>Total Federal Grant Awards Expended</b>				<b>630,861</b>	<b>4,695,750</b>	<b>5,326,611</b>	<b>\$ -</b>
--	--	--	--	----------------	------------------	------------------	-------------

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

\* CFDA number 20.523 has been retired.

**Chelan-Douglas Public Transportation Benefit Area  
DBA Link Transit  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2017**

---

**NOTE 1 – BASIS OF ACCOUNTING**

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

**NOTE 2 – PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the (transit's) portion, are more than shown.

**Note 3 – DIRECT/INDIRECT COST**

Link Transit elected to not use the 10% de minimis cost rate as covered in § 200.510(b)(6) Indirect (F&A) costs.

**Note 4 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009**

Expenditures for this program were funded by ARRA.



## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>