



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

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

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

Published September 17, 2018

Report No. 1022128





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

September 17, 2018

Board of Directors
Clallam Transit System
Port Angeles, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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	45

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Clallam Transit System January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the Transit Authority's compliance with requirements applicable to its major federal program.

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

Identification of Major Federal Programs:

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

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

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

The Transit Authority did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**Clallam Transit System
January 1, 2017 through December 31, 2017**

Board of Directors
Clallam Transit System
Port Angeles, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clallam Transit System, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements, and have issued our report thereon dated September 7, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

September 7, 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**

**Clallam Transit System
January 1, 2017 through December 31, 2017**

Board of Directors
Clallam Transit System
Port Angeles, Washington

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

We have audited the compliance of the Clallam Transit System, 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 written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 7, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam Transit System January 1, 2017 through December 31, 2017

Board of Directors
Clallam Transit System
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clallam Transit System, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 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

September 7, 2018

FINANCIAL SECTION

Clallam Transit System January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

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

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB) Schedule of Funding Progress and Schedule of Employer Contributions – 2017

Schedule of Proportionate Share of Net Pension Liability – (PERS) – 2017

Schedule of Employer Contributions – (PERS) – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the Annual Financial Report presents management's overview and analysis of Clallam Transit System's financial performance for the fiscal year ended December 31, 2017. This section should be read in conjunction with Clallam Transit System's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

During 2017, Clallam Transit System's net position increased \$321,456. The increase represents the degree to which ongoing revenues has exceeded increases in ongoing expenses through cost containment measures and increasing revenues. Capital contributions were in the form of state and federal grants. Grants awards are based on a competitive process and will fluctuate from year to year. Grant revenues in 2017 were significantly higher than in the previous year. For the second half of 2017, Clallam Transit System was awarded two operating grants and several capital grants. Increases in grant revenues for the year means resources raised through taxes and other means could be spent at lower levels and therefore more cash could remain on hand.

Current assets increased \$924,173 (11%) of which \$850,518 was due to increases in cash and cash equivalents as cash inflows exceeded cash outflows. Also, there was an \$89,463 increase in taxes receivable at year end. Taxes receivable are higher due to the improved economy and increased sales tax activity.

Long-term liabilities decreased \$493,248 from the prior year. This net effect includes two significant changes. First the PEBB OPEB liability increased \$666,045 due to continued aging and projected medical cost increases. The second was the \$1,097,541 decrease in the Net Pension Obligation. The largest factor in the decreasing Net Pension Obligation is due to the decrease in Clallam Transit System's proportionate share of the statewide PERS 2/3 pension obligation. This is an indication that the total of all other participating employers have faster growing staffing and/or compensation levels than Clallam Transit System.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

FINANCIAL ANALYSIS

The following Summary of Financial Statements compares performance of Clallam Transit System across two years. The summary provides a useful reference for the following financial analysis.

Net Position. Net position over time may serve as a useful indicator of an organization's financial position. In the case of Clallam Transit System, as of December 31, 2017 assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$24,753,723.

NET POSITION

	2016	2017	Net Change
ASSETS:			
Current Assets	\$ 8,140,690	\$ 9,064,863	\$ 924,173
Capital Assets*	23,286,274	23,056,084	(230,190)
Total Assets	\$ 31,426,964	\$ 32,120,947	\$ 693,983
DEFERRED OUTFLOWS OF RESOURCES	\$ 822,411	\$ 525,901	(296,510)
LIABILITIES:			
Current Liabilities*	594,754	683,565	88,811
Noncurrent Liabilities	7,079,096	6,585,848	(493,248)
Total Liabilities	\$ 7,673,850	\$ 7,269,413	\$ (404,437)
DEFERRED INFLOWS OF RESOURCES	\$ 143,258	\$ 623,712	480,454
NET POSITION:			
Net Investment in Capital Assets*	\$ 23,286,274	\$ 23,056,084	\$ (230,190)
Unrestricted Net Position	1,145,993	1,697,639	551,646
Total Net Position	\$ 24,432,267	\$ 24,753,723	\$ 321,456

* 2016 amount restated. See Note 11.

A majority of the Transit's net position (93%) represents its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the net position balance is not available for future spending. At the end of the fiscal year Clallam Transit System is able to report a \$1,697,639 positive balance in Unrestricted Net Position.

Change in net position. During the current fiscal year Clallam Transit System's net position increased \$321,456. The increase represents the degree to which ongoing revenues has exceeded increases in ongoing expenses through cost containment measures and increasing revenues. Capital contributions were in the form of state and federal grants. Grants awards are based on a competitive process and will fluctuate from year to year. Grant revenues in 2017 were significantly higher than in the previous year as Clallam Transit System continued to pursue more operating grant funding.

Operating revenues increased a slight \$6,911 as ridership rates and participation remained consistent with the prior year. Other nonoperating revenues, however, increased overall by \$361,017. This change is primarily due to the increasingly strong economy providing significantly higher levels of sales tax revenue. Interest earnings on investments increased due to increasing cash balances as well as an improvement in the interest rates for funds invested with the Local Government Investment Pool.

Operating expenses increased \$299,951 which is about 3% overall. Salaries and wages increased \$238,671 primarily due to increases in accordance with labor contracts and agreements. These wage increases were offset by reduction in net benefit costs. While costs of retirement and medical premiums continue to increase, reductions in overall pension expense more than offset the increases. The calculation of other post-employment benefit liabilities, pension related liabilities and pension related deferred inflows and outflows are subject to a variety of assumptions which change annually. Thus large annual fluctuations are to be expected. Additionally, there was an unusually

high personnel turnover in 2017 which resulted in total recruitment costs of about \$18,000. Supplies and services are provided at approximately the same level as prior years and so cost increases are attributable to price increases. Most of the increase is related to fuel price increases.

Decreases to net investment in capital assets occurred through normal depreciation. This reflects the continued aging of the fleet occurring faster than purchase of new replacement vehicles.

Unrestricted net position and current assets increased as the overall financial health of Clallam Transit System improved. With increased revenues and steady expenses, current assets such as cash and investments on hand at December 31 have increased over the prior year.

Changes to deferred inflows/outflows are primarily related to actuarial activity related to pensions. Deferred inflows/outflows are affected by such things as the difference between actuarially expected and actual experience, differences between expected and actual investment earnings and changes in actuarial assumptions.

REVENUE, EXPENSE AND CHANGES IN NET POSITION

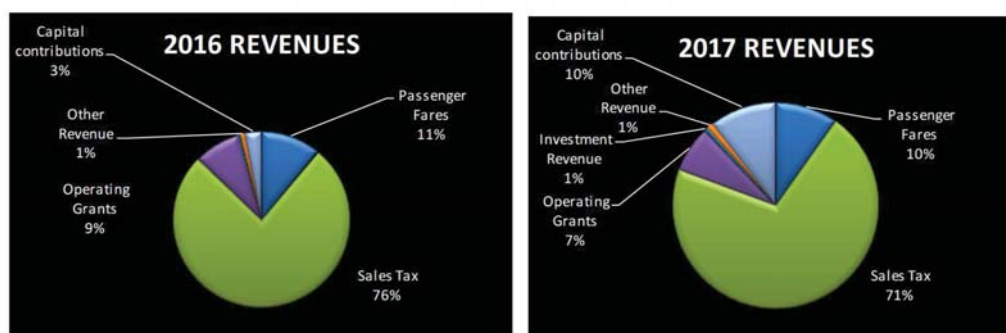
	2016	2017	Net Change
Operating Revenue	\$ 1,054,544	\$ 1,061,455	\$ 6,911
Operating Expenses*	(10,142,220) *	(10,442,171)	(299,951)
Operating Loss	\$ (9,087,676)	\$ (9,380,716)	\$ (293,040)
Other Nonoperating Revenue (net)	8,216,161	8,577,178	361,017
Loss before capital contributions	\$ (871,515)	\$ (803,538)	\$ 67,977
Capital contributions	289,886	1,124,994	835,108
Change in Net Position	\$ (581,629)	\$ 321,456	\$ 903,085
Beginning Net Position	\$ 25,013,896	\$ 24,432,267 *	\$ (581,629)
Ending Net Position	\$ 24,432,267	\$ 24,753,723	\$ 321,456

* Amount restated. See Note 11.

Revenues. The following provides further detail on revenues and their changes from the prior year.

REVENUES BY SOURCE

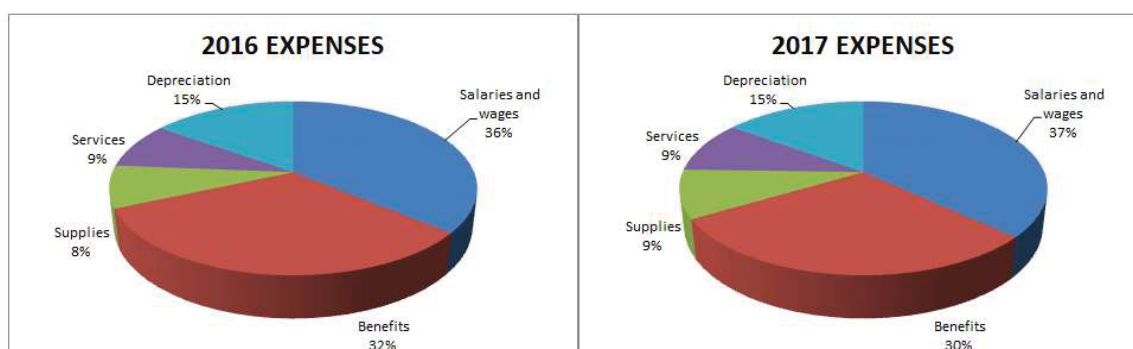
	2016	2017	Net Change
Passenger Fares	\$ 1,039,226	\$ 1,046,890	\$ 7,664
Other Operating Revenue	15,317	14,565	(752)
Sales Tax	7,284,128	7,617,135	333,007
Operating Grants	809,834	790,153	(19,681)
Investment Revenue	31,481	52,388	20,907
Other Non-Operating Revenue	90,718	117,502	26,784
Capital contributions	289,886	1,124,994	835,108
Total Revenues	\$ 9,560,590	\$ 10,763,627	\$ 1,203,037



Expenses. The following provides further detail on expenses and their changes from the prior year.

OPERATING EXPENSES

	2016	2017	Net Change
Salaries and wages	\$ 3,611,710	\$ 3,850,381	\$ 238,671
Benefits	3,240,393	3,094,140	(146,253)
Supplies	792,822	939,774	146,952
Services	856,624	998,723	142,099
Depreciation	1,519,542	1,559,153	39,611
Total Expense	<u>\$ 10,021,091</u>	<u>\$ 10,442,171</u>	<u>\$ 421,080</u>



CAPITAL ASSET AND DEBT ADMINISTRATION

Long Term Debt. Clallam Transit System's financial policy is to run its operations without incurring any long-term debt. As of December 31, 2017 Clallam Transit Service was compliant as there was no outstanding long-term debt.

Capital Assets. Changes are as follows:

	<u>2016*</u>	<u>2017</u>	<u>Net Change</u>
Capital assets not depreciated:			
Land	4,160,000	4,160,000	-
Construction in Progress	-	106,919	106,919
Capital assets net of accumulated depreciation			-
Buildings and grounds	13,012,579	12,664,307	(348,272)
Shelters	75,225	68,026	(7,199)
Vehicles	5,371,261	5,371,392	130
Equipment and software	667,208	685,440	18,232
Total capital assets, net	<u>23,286,273</u>	<u>23,056,083</u>	<u>(230,190)</u>

* Beginning balances are restated. See Note 11.

Major capital activity in 2017 consisted of acquiring four vanpool vans, one support vehicle and ten paratransit buses for a total cost of \$1,101,913. Also \$106,919 was spent to acquire materials to replace a service lift in the maintenance building. The installation costs were incurred in 2018. Other purchases consisted of \$14,611 to update technology and \$75,196 was spent on acquiring new bike lockers.

ECONOMIC FACTORS AND FUTURE OUTLOOK

Clallam Transit System relies on county-wide sales tax receipts of 0.6 percent as its primary source of revenue. Sales tax for 2017 increased by 5 percent over 2016. The statewide economic recovery continues and future sales tax projections are expected to continue strong.

A secondary source of revenue for Clallam Transit System is the state and federal operating and capital dollars provided to rural PTBAs based both on a formula and competitively based on needs. Clallam Transit System was awarded an operating grant of approximately \$1.6 million operating dollars for the 2017-2019 biennium which covers the time period from July 1, 2017 through June 30, 2019. Clallam Transit System receives both federal and state grant funds with the state grant funds being specifically identified for paratransit and special needs services. With the change in Presidency and national priorities, the future capital funding for rural transit remains uncertain. In the near term, federal funding for capital projects appears to becoming slightly more restrictive.

Contracts with represented employees expire December 31, 2017. Negotiations are on-going and are expected to settle by summer of 2018. Contracts expire in three years.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Clallam Transit System's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dunyele Mason, Finance Manager, 830 W. Lauridsen Blvd, Port Angeles, Washington 98363.

Statement of Net Position
As of December 31, 2017

ASSETS

Current Assets:

Cash and cash equivalents	\$ 5,250,626
Receivables	1,664,396
Prepaid expenses	28,019
Inventory	167,192
Investments	<u>1,954,630</u>
Total Current Assets	<u>9,064,863</u>

Noncurrent Assets:

Capital assets - not depreciated	
Land	4,160,000
Construction in progress	106,919
Capital assets - depreciated, net	
Buildings and grounds	12,664,307
Shelters and improvements	68,026
Vehicles	5,371,392
Equipment	<u>685,440</u>
Total Noncurrent Assets	<u>23,056,084</u>

TOTAL ASSETS	<u>32,120,947</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred - pension plans	<u>525,901</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>525,901</u>

LIABILITIES

Current Liabilities

Unearned revenues	17,198
Accounts payable	199,027
Payroll payable	300,237
Employee leave benefits	<u>167,103</u>
Total Current Liabilities	<u>683,565</u>

Noncurrent liabilities

Employee leave benefits	189,600
HICC post-employment obligation	103,706
Net other post-employment benefit obligation	3,383,962
Net pension benefit obligation	<u>2,908,580</u>
Total Noncurrent Liabilities	<u>6,585,848</u>

TOTAL LIABILITIES	<u>7,269,413</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred - pension plans	<u>623,712</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>623,712</u>

NET POSITION

Net investment in capital assets	23,056,084
Unrestricted	<u>1,697,639</u>
TOTAL NET POSITION	<u>\$ 24,753,723</u>

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

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

OPERATING REVENUE:	
Passenger Fares	\$ 1,046,890
Advertising Revenue	14,565
Total operating revenue	<u>1,061,455</u>
OPERATING EXPENSE:	
Salaries and wages	3,850,381
Benefits	3,094,140
Supplies	939,774
Services	998,723
Depreciation	1,559,153
Total operating expense	<u>10,442,171</u>
Operating loss	(9,380,716)
NONOPERATING REVENUE (EXPENSE)	
Sales tax	7,617,135
Operating grants & donations	790,153
Interest income	52,388
Other nonoperating revenues	85,306
Gain on capital assest disposals	32,196
Net nonoperating revenues	<u>8,577,178</u>
Net loss before capital contributions	(803,538)
Capital contributions	<u>1,124,994</u>
Increase in net position	321,456
Beginning Net Position per Prior Year Financial Statements	24,553,394
Prior Period Adjustment	(121,127)
NET POSITION - beginning of period (adjusted - See Note 11)	24,432,267
NET POSITION - end of period	<u><u>\$ 24,753,723</u></u>

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

Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS from OPERATING ACTIVITIES	
Receipts from customers	\$ 1,096,832
Payments to employees	(6,650,748)
Payments to suppliers	(1,897,525)
Net cash used by operating activities	<u>(7,451,441)</u>
CASH FLOWS from NON CAPITAL FINANCING ACTIVITIES	
Sales tax receipts	7,527,673
Operating grant receipts	863,511
Other nonoperating receipts	85,306
Net Cash provided by noncapital financing activities	<u>8,476,490</u>
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES	
Capital grant receipts	1,105,691
Return of capital grant receipts	(33,000)
Proceeds from capital asset sales	49,245
Purchases of capital assets	(1,346,013)
Net cash used by capital and related financing activities	<u>(224,077)</u>
CASH FLOWS from INVESTING ACTIVITIES	
Interest	55,482
Purchase of investments	(5,936)
Net cash provided by investing activities	<u>49,546</u>
Net increase in cash and cash equivalents	850,518
Balance - beginning of the year	4,400,108
Balance - end of the year	<u><u>\$ 5,250,626</u></u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Net Operating Loss:	\$ (9,380,716)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	1,559,153
Change in assets and liabilities:	
Decrease in customer receivables	18,179
Decrease in prepaid expenses	15,439
Increase in inventories	(36,023)
Decrease in deferred outflows	296,510
Increase in unearned revenues	17,198
Increase in accounts payable	61,556
Decrease in payroll payable	(1,560)
Increase in employee leave payable-current	11,617
Decrease in employee leave payable-noncurrent	(19,753)
Decrease in HICC post-employment obligation	(41,999)
Increase in net other post-employment benefit obligation	666,045
Decrease in net pension benefit obligation	(1,097,541)
Increase in deferred inflows	480,454
Net cash used in operating activities	<u><u>\$ (7,451,441)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity for Financial Reporting Purposes

Clallam Transit System was formed on July 29, 1979, when the voters authorized a 0.3 percent increase in the sales tax for a transit system. Clallam Transit System is a municipal corporation formed pursuant to Chapter 36.57 A of the Revised Code of Washington to provide public transportation services in Clallam County. It is governed by an eight member board composed of two county commissioners and two city council members from each of the three incorporated cities within the county.

As required by generally accepted accounting principles, the financial statements present Clallam Transit System as the primary government unit. Clallam Transit System has a single accounting fund and does not have any component units. Clallam Transit System has not engaged in material related party transactions nor participated in any joint ventures.

B. Basis of Accounting and Reporting

Clallam Transit System uses the full-accrual basis of accounting which has an economic resources measurement focus. The accounting records of Clallam Transit System are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

Activities accounted for on an economic resources measurement focus recognize revenues when earned and expenses when incurred. Capital asset purchases are capitalized when acquired and placed in service, and long-term liabilities are recorded when obligated.

Assets, deferred outflows and all liabilities (whether current or noncurrent) and deferred inflows are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues and gains) and decreases (expenses and losses) in net position. Clallam Transit System discloses sources and uses of cash flows in the Statement of Cash Flows. This statement presents cash flows for operating, noncapital financing, capital and related financing and investing activities.

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

C. Assets, Deferred Outflows/Inflows, Liabilities and Net Position

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes and the Clallam Transit System's investment policies authorize the city to invest in obligations of the U.S. treasury, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The interest on these investments is recorded on a monthly basis.

Clallam Transit System's deposits are covered by federal depository insurance (FDIC and FSLIC) or by collateral held in the multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Investments are generally reported at fair value for the items held. The reported value of the resources in the LGIP is the same as the fair value of the pool shares.

2. Receivables

Receivables include amounts owed to Clallam Transit System as of December 31, regardless of when the billings were prepared. As of December 31, 2017 there was no allowance for uncollectible accounts as uncollectible amounts are routinely written off and the remaining amounts are expected to be fully collected.

3. Prepaid Expenses

Prepaid expenses include amounts paid prior to the end of the current year for services provided in the subsequent year. These prepaid costs are primarily related to software services.

4. Inventories

Inventories consist of bus parts and fuel and are valued using the average cost method.

5. Capital Assets and Depreciation

Capital assets are reported at historical cost. Donated capital assets are recorded at acquisition value on the date donated. Expenditures over \$5,000 for individual pieces of equipment and over \$50,000 for infrastructure and building improvements, including major repairs that increase useful lives, are capitalized if they have a useful life of more than one year. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs which do not add to the value of the asset or materially extend asset lives are not capitalized. Assets are depreciated over their useful lives using the straight line depreciation method. Capital assets are presented by asset category net of each category's accumulated depreciation.

Major outlays for capital assets and improvements are reported as Construction Work in Progress as projects are constructed. Interest, if material to the cost of the asset that is incurred during the construction phase of the capital assets, is included as part of the capitalized value of the assets constructed. Capital Assets and improvements are capitalized once the project is completed. There was no capitalized interest costs capitalized for the current year.

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

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

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

6. Unearned Revenues

Vanpool coordinators collect amounts from vanpool participants and remit those amounts to Clallam Transit System monthly. Clallam Transit System calculates an amount owed based on their actual mileage. Amounts collected in excess of amounts owed are retained and used to offset future charges.

7. Accounts and Payroll Payable

This consists primarily of amounts owing to vendors, accrued wages, fringe benefits and payroll taxes payable for services rendered prior to the end of the year but were paid in the subsequent year.

8. Compensated Absences

Compensated absences are earned by employees for vacation, sick, and personal time off. Based upon provisions of their contract, bargaining unit employees accumulate general leave at the rate of 16 to 34 days per year based on longevity. The non-represented transit employees are covered by their own compensation plan and receive similar benefits. Employees may accumulate up to 680 hours of paid time off.

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

9. Pensions and Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

NOTE 2. DEPOSITS & INVESTMENTS

As of December 31, 2017 the Clallam Transit System had \$400 of cash on hand and the following deposits and investments:

Demand deposits at Umpquah Bank	\$290,780
Demand deposits at First Federal	277,536
Demand deposits at Sound Savings	267,164
Demand deposits at Kitsap Bank	74,061
Demand deposits at Chase Bank	1,067
Total demand deposits	<u>\$910,608</u>

Investments measured at amortized cost:

Local Government Investment Pool	<u>\$4,339,617</u>
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Investments measured at fair value:

(Quoted prices in active markets for identical assets (Level 1))

Investments in Federal Agencies	\$ 1,240,562
Investments in Certificates of Deposit	<u>714,068</u>
Total investments	<u>\$1,954,630</u>

Investments measured at fair value. Clallam Transit System reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted market prices for similar assets, quoted for similar assets in markets not active, or other than quoted prices that are not observable.
- Level 3: Unobservable inputs for an asset.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, Clallam Transit System manages its exposure to declines in fair value by limiting the maturity of investments. Clallam Transit System's investment policy limits investment maturities to six years or less unless matched to a specific cash flow. The investment policy does not specifically address interest rate risk.

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Clallam Transit System's investment policy allows the following types of investments in accordance with state law: demand or investment deposits in qualified public depositories located within the state; United States' government bonds, notes bills; certificates of deposits from financial institutions that participate in Washington State's Public Deposit Protection Commission's list of "Qualified Public Depositories"; bankers acceptances, repurchase agreements collateralized by U.S Treasury securities and the Washington State Treasurer's Office Local Government Investment Pool (LGIP). The investment policy for "credit risk" does not extend beyond the types of authorized investments and the concentration of credit risk described below. As of December 31, 2017 Clallam Transit System's investments in agency securities were all rated Aaa by Moody's Investor Services. The LGIP is not registered with the SEC and the fair value of Clallam Transit System's position in the pool is the same as the value of the pool shares. The LGIP is regulated by the state of Washington's state finance committee. Credit risk is limited as most investments are either obligations of the U.S. Government, government sponsored enterprises, insured demand deposit accounts or certificates of deposit.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the policy of Clallam Transit System to diversify its investment portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific class of securities. With the Exception of U.S. Treasury securities and the State Treasurer's Local Government Investment Pool (LGIP) no more than fifty percent of the city's total investment portfolio should be invested in a single security of a given maturity or held by a single financial institution. Concentration of credit risk as a percentage of total investments is as follows:

Issuer	% of Total	Fair Value
Federal Farm Credit Bank	25%	496,160
Federal Nat'l Mortgage Assn.	25%	496,715
Federal Agricultural Mortgage Co	13%	247,688
Sound Bank	37%	714,067
Total	100%	1,954,630

Custodial credit risk – deposits. This is the risk that in the event of a bank failure, the governments' deposits may not be returned. According to the PDPC Act implemented August 11, 1969 financial institutions holding public funds have requirements to collateralize those funds. The maximum liability of a public depository is equal to ten percent of all public deposits held by that depository at the time of the most recent Commission report date or the average of the balances of public deposits on the four most recent Commission report dates, whichever is greater. This amount, which is subject to audit, represents the maximum amount the Commission can assess each depository in the event of a loss due to default of a participating depository. The FDIC insures those deposits up to \$250,000. The temporary custodial credit risk for uncollateralized was as follows at December 31, 2017:

Custodian	On Hand	Excess	10 % Collateral	At Risk
Umpquah	290,780	40,780	4,078	36,702
First Federal	277,536	27,536	2,754	24,782
Sound Savings	267,164	17,164	1,716	15,448

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will be able to recover the value of its investments or other collateral securities that are in the possession of an outside party. Clallam Transit System limits its custodial credit risk by holding investments that are insured and are registered or held by Clallam Transit System's agent in the Clallam Transit System's name. Certificates of deposits are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Per Clallam Transit System's investment policy, with the exception of the United State Treasury and the LGIP, no more than 50% of the total investment portfolio shall be invested in a single institution.

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

	<u>2016</u>	<u>2017</u>
Cash, Equivalents and Invesments	6,351,900	7,205,256
<i>Designated for:</i>		
Operating	2,700,000	2,810,000
Employee Benefit	1,280,544	1,540,000
Vehicle Replacement	1,255,000	1,755,000
Vanpool Replacement	175,707	175,707
Facility Replacement/Repair	200,000	71,000
Major Projects	60,000	209,000
Total Designated Funds	<u>5,671,251</u>	<u>6,560,707</u>
Undesignated Funds used for Working Capital	<u>680,649</u>	<u>644,549</u>

NOTE 3. RECEIVABLES

Receivables consist of several types. Customer accounts are for amounts owed from private individuals or organizations for special services, rentals, fares or other charges. Grants receivable are for amounts where all the conditions for receiving reimbursement have been met, but payment has not yet been received. The state is Clallam Transit System's collection agent for sales tax. Sales tax receivable consist of Clallam Transit System's 0.6 percent sales tax collected in Clallam County during November and December of the reporting year and are remitted to Clallam Transit System by the State Department of Revenue in January and February of the following year. Interest receivable is from the earnings on investments which are typically paid out once or twice a year.

NOTE 4. CAPITAL ASSETS

Clallam Transit System has no capital leases. Capital asset activity for the year ended December 31, 2017 was as follows:

	12/31/2016 * Beginning Balance	Increases	Decreases	12/31/2017 Ending Balance
Capital assets not depreciated:				
Land	\$ 4,160,000	\$ -	\$ -	\$ 4,160,000
Construction in Progress	-	106,919	-	106,919
Total capital assets not depreciated:	4,160,000	106,919	-	4,266,919
Capital assets being depreciated:				
Buildings and grounds	18,243,071	-	-	18,243,071
Shelters	119,546	-	-	119,546
Vehicles	13,178,581	1,101,913	(890,327)	13,390,167
Equipment and software	1,749,055	137,181	(35,600)	1,850,636
Total depreciable capital assets:	33,290,253	1,239,094	(925,927)	33,603,420
Less accumulated depreciation for:				
Buildings and grounds	(5,230,493)	(348,272)	-	(5,578,765)
Shelters	(44,320)	(7,199)	-	(51,519)
Vehicles	(7,807,320)	(1,084,733)	873,278	(8,018,775)
Equipment and software	(1,081,847)	(118,949)	35,600	(1,165,196)
Total accumulated depreciation	(14,163,980)	(1,559,153)	908,878	(14,814,255)
Total capital assets, net	23,286,273	(213,140)	(17,049)	23,056,084

* Beginning Balance contains period adjustment. See Note 11.

Construction & Other Contractual Commitments. Clallam Transit System had one active construction project as of December 31, 2017 for the installation of a new lift in the maintenance building. At year end, the Clallam Transit System's contract commitment was for \$85,644 of which none was spent to date and the entire amount remaining.

NOTE 5. LEASES AND LONG-TERM CONTRACTS

Clallam Transit System has an operating lease with Quillayute Valley School District No. 402 for use of parking facilities, mechanical maintenance, repairs, and general service in Forks. In addition to the actual cost of maintenance to vehicles, Clallam Transit System pays for facility rental. Rental costs for Sept 1, 2016 to August 31, 2017 were \$1,105 per month and Sept 1, 2017 to August 31, 2018 the rate was \$1,123 per month. The contract automatically renews annual with the same terms and conditions. Either party is able to terminate with 120 days written notice so the minimum required future lease payments for 2018 totals \$4,492.

NOTE 6. LONG-TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

Description	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Compensated absences	\$364,840	\$539,124	\$547,261	\$356,703	\$167,103
OPEB - CTS Health Insurance Credit	145,705		41,999	103,706	
OPEB - HCA PEBB Retiree Plan	2,717,917	700,239	34,194	3,383,962	
Pension Liability	4,006,121	169,738	1,267,279	2,908,580	
TOTAL LIABILITIES	\$7,234,583	\$1,409,101	\$1,890,733	\$6,752,951	\$167,103

NOTE 7. 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:

State Sponsored Pension Plans:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 2,908,580
Deferred outflows of resources	\$ 525,901
Deferred inflows of resources	\$ 623,712
Pension expense/expenditures	\$ 169,738

Substantially all CLALLAM TRANSIT SYSTEM full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments;

and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

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:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - 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 - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – 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%

The Clallam Transit System actual PERS plan contributions were \$207,590 to PERS Plan 1 and \$282,727 to PERS Plan 2/3 for the year ended December 31, 2017.

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* and the *2015 Economic 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:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all plans, 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. 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, employers, whose rates include a component for the PERS 1, liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease <u>6.50%</u>	Current Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
PERS 1	5,780,412,000	4,745,078,000	3,848,257,000
0.032090%	1,854,934	1,522,696	1,234,906
PERS 2/3	9,360,726,000	3,474,522,000	(1,348,349,000)
0.039887%	3,733,713	1,385,883	(537,816)

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, Clallam Transit System reported a total pension liability of \$ 2,908,580 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,522,696
PERS 2/3	\$ 1,385,884
TOTAL	\$ 2,908,580

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

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

	Pension Expense
PERS 1	\$ (24,811)
PERS 2/3	\$ 194,550
TOTAL	\$ 169,738

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, Clallam Transit System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(56,824)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	107,513	-
TOTAL	\$107,513	\$(56,824)

PERS 2-3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$140 422	\$ (45,579)
Net difference between projected and actual investment earnings on pension plan investments	-	(369,443)
Changes of assumptions	14,720	-
Changes in proportion and differences between contributions and proportionate share of contributions	107,010	(151,866)
Contributions subsequent to the measurement date	156,236	-
TOTAL	\$418,389	\$ (566,888)

Total PERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 140,422	\$ (45,579)
Net difference between projected and actual investment earnings on pension plan investments	-	(426,267)
Changes of assumptions	14,720	-
Changes in proportion and differences between contributions and proportionate share of contributions	107,010	(151,866)
Contributions subsequent to the measurement date	263,749	-
TOTAL	\$ 525,901	\$ (623,712)

Deferred outflows of resources related to pensions resulting from Clallam Transit System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Net Effect on Future Pension Expense			
Year ended December 31	PERS 1	PERS 2/3	TOTAL PLANS
2017	(38,409)	(146,002)	(184,410)
2018	12,126	58,519	70,646
2019	(2,816)	(39,829)	(42,645)
2020	(27,725)	(166,030)	(193,755)
2021	-	(4,953)	(4,953)
Thereafter	-	(6,439)	(6,439)
TOTAL	(56,823)	(304,735)	(361,557)

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLANS

A. Post-employment Healthcare Insurance Credits

Plan Description. Clallam Transit System adopted a program in 2007 to assist employees who separate with at least 10 years of continuous service with the cost of obtaining healthcare insurance. The plan reimburses the participant with the lesser of \$300, or for Medicare eligible participants, the cost of PEBB's Medicare Supplement Plan coverage, per month toward the cost of the employee's own healthcare coverage (excluding dependents). The benefit is earned at the rate of one month of insurance credit for every six months of service after January 1, 2007. Employees who separate before age 65 are offered a choice to utilize the benefit upon termination or to defer the benefit until age 65. In January following the year the separated employee turns 65, remaining units cashed out and contributed to their HRA VEBA account.

Funding Policy. This benefit is funded on a pay-as-you-go basis. The amount of the liability for each employee who qualifies is fixed at time of termination.

Measurement Method. The calculation of the liability as of December 31 is based on the months of service of currently active employees, reduced by historical turnover rates for employees with less than 10 years of service, and adjusted for those employees who will not achieve 10 years of service before they become Medicare eligible. The program participants at December 31, 2017 included 6 separated employees and 17 active vested employees; together with the 47 employees with less than 10 years of service.

B. PEBB Post-Employment Healthcare Plan

Plan Description. Clallam Transit System participates in the Public Employees Benefit Board (PEBB) health plan administered by the State of Washington Health Care Authority. It is a multiple employer plan which provides both active employee benefits and elective post-employment benefits. System retirees and their surviving spouses who meet the retirements of their respective PERS Plans (see Note 7) are eligible to participate in PEBB group plans on a self-pay basis so long as Clallam Transit System maintains its PEBB insurance coverage. Upon retirement under PERS, members are eligible to continue their healthcare insurance benefits. Retirees pay the following for medical and dental coverage (no aging factors have been applied these rates):

Funding Policy. The PEBB Funding Policy is based upon pay-as-you go financing requirements. Group premium rates are established by the PEBB and paid on a monthly basis by Clallam Transit System based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis directly to PEBB. The PEBB blends the retiree and active employee rates as part of its rate setting process, which creates an implicit rate subsidy and future post-employment benefit liability. The PEBB determines how this future liability will be funded when it sets the rates that employer groups pay for current insurance coverage. Historically, the PEBB has set rates to recover its costs only for the current plan year, thus not funding the future benefit liability of current and potential future retirees who may elect to participate in the PEBB's post-employment insurance plans.

Annual OPEB Costs and Net OPEB Obligation. Clallam Transit System's annual Other Post-Employment Benefits (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities over a period of ten years.

Measurement Method. Entities with fewer than 100 members have the option under GASB 45 to either hire an actuary to perform a valuation of the plan or do the valuation in-house. The Office of the State Actuary for Washington State has provided a tool for governments to perform an in-house evaluation. Actuarial evaluations involve estimates and assumptions about the distant future that are continually revised. The schedule of funding progress, located following the notes, provides multi-year trend data to help determine whether net plan assets are increasing or decreasing over time. Benefits are projected based on benefit levels and cost-sharing arrangements as of the date of the valuation and do not explicitly reflect the potential effect of legal or contractual funding limitations. Actuarial valuations take a long-term perspective that involves the use of techniques designed to reduce volatility.

Clallam Transit System has used the alternative measurement method for employers with fewer than one hundred plan members to determine the Actuarial Accrued Liability (AAL). Clallam Transit System alternative measurement method was used for the active group which had 94 participants as well as for the inactive (retiree) group which had 21 participants. A single retirement age of 62.2 years was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the Public Employer Retirement System Plan 2 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Health care costs and trends were determined by Mercer and used by OSA in the state-wide PEBB study performed in 2008. The results were based on group data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 748,698	\$ 618,452	\$ 589,286
Interest on Net OPEB Obligation (NOO)	108,717	86,986	65,630
Adjustments to ARC	(157,177)	(125,760)	(94,884)
Annual OPEB Cost (Expense)	\$ 700,238	\$ 579,678	\$ 560,032
Contributions made	(34,194)	(36,411)	(26,120)
Increase NOO	666,044	543,267	533,912
NOO at Beginning of Year	\$ 2,717,918	\$ 2,174,651	\$ 1,640,739
NOO at End of Year	\$ 3,383,962	\$ 2,717,918	\$ 2,174,651

Clallam Transit System's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for the years ending December 31 are shown on the following schedule:

Year	Annual	% of Annual	Net OPEB
<u>Ended</u>	<u>OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
12/31/2017	700,238	5%	3,383,962
12/31/2016	579,678	6%	2,717,918
12/31/2015	560,033	5%	2,174,652

NOTE 9. CONTINGENCIES AND LITIGATION

The Clallam Transit System has recorded in its financial statements all material liabilities, including applicable estimates for situations that are not yet resolved but where, based on available information, management believes it is probable that Clallam Transit System will have to make payment. In the opinion of management, the Clallam Transit System's insurance policies and operational reserves are adequate to pay all material known or pending claims.

Clallam Transit System participates in a number of Federal and State assisted programs. These grants are subject to audit by the grantor or representative. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. However, management believes that such disallowances, if any, will be immaterial.

NOTE 10. RISK MANAGEMENT

Clallam Transit System maintains insurance against most normal hazards except for unemployment, where it has elected to become self-insured. Clallam Transit System 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 Clallam Transit System auto liability, general liability, public official's liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2017, Clallam Transit System retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Clallam Transit System 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.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Governmental Entities Mutual, Munich Re, and Arch for the liability lines; Alterra and Evanston for auto physical damage; American International Group Inc. (AIG)/National Union Fire Insurance for the crime policy; and Beazley for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

There have been no claims in excess of insurance coverage for the last three years.

Here is a summary of coverage provided in 2017:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage (by mode)	\$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 \$500,000 minimum per occurrence per unit
AUTO PHYSICAL DAMAGE Auto Physical Damage (below \$250,000 in value)	Fair market value	Limited to \$1,250,000 any one vehicle	\$5,000
Auto Physical Damage for all vehicles with a model year of 2005 or later and valued over \$250,000	Replacement Cost	Limited to \$1,250,000 any one vehicle	\$5,000
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
CYBER LIABILITY			
Third Party Liability	\$25 million	Annual policy and program aggregate of liability for all insured's combined	\$100,000*
Information Security & Privacy Liability	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Privacy Notification Costs	\$500,000	Annual aggregate – limit increases to \$1 million if carrier's vendors utilized	\$100,000*
Penalties for regulatory defense and penalties	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Including a sub-limit for PCI Fines and Penalties	\$100,000	(Sub-limit)	
Website Media Content Liability	\$2 million	Limit of Liability and annual aggregate	\$100,000*
First Party Computer Security			
Cyber Extortion Loss	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Data Protection Loss and Business Interruption Loss	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Including a sub-limit for Forensic expense	\$100,000		
And Dependent business interruption	\$500,000		
Fraudulent Instruction	\$50,000		
Telecommunications Fraud	\$50,000		
Consequential reputational loss	\$50,000		
*However, if covered loss exists, WSTIP general liability policy also includes a \$50,000 limit of coverage with no deductible.			

Self-Insurance. In addition to coverage through the WSTIP, Clallam Transit System is exposed to risks of losses to property not covered by the insurance pool such as deductibles. The standard operational reserve is considered adequate to cover these potential low cost losses.

Clallam Transit System is also self-insured for unemployment compensation. Unemployment claims are processed by the State of Washington and billed to Clallam Transit System on a quarterly basis. As of December 31, 2017, the reports an incurred but not reported liability of \$8,100 based on the historical low cost of claims. The operational reserve (see note 2.) is considered adequate to cover potential unemployment claims. The amount payable at December 31, 2017 was \$914.

Clallam Transit System is a member of the Association of Washington Cities' (AWC) Worker's Compensation Retrospective Rating-Safety Alliance Program. The program provides Clallam Transit System with expertise and services to lower their claims experience resulting in potential refund of a portion of their Washington State Department of Labor and Industries (L&I) premiums. Membership criteria includes being a member of the AWC, be in good standing with L&I, adoption of the AWC membership agreement, once a year attendance at a regional training workshop and a return to work/light duty policy. Fees are 6.5% of Clallam Transit Systems' prior year's L&I premium. The 6.5% fee is refunded the following year if the group received a refund from L&I.

	<u>Unemployment Insurance</u>	
	<u>2016</u>	<u>2017</u>
Claims liabilities at beginning of year	\$ 1,400	\$ 2,764
Claims expenses:		
Current year and changes in estimates	15,823	11,104
Claims payments	(14,459)	(12,954)
Claims liabilities at end of year	<u>\$ 2,764</u>	<u>\$ 914</u>

NOTE 11. PRIOR PERIOD RESTATEMENTS

A review of the capital assets detail system as of December 31, 2017 was completed. Items previously listed as capital assets which did not meet the capitalization threshold were removed. The financial statement reporting category for each capital asset was reviewed and some assets were reclassified to a different financial statement reporting group. Beginning balances were restated to reflect these changes of \$16,332. Additionally, accounts payable as of December 31, 2016 has been restated by \$104,795 to reflect all outstanding invoices at that time.

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB)

Schedule of Funding Progress

Actuarial Validation Date	Actuary Value Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2015	-	3,992,349	3,992,349	0%	3,456,310	116%
12/31/2016	-	4,299,782	4,299,782	0%	3,611,514	119%
12/31/2017	-	4,238,788	4,238,788	0%	3,750,712	113%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2015	560,032	26,120	5%	2,174,651
12/31/2016	579,677	36,411	6%	2,717,917
12/31/2017	700,239	34,194	5%	3,383,962

Schedule of Proportionate Share of the Net Pension Liability
As of **June 30**, 2017
Last 4 Fiscal Years

PERS 1 PLAN	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.032090%	0.034402%	0.030600%	0.033460%
Employer's proportionate share of the net pension liability	1,522,696	1,847,549	1,600,508	1,685,664
Covered payroll	3,974,915	3,904,691 *	3,890,069 *	3,713,222 *
Employer's proportionate share of the net pension liability as a percentage of covered payroll	38%	47%	41%	45%
Plan fiduciary net position as a percentage of the total pension liability	61%	57%	59%	61%
<i>* Restated prior years to include PERS 2/3 payroll as well as PERS 1 payroll.</i>				

PERS 2/3 PLAN	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.032090%	0.042872%	0.037940%	0.041110%
Employer's proportionate share of the net pension liability	1,385,883	2,158,571	1,355,582	830,961
Covered payroll	3,916,938	3,849,995	3,847,937	3,636,440
Employer's proportionate share of the net pension liability as a percentage of covered payroll	35%	56%	35%	23%
Plan fiduciary net position as a percentage of the total pension liability	91%	85%	89%	93%

Schedule of Employer Contributions
For the year ended **December 31**, 2017
Last 4 Fiscal Years

PERS 1 PLAN	2017	2016	2015	2014
Statutorily or contractually required contributions	207,590	189,763	170,468	150,583
Contributions in relation to the statutorily or contractually required contributions	<u>(207,590)</u>	<u>(189,763)</u>	<u>(170,468)</u>	<u>(150,583)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	4,186,048	3,904,691 *	3,890,069 *	3,713,222 *
Contributions as a percentage of covered payroll	5%	5%	4%	4%

* Restated prior years to include PERS 2/3 payroll as well as PERS 1 payroll.

PERS 2/3 PLAN	2017	2016	2015	2014
Statutorily or contractually required contributions	282,727	239,753	213,408	177,787
Contributions in relation to the statutorily or contractually required contributions	<u>(282,727)</u>	<u>(239,753)</u>	<u>(213,408)</u>	<u>(177,787)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	4,142,584	3,849,995	3,847,937	3,636,440
Contributions as a percentage of covered payroll	7%	6%	6%	5%

Schedule of Expenditures of Federal Awards

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Cluster								
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Federal Transit Capital Investment Grants	20.500	GCB-1318(B) Dispatch & MDTs	4,931	-	4,931	-	1,7
		Total Federal Transit Cluster:		4,931	-	4,931	-	
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Formula Grants for Rural Areas	20.509	GCB 2070	386,871	-	386,871	-	1,7
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Formula Grants for Rural Areas	20.509	GCB 2071 Paratransit Capital	560,000	-	560,000	-	1,7
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Formula Grants for Rural Areas	20.509	GCB 2591 Paratransit O&M	350,192	-	350,192	-	1,7
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Formula Grants for Rural Areas	20.509	RTAP Funds	2,928	-	2,928	-	1,7
		Total CFDA 20.509:		1,299,991	-	1,299,991	-	
		Total Federal Awards Expended:		1,304,922	-	1,304,922	-	

The accompanying notes are an integral part of this schedule.

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 the System's financial statements. The System uses the full accrual basis of accounting.

Note 7 – Indirect Cost Rate

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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