Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Island County Public Transportation Benefit Area (Island Transit)

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

Published September 17, 2018

Report No. 1022160

Office of the Washington State Auditor
Pat McCarthy

September 17, 2018

Board of Directors
Island Transit
Coupeville, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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TABLE OF CONTENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Island Transit
January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

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'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.

CFDA No.	Program or Cluster Title
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 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*

Island Transit
January 1, 2017 through December 31, 2017

Board of Directors
Island Transit
Coupeville, 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 Island Transit, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated September 10, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Transit'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit'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'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's financial statements are free from material misstatement, we performed tests of the Transit'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'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'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 10, 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

Island Transit
January 1, 2017 through December 31, 2017

Board of Directors
Island Transit
Coupeville, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Island Transit, 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's major federal programs for the year ended December 31, 2017. The Transit'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'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'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's compliance.

Opinion on Each Major Federal Program

In our opinion, the Transit 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 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'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'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.

Pat McCarthy

State Auditor

Olympia, WA

September 10, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Island Transit
January 1, 2017 through December 31, 2017

Board of Directors
Island Transit
Coupeville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Island Transit, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit'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'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'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 Island Transit, 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'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 10, 2018 on our consideration of the Transit'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's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

September 10, 2018

FINANCIAL SECTION

Island Transit
January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

Island Transit's management is committed to responsibly meet Island County's transportation needs. Our top priorities are to provide quality transportation service, maintain a safe, reliable service fleet, and safeguard our facility, park & rides, and bus shelters.

In brief, Island Transit's 2017 financial performance can be summarized this way:

- Total revenue increased 12.38% or $1,779,995. Local sales tax receipts rose 11.47% or $1,094,743 over the previous year, while grant reimbursements for items such as facility construction, bus radios, engines, software, and buses increased grant reimbursements 13.59% or $583,290. As the price of fuel remained relatively low in 2017, fewer riders participated in the rideshare vanpool program, which created a 6.11% or $28,711 decrease in vanpool fares. WSDOT continued to fund the district's connector bus services, the 411 and 412 bus routes, as well as a new mobility management position, with federal tax dollars, which forced the transit to adhere to stricter federal procurement guidelines for all purchases during the 2017-2019 biennium.

- Total expense rose 6.42% or $707,329. Following an internal service review in early 2017, Island Transit slightly increased bus service mid-year. A freshly minted April 2017 union contract called for union employee wage hikes, while increases to non-union salaries took full effect in January 2017 as a result of a 2016 independent salary study. Non-depreciation operating expense increased 10.23%, or $925,121.

- Total assets grew 9.20% or $3,524,650. Of the 18 buses and 24 vans grant-related vehicles awarded and planned for purchase during the 2015-17 biennium, only 9 buses and 2 vans arrived in 2017. The transit also upgraded its bus radio system, purchased 3 engines, and procured 6 laptops. Remaining budgeted capital funding was put toward cash reserves in anticipation of the remaining 9 medium buses due to arrive in 2018. Moreover, in 2018, the transit will take advantage of additional state transportation grant awards totaling $2,676,549 to purchase another 22 vans and 14 buses.

- Total liabilities decreased 23.60% or $1,469,437. The transit's pension liability decreased 19.97% or $941,211 following updated estimates from state pension

program actuaries. In April 2017, the agency used some of this extra cash to extinguish its debt on a government obligation bond by paying off the remaining $570,679 of the $1.5 million / 2.65% government agency bond from 2013. Compensated absences liability rose 13.77% or $81,129 as employees took less earned sick and vacation leave.

- Net position increased 13.71% or $4,435,294. Strong sales tax receipts pushed cash and investments to a total $9,730,621 by year end. While grant reimbursements brought in cash of $4,875,463, an increase of $583,290 from the previous year, interest and other miscellaneous revenue added $188,415, a $100,225 increase from 2016. Although capital assets before depreciation rose 3.41% or $1,553,073, several assets reached their maximum useful life in 2016, and were no longer depreciated in 2017, so depreciation expense decreased 10.28% or $201,468, and accumulated depreciation grew 10.58% or $1,758,214, which was at a slower rate than the previous year. Pension liability, deferred outflows, and deferred inflows were all impacted by Public Employees' Retirement System (PERS) actuarial estimates creating a $382,417 positive effect to net position.

- Island Transit passed its 2017 budget in December 2016. In March 2017, the agency amended this 2017 budget to include several capital expenditures and their associated revenues: Two vans at $56,650, Parker road at $225,549, four medium duty buses at $552,460, LED lighting for Harbor Station at $18,036, and nine bike lockers at $16,837. Parker road bike rack grant project was also removed with a cost of $11,561. In August 2017, a second budget revision was passed to account for changes to salaries following an April 2017 union contract ratification, upcoming services changes, and the additional cost of the following capital items: radio repeaters at $307,250, main facility costs at $60,782, 12 vans at $93,579, five bus shelters at $57,803, 12 windows at $18,796, and 22 vans at $649,000.

- Operating revenues exceeded the August 2017 budget by $27,960, operating expenses (not including depreciation) were under budget by $1,098,193, and non-operating revenues fell short of the August 2017 budget by $752,685. Capital expenses are not included in the *Statement of Changes in Net Position* while they are included in the budget, so no comparison is made here. In sum, 2017 operating income and expense actuals, not including depreciation, exceeded the August 2017 amended budget by $373,468.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

NET POSITION

ASSETS	2017	2016
Capital	$ 28,777,280	$ 28,982,421
Other	13,039,799	9,310,008
Total Assets	41,817,079	38,292,429
DEFERRED OUTFLOWS		
Related to Pension	615,922	808,352
LIABILITIES		
Long-Term	4,441,543	5,640,910
Short-Term	316,426	586,496
Total Liabilities	4,757,969	6,227,406
DEFERRED INFLOWS		
Related to Pension	879,104	512,740
NET POSITION		
Invested in Capital Assets Net of Related Debt	28,777,280	28,335,627
Unrestricted	8,018,648	4,025,008
NET POSITION	36,795,928	32,360,635

CHANGE IN NET POSITION

REVENUES:	2017	2016
Operating	463,677	478,264
Non-Operating	15,699,543	13,904,961
Total Revenues	16,163,220	14,383,225
EXPENSES:		
Operations	7,210,948	6,433,591
Maintenance	1,403,758	1,264,363
Administration	1,355,006	1,362,961
Depreciation / Amortization	1,758,214	1,959,682
Total Expenses	11,727,926	11,020,597
Increase (Decrease) in Net Position	$ 4,435,294	$ 3,362,628

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the PTBA (Public Transportation Benefit Area) report information about the PTBA using accounting methods similar to those used by private sector companies.

The *Statement of Net Position* presents information on all the PTBA's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the PTBA is improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* shows how the PTBA's net position changed during the fiscal year. A change in net position is reported as soon as the underlying event triggering the change occurs, regardless of the timing of resulting cash flows. In other words, there will be revenues and expenses triggered and reported in this period for some items that will result in cash receipts or disbursements in a future reporting period (for example, interest revenue earned in this period but received in a later period, or unused vacation leave earned in this period but paid in a later period).

This MD&A should be viewed along with the attached financial statements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements. The notes to the financial statements can be found in this report.

Financial Analysis

Net Position

For the year ending December 31, 2017, net position stood at $36,795,928, a 13.71% increase from last year. Total assets plus deferred outflows were $42,433,001, and total liabilities plus deferred inflows were $5,637,073.

Total assets increased in 2017. Cash rose 36.82% or $2,352,381, parts inventories decreased 18.03% or $104,089, and local sales tax receivable increased 9.66% or $163,858. Payments due from other government agencies increased 49.73%, or $322,427 as the number of active outstanding grants increased. Net capital assets dropped .71% or $205,141 mostly as a result of larger depreciation accumulation, while non-current assets increased 2.71% due largely to a newly added bond investment valued at $989,340.

Total liabilities decreased. The transit's Public Employees Retirement System (PERS) pension liability shrank 19.97% or $941,211 as state pension actuaries adjusted their

estimates to match improved market performance. Accrued wages, vacation, and sick leave increased 13.77% or $81,129 as fewer employees exercised vacation and sick leave earned. Bond payable dropped 100% or $646,794 as the transit paid off its outstanding *Government Obligation Bond* debt, and interest payable on this bond followed with a 100% or $1,428 decrease. Accounts payable rose 8.81% or $17,992.

GASB 68 / 71 requires that certain defined transactions that do not qualify for treatment as either assets or liabilities be accounted for and reported as either deferred outflows of resources (a separate subheading following assets but before liabilities) or deferred inflows of resources (a separate subheading following liabilities but before equity). The reported deferred inflow and outflow subheadings account for Island Transit's premiums paid to the PERS retirement fund's after DRS's (Department of Retirement System's) 6/30/2017 report date but not yet included in their reported pension liability, differences between projected vs. actual investment earnings, differences between expected and actual investment experience, changes in assumptions, as well as changes in the percentage share of net pension liability. Deferred outflows decreased 23.81% or $192,430, while deferred inflows increased 71.45% or $366,364.

Operating Revenues

When comparing 12 months of Everett connector fare revenues in 2017 against the 6.5 months in 2016 when the fare collections began, bus fare income increased 175.58% or $14,124. Vanpool fares were $441,509, which was a decrease of 6.11% or $28,711 from the prior year, which is due to small decrease in vanpool rideshare participation.

Non-Operating Revenues

Local sales tax revenue increased 11.47% or $1,094,743 from 2016 for a total of $10,640,136. State grant dollars decreased 13.74% or $545,968, to a total of $3,428,882 as the Everett Connector route and Tri-County Connector bus service continued with a higher transit match requirement for Island Transit. In addition, the funding for the two connector routes changed mid-year from fully funded state grant dollars to majority funded federal grants money. Partially as a result of this funding source change, federal grant reimbursements increased 357.58% or $1,125,757 for a total of $1,440,581. Federal grant dollars also rose because the transit chose to fulfill several outstanding federal capital grants in 2017.

Other grants increased 140% or $3,500 with additional grant funding from the Washington State Transit Insurance Pool (WSTIP). Interest revenue increased 843.76% or $63,991 due to a larger cash balance, rising interest rates, and a shift toward investing available cash in longer term funds. As interest rates increased, the transit recognized an unrealized loss to a $1M bond investment in the amount of $10,660. Miscellaneous revenue increased 105.70% or $63,218 due to the timing of fuel refunds and other small refunds.

Operating Expenses

Operating expense for each department can be explained this way:

- Operations – is responsible for all on-street services, including operators, dispatchers, schedulers, safety, customer services, fueling, cleaning, grounds, and maintenance. Bus and van operations (Operations and Fuel) costing $7,206,477 increased $793,681 or 12.38% from the prior year as Island Transit increased service, increased wages, and made reporting changes to pension expenses per GASB 68 / 71 reporting requirements.
- Vehicle Maintenance – is responsible for the repair of vehicles, including parts and servicing. Vehicle maintenance costs increased 11.02% or $139,395 from the prior year to a total of $1,403,758 as Island Transit spent more on parts, contracted services, and wages.
- Administration – is responsible for all other functions including executive direction, planning, marketing, purchasing, finance, human resources, computer repair, and vanpool program activities. Annual total administrative costs decreased .58% or $7,955 to a total of $1,355,006.
- Depreciation – is the one-year reduction of capital asset value due to wear and tear. Depreciation expense decreased 10.28% or $201,468 from the previous year for a total of $1,758,214 as more vehicles were fully depreciated before the start of 2017.

In sum, Island Transit's total operating expense for 2017 was $11,723,455, an increase of $723,653, or 6.58% from 2016.

Economic Factors and Future Outlook

Island County consists of Whidbey and Camano Islands, which are located at the north end of the Puget Sound, forty miles north of Seattle, Washington. Naval Air Station Whidbey Island, just north of Oak Harbor, employs over 10,000 military and civilian employees and is a major economic force in the County. In addition, Island County supports light manufacturing, education, banking, retail, farming, fishing, tourism, and a growing retirement population.

According to the *State of Washington 2017 Data Book* (published every two years), the population for Island County was 82,790, a 2.72% increase over 2015. Although Island County is the second smallest of the 39 Counties in Washington it was 15th in terms of population. Island County real estate excise tax collections grew 21.85% or $1,900,608 from the previous year. Per capita Income increased 14.86% to $49,741, since 2015, ranking Island County 3rd among the 39 state counties.

Island Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. Current transit sales tax is set at .09%, the legal limit for transit agencies in Washington State. During 2017, economic activity has steadily improved. The navy modernized two airplane hangars and built a tactical operations

center. Oak Harbor built a new water treatment plant, Whidbey Health in Coupeville built a new hospital wing and refurbished others, while tourists continued to visit Langley, Freeland, Coupeville, and Oak Harbor. As a result of this and other economic activity, Island Transit's share of local sales tax revenue increased $1,094,743 or 11.47%.

Requests for Information

This financial report is designed to provide a general overview of the PTBA's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be sent to Financial Manager, 19758 SR 20, Coupeville, WA 98239, or phone 360-678-9510.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

STATEMENT OF NET POSITION

DECEMBER 31, 2017

		2017
ASSETS		
Current:		
Cash and Cash Equivalents	$	8,741,281
Interest Receivable		5,874
Due From Other Governments		970,724
Local Sales Tax Receivable		1,859,327
Parts Inventory		473,253
TOTAL CURRENT ASSETS		12,050,459
Non-Current:		
Investments		989,340
Capital Assets		
Non-depreciable Capital Assets		
Land		1,814,573
Total Non-depreciable Capital Assets		1,814,573
Depreciable Capital Assets		
Improvements Other Than Buildings		9,481,195
Buildings		18,135,928
Maintenance Equipment		1,040,282
Vehicles		14,418,576
Office Equipment		1,331,146
Computer Software		937,102
Accumulated Depreciation / Amortization		(18,381,522)
Total Depreciable Capital Assets		26,962,707
TOTAL NON-CURRENT ASSETS		29,766,620
TOTAL ASSETS		41,817,079
DEFERRED OUTFLOWS OF RESOURCES		
Related to PERS State Pension Plan		615,922
LIABILITIES		
Current:		
Wages, Taxes, and Benefits Payable		94,117
Accounts Payable		222,309
TOTAL CURRENT LIABILITIES		316,426
Non-Current:		
Compensated Absences		670,233
Transit's Share of PERS State Pension Plan		3,771,310
TOTAL NON-CURRENT LIABILITIES		4,441,543
TOTAL LIABILITIES		4,757,969
DEFERRED INFLOWS OF RESOURCES		
Related to PERS State Pension Plan		879,104
NET POSITION		
Net Investment in Capital Assets		28,777,280
Unrestricted		8,018,648
TOTAL NET POSITION	$	36,795,928

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

DECEMBER 31, 2017

		2017
OPERATING REVENUES:		
Transit Fares	$	463,677
OPERATING EXPENSES:		
Operations		6,576,386
Fuel		630,091
Vehicle Maintenance		1,403,758
Administration		1,355,006
Depreciation / Amortization		1,758,214
Total Operating Expenses		11,723,455
OPERATING INCOME (LOSS)		(11,259,778)
NON-OPERATING REVENUES		
Operating Assessments and Tax Levies		10,640,136
Federal Grants		1,440,581
State Grants		3,428,882
Other Grants		6,000
Interest		71,575
Unrealized Loss - Change to FMV of Bond		(10,660)
Other		123,029
Total Non-operating Revenues		15,699,543
NON-OPERATING EXPENSES		
Bond Interest		4,471
Total Non-operating Expenses		4,471
NON-OPERATING INCOME (LOSS)		15,695,072
INCREASE (DECREASE) IN NET POSITION		4,435,294
NET POSITION , January 1		32,360,634
NET POSITION, December 31	$	36,795,928

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Fares	$ 463,677
Payments for Operating Activities	(11,606,500)
Net Cash Provided (Used) by Operating Activities	(11,142,823)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Receipts from Local Sales Tax	10,640,136
Receipts from Operating Grants	3,713,150
Receipts from Other Sources	123,029
Net Cash Provided (Used) by Non-Capital Financing Activities	14,476,315
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net Change in Capital Assets	(1,553,073)
Payments of Government General Obligation Bond	(646,794)
Receipts from Capital Grants	1,162,312
Interest Paid on Capital Debt	(4,471)
Net Cash Provided (Used) by Capital Financing Activities	(1,042,026)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts from Interest	71,575
Unrealized Loss on Fair Market Value of Bond	(10,660)
Net Cash Provided (Used) by Investing Activities	60,915
Net Increase (Decrease) in Cash and Cash Equivalents	2,352,381
Cash and Cash Equivalents at Beginning of Year	6,388,900
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,741,281

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

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

FOR THE YEAR ENDED DECEMBER 31, 2017

	2017
Net Operating Income (Loss)	$ (11,259,778)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Increase in Accumulated Depreciation	1,758,214
Changes in Assets and Liabilities	
Increase in Sales Tax Receivable	(163,858)
Increase in Interest Receivable	(5,874)
Increase in Bond Investment	(989,340)
Increase in Due from Other Government Units	(322,427)
Decrease in Parts Inventory	104,089
Increase in Accounts Payable	17,992
Decrease in Interest Payable	(1,428)
Increase in Wages, Taxes, and Benefits Payable	20,875
Increase in Compensated Absences	81,129
Decrease in PERS State Pension	(941,211)
Increase in Deferred Outflows Related to Pension	192,430
Increase in Deferred Inflows Related to Pension	366,364
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (11,142,823)

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Island Transit's financial statements 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. The significant accounting policies are described below.

A. Reporting Entity

The Island County Public Transportation Benefit Area (dba Island Transit) was incorporated on September 18, 1987, and operates under the laws of the state of Washington applicable to a public transportation benefit area.

Island Transit is a special purpose government agency that provides transit services to the general public. The agency is supported primarily through local sales tax, and is classified as a proprietary fund for financial reporting purposes.

Island Transit is governed by a six-member board, five voting members and one non-voting union representative. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Island Transit has no component units.

B. Basis of Accounting and Reporting

1. Proprietary Funds

Island Transit's financial statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Island County Public Transportation Benefit Area (PTBA) are bus fares on the Everett Connector Route 412 and fares collected for vanpool usage. Operating expenses for the PTBA include (e.g. the cost of sales and services, administrative expenses, deprecation on capital assets, etc.) All revenues and

expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. There were no compensating balances maintained during 2017.

For the purposes of the *Statement of Cash Flows*, Island Transit considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

It is Island Transit's policy to invest all temporary cash surpluses. The interest on these investments is reported as interest income.

2. Investments

See Note 2. *Deposits and Investments.*

3. Interest Receivable

Interest receivable consists of amounts earned on cash investments at the end of the year, but not yet received.

4. Accounts Receivable

Accounts receivable consists of revenue earned but not yet received at year end.

5. Due from other governments

Amounts due from other governments is for grant contract services performed and billed, but not yet received at year end.

6. Local Sales Tax Receivable

Local sales tax receivable consists of sales tax earned in the current period but not yet received by year end.

7. Parts Inventory

Parts inventory consists of maintenance parts that are valued using the first-in first-out method which approximates market value.

9. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by Island Transit as assets with an initial, individual cost of $5,000 or greater value. Such assets are recorded at historical cost or estimated historical cost if purchases or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Island Transit did not capitalize any interest expense during the current fiscal year.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated lives:

Major Class	Depr. Life (yrs.)
Improvements Other Than Buildings	15
Buildings	50
Maintenance Equipment	5-10
Vehicles	4-12
Office Equipment	5-10
Computer Software	3-7

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

10. Interest Payable

Interest payable represents the amount of interest accrued and owing in the current year for outstanding debt, but unpaid at year end.

11. Accounts Payable

Accounts payable represents an amount owed for purchases made, but unpaid, at year end.

12. Compensated Absences

Island Transit compensates accumulated unused vacation and sick leave. It accounts for unpaid leave for compensated absences as an expense and liability when incurred.

Vacation Pay

Island Transit's payroll policy states employees accumulate vacation benefits at the rate of 12 days per year for 0-4 years of service, 15 days for 5-9 years, 18 days for 10-14 years, 21 days for 15-19 years and 24 days at 20+ years. Employees may accumulate 240 hours of vacation.

In the event of employment separation, the employee receives compensation at the regular rate of pay for vacation leave up to 240 hours, except when termination takes place during the introductory period.

Sick Leave.

Island Transit's payroll policy states employees accumulate sick leave benefits at the rate of 12 days per year. There is no limit on sick hours. Employees who leave Island Transit in good standing and after five years of employment are paid a percentage of their sick leave with a maximum ceiling based on the number of years of employment. The chart below details the calculations used to determine the amount to be paid:

Years of Employment	Percentage	Ceiling
5-9	25%	480 hours
10-14	50%	680 hours
15-19	60%	880 hours
20+	80%	1280 hours

13. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to / deductions from those plans' fiduciary net

position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 8, *Pension Plans – PERS – Defined Benefit.*

14. Long-Term Debt. - See Note 7, *Long-Term Debt*

15. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

16. Operating Revenues / Expenses

Island Transit reports operating revenues as defined in GASB 9. Operating revenues result from fees and charges from providing services in connection with the ongoing operations of providing ride-sharing services. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are expenses that are directly incurred in the operation of providing ride-sharing services.

17. Minimum Fund Balance

The Island Transit board authorizes when funds must be designated as assigned for certain purposes. Island Transit board resolution 1-16 states that by the year 2026, the assigned operating / emergency reserve should attain two months operating expenses, while the assigned operating cash reserve should hold one month operating expenses. Island Transit met these standards as of 12/31/2017. Island Transit board resolution 18-16 and 1-17 also budgets money to assigned reserves to save for future capital expenditures. See Note 11, *Assigned Reserves*.

18. Fund Balance Classification

Cash reserves are divided between assigned and unassigned reserves. Assigned reserves are funds earmarked for a specific purpose. Unassigned reserves are the remaining cash funds (not assigned) used to pay day-to-day bills.

NOTE 2. DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2017 was $8,741,281. $7,000,000 was invested in

the LGIP fund for a term of 30 days, while the remaining cash balance of $1,741,281 resided in a Key bank savings account.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, Island Transit would not be able to recover deposits or collateral securities that are in possession of an outside party. Island Transit's deposits and certificates of deposit are partially covered by the Federal Depository Insurance Corporation (FDIC), up to $250,000, or by unguaranteed collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Island Transit does not have a deposit policy for custodial credit risk. The bank balance exposed to custodial credit risk can be calculated from the $1,741,281 non-invested cash total less the guaranteed $250,000 FDIC deposit insurance amount, resulting in $1,491,281.

Fund	Uninsured and Uncollateralized	Uninsured and Collateral Held by Bank	Collateral Held by Pledging Bank's Trust Department in Island Transit's
Key Bank Savings	$ 1,491,281	$ -	$ -
Totals	$ 1,491,281	$ -	$ -

B. Investments

In April 2017, Island Transit purchased a $1,000,000, 3 year FAMCA (Farmer Mac) bond with interest yield of 1.74% and maturity date of 4/6/2020.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk Island Transit may face should interest rate variances affect the fair value of investments. Island Transit does not have a formal policy that addresses interest rate risk. The fair market value of the Farmer Mac bond decreased $10,660 due to changing interest rates. The value of the transit's bond as of 12/31/2017 was $989,340, and the remaining years to maturity was 2.3 years.

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	10
Investment Type					
Debt Securities					
Farmer Mac Bond	$ 989,340	$ -	$ 989,340	$ -	$ -
Total Debt Securities	$ 989,340	$ -	$ 989,340	$ -	$ -

In addition to the interest rate risk disclosed above, Island Transit includes investments with fair value highly sensitive to interest rate changes.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Island Transit does not have a formal policy that addresses credit risk.

Island Transit's investments had the following credit quality distribution for this security with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BAA Baa	Bb/Ba and Below	Unrated
Investment Type							
Farmer Mac Bond	$ 989,340	$ 989,340	$ -	$ -	$ -	$ -	$ -
Totals	$ 989,340	$ 989,340	$ -	$ -	$ -	$ -	$ -

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, Island Transit will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Island Transit does not have a formal policy for custodial credit risk.

At December 31, 2017, the Farmer Mac bond was held in the name of the Island County Treasurer (counterparty) by Wells Fargo Bank (counterparty's trust department or agent).

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent
Farmer Mac Bond	$ 989,340	$ 989,340
Total	$ 989,340	$ 989,340

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. Island Transit does not have a formal policy for concentration of credit risk. The Farmer Mac bond

investment is 100% of the transit's investment portfolio.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Island Transit does not have a formal policy for foreign currency risk.

Investments in Local Government Investment Pool (LGIP)

Island Transit is a participant in the Local Government Investment Pool was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. As of December 31, 2017, Island Transit held $7,000,000 in the LGIP for a 30-day period.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at http://www.tre.wa.gov.

Investments Measured at Fair Value

Island Transit measures and 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: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, Island Transit had the following investments measured at fair value:

		Investments Measured at Fair Value		
	12/31/17	Prices in Active markets for (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Farmer Mac Bond	$ 989,340	$ 989,340	$ -	$ -
Total Investments at FMV	989,340	989,340	-	-
Investments Measured at Amortized Cost				
State Local Gov't Investment Poo	7,000,000	-	-	-
	7,000,000	-	-	-
Total Investments in Stmt. of Ne	$ 7,989,340	$ 989,340	$ -	$ -

Summary of Deposit and Investment Balances

Reconciliation of Island Transit's deposits and investment balances as of December 31, 2017, is as follows:

	Single Fund
Cash on Hand	
Amount of Deposits with Private Financial Institutions	$ 1,741,281
Deposits in State LGIP	7,000,000
Internal Investment Pool	-
External Investment Pool	-
Non-Pooled Investments	989,340
Total Deposits and Investments	9,730,621
Deposits	
Current:	
Cash and Cash Equivalents	8,741,281
Restricted Cash and Cash Equivalents	-
Noncurrent:	
Restricted Cash and Cash Equivalents	-
Total Deposits	8,741,281
Investments	
Current	
Short-term investments	-
Restricted Short-Term Investments	-
Noncurrent	
Restricted Investments	-
Other investments	989,340
Total Investments	989,340
Total Deposits and Investments	$ 9,730,621

NOTE 3. CAPITAL ASSETS AND DEPRECIATION

The statement of revenues and expenses includes depreciation for these depreciable capital assets from the prior year, as well as any additions or deletions during 2017. During 2017, asset and accumulated depreciation account balances changed by the following amounts.

Description	Beginning Balance 1/1/2017	Additions 2017	Deletions 2017	Ending Balance 12/31/17
Capital Assets Not Being Depreciated:				
Land	$ 1,814,573	$ -	$ -	$ 1,814,573
Construction in Progress	152,047	-	(152,047)	-
Total Capital Assets Not Depreciated	1,966,620	-	(152,047)	1,814,573
Capital Assets Being Depreciated				
Improvements Other Than Buildings	9,209,319	271,876	-	9,481,195
Buildings	18,135,928	-	-	18,135,928
Maintenance Equipment	1,040,282	-	-	1,040,282
Vehicles	13,281,165	1,137,410	-	14,418,576
Office Equipment	1,035,313	295,833	-	1,331,146
Computer Software	937,102	-	-	937,102
Total Capital Assets Depreciated	43,639,110	1,705,119	-	45,344,229
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,794,758	359,354	-	2,154,112
Buildings	1,893,015	390,813	-	2,283,828
Maintenance Equipment	469,306	104,134	-	573,441
Vehicles	11,365,537	604,659	-	11,970,196
Office Equipment	537,369	149,755	-	687,123
Computer Software	563,323	149,499	-	712,822
Total Accumulated Depreciation	16,623,308	1,758,214	-	18,381,522
Total Capital Assets Depreciated (Net)	27,015,802	(53,095)	-	26,962,707
TOTAL ALL CAPITAL ASSETS (Net)	$ 28,982,423	$ (53,095)	$ (152,047)	$ 28,777,280

Computer software currently employed includes RTA maintenance software purchased in 2006, Route Match dispatch software purchased in 2010 and 2016, and Fleet-Net accounting software purchased in 2014.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

NOTE 4. CONSTRUCTION IN PROGRESS

There is no construction in progress as of 12/31/2017. Island Transit most recently completed the Parker Rd. project by May of 2017.

NOTE 5. ACCOUNTS AND INTEREST PAYABLE

Accounts and interest payable at December 31, 2017 was $222,309.

NOTE 6. LONG TERM LIABILITIES

Island Transit employees earn sick and vacation leave based on years of service. Employees can accrue earned but unused leave with some limitations for the duration of their employment. When an employee leaves the company, they are compensated (Compensated Absences) for a portion of their accrued sick and vacation leave remaining for their service.

The change in long term liabilities is as follows:

Description	Due Date	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One year
Compensated Absences	-	$ 589,104	$ 81,129	$ -	$ 670,233	$ -

NOTE 7. LONG TERM DEBT

Island Transit took on general obligation bond debt in 2013 in the amount of $1,500,000 and at an interest rate of 2.65% to assist in the financing of the construction of the Whidbey Island Transit facilities. These bonds were considered obligations of the Transit and were being repaid with Transit sales tax and other revenues. $1,376,272 was drawn in 2013, and the remaining $123,728 was drawn in 2014. This bond had a maturity date of 1/19/2019. This general obligation bond debt was repaid in full in April 2017.

The change in long term debt during 2017 is shown below.

Description	Due Date	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One year
General Obligation Bonds	1/15/19	$ 646,794	$ -	$ 646,794	$ -	$ -
Pension Liability	-	$ 4,712,521	$ -	$ 941,211	$ 3,771,310	$ -

NOTE 8. PENSION PLANS – PERS - DEFINED BENEFIT

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

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:

Aggregate Pension Amounts - All Plans	
Pension Liability	$ 3,771,310
Pension Assets	-
Deferred outflows of resources	615,922
Deferred inflows of resources	(879,104)
Pension expense/expenditure	273,773

State Sponsored Pension Plans

Substantially all Island Transit 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

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

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

Public Employees' Retirement System (PERS)

PERS members include elected officials, state employees; employees of the Supreme / Appeals / Superior Courts, employees of the legislature, employees of district / municipal courts, employees of local governments, and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary (OSA) 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%

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

Island Transit's total contributions to the PERS 1 plan in 2017 were $268,964.

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 is earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary (OSA) to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to help pay for 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**	**Employee ***
January - June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.12%
July - December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July – December 2017.

Island Transit's total contribution to the PERS 2/3 plan in 2017 was $387,225.

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 minor changes in methods and assumptions since the last valuation.

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

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. 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%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL (Net Pension Liability)

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

Sensitivity of Net Pension Liability			
	1% Decrease 6.5%	Discount Rate 7.5%	1% Increase 8.5%
PERS 1	$ 2,365,865	$ 1,942,113	$ 1,575,053
PERS 2/3	4,928,048	1,829,197	(709,852)
Total NPL	$ 7,293,913	$ 3,771,310	$ 865,202

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, Island Transit reported a total pension liability of $3,771,310 for its proportionate share of the net pension liabilities as follows:

Plan	Pension Liability
PERS 1	$ 1,942,113
PERS 2/3	1,829,197
Total Pension Liability	$ 3,771,310

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.0398340%	0.0409290%	0.0010950%
PERS 2/3	0.0511080%	0.0526460%	0.0015380%

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 Non-Employer Allocations*.

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, Island Transit recognized pension expense as follows:

Plan	Pension Expense
PERS 1	$ 181,935
PERS 2/3	91,838
Total Pension Expense	$ 273,773

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual		
investment earnings on pension plan investments	-	(72,474)
Changes of assumptions	-	-
Changes in proportion and differences between		
contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	142,441	-
TOTAL	$ 142,441	$ (72,474)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 185,341	$ (60,159)
Net difference between projected and actual		
investment earnings on pension plan investments	-	(487,620)
Changes of assumptions	19,430	-
Changes in proportion and differences between		
contributions and proportionate share of contributions	56,608	(258,851)
Contributions subsequent to the measurement date	212,103	-
TOTAL	$ 473,481	$ (806,630)

TOTAL PERS 1, 2, 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 185,341	$ (60,159)
Net difference between projected and actual		
investment earnings on pension plan investments	-	(560,094)
Changes of assumptions	19,430	-
Changes in proportion and differences between		
contributions and proportionate share of contributions	56,608	(258,851)
Contributions subsequent to the measurement date	354,543	-
TOTAL	$ 615,922	$ (879,104)

Deferred outflows of resources related to pensions resulting from Island Transit's contributions subsequent 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 in the following years:

Year Ended December 31:	PERS 1
2018	$ (48,988)
2019	$ 15,466
2020	$ (3,591)
2021	$ (35,361)
2022	$ -
Thereafter	$ -
Total	$ (72,474)

Year Ended December 31:	PERS 2/3
2018	$ (354,248)
2019	$ (23,447)
2020	$ (38,990)
2021	$ (187,137)
2022	$ 25,465
Thereafter	$ 33,105
Total	$ (545,251)

NOTE 9. PENSION PLANS – 457 - DEFINED CONTRIBUTION

Island Transit offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 457. The plan was established by resolution November 14, 1990, and became effective in January 1991. Furthermore, the employees of Island Transit elected not to be a part of the Social Security system.

This plan is with International City/County Management Association Retirement Corporation (ICMA-RC). The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In lieu of tax payments into the Social Security system, Island Transit matches employee contributions to the employee's 457 plan up to 6.2% of an employee's gross wages, not to exceed the annual federal contribution limits. Island Transit's deferred compensation expense was $239,385. Island Transit has no outstanding liability due to this plan as of 12/31/2017.

NOTE 10. RISK MANAGEMENT - WASHINGTON STATE TRANSIT INSURANCE POOL

Island Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25-member self-insurance program located in Olympia, Washington. WSTIP supplies Island Transit with 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, Island Transit retained a $5,000 deductible for its all-risk property coverage which includes auto physical damage. Island Transit has a $5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

WSTIP was formed by inter local 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 six-month's notice. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

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.

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

The following is a summary of insurance 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 sub-limits:	$500 million	Per occurrence, all perils and insureds/ members combined	$5,000
Flood zones A & V – annual aggregate	$10 million	Per occurrence, annual aggregate	$500,000
All flood zones except A & V – annual aggregate	$50 million	Per occurrence, annual aggregate	$500,000

Earthquake, volcanic eruption, landslide, and mine subsidence --	$25 million	Per occurrence, annual aggregate	5% subject to $500,00 minimum per occurrence per unit
AUTO PHYSICAL DAMAGE 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.			

NOTE 11 – CONTINGENCIES AND LITIGATIONS

Unpaid Claims Liabilities

WSTIP (Washington State Transportation Insurance Pool) establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. As of December 31, 2017 there were 5 unpaid claims. The total amounts reserved by the risk pool for open claims for Island Transit is $97,704 as of 12/31/17.

Settlements Exceeding Insurance Coverage.

During the last three years ending December 31, 2017, there were no settlements that exceeded insurance coverage.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

NOTE 12 – ASSIGNED AND UNASSIGNED RESERVES

As of 12/31/17, Island Transit had assigned and unassigned reserves in the following amounts:

Cash Reserves		
Bus	Assigned	$ 2,675,252
Van	Assigned	645,293
Support Vehicle	Assigned	227,917
Other Capital	Assigned	275,098
Operating / Emergency	Assigned	1,800,000
Operating Cash	Unassigned	3,117,721
	Total Cash Reserves	8,741,281
Investment Reserves		
Investment Bond - Farmer Mac	Unassigned	989,340
	Total Investment Reserves	989,340
	Total Reserves	9,730,621

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS Pension Plans 1, 2, and 3

As of June 30, 2017

Last 10 Fiscal Years (see Note 1 below)

PERS # 1	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.0409%	0.0398%	0.0418%
Employer's proportionate share of the net pension liability	$ 1,942,113	$ 2,139,273	$ 2,184,698
Covered payroll	$ 5,161,378	$ 4,735,826	$ 4,786,542
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	37.63%	45.17%	45.64%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%

PERS # 2/3	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.0526%	0.0511%	0.0539%
Employer's proportionate share of the net pension liability	$ 1,829,197	$ 2,573,247	$ 1,927,271
Covered payroll	$ 5,161,378	$ 4,735,826	$ 4,786,542
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	35.44%	54.34%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%

Notes to the *Schedule of Proportionate Share of the Net Pension Liability.*

NOTE 1. METHOD OF PRESENTATION

The *Schedule of Proportionate Share of the Net Pension Liability* is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available.

NOTE 2. FISCAL YEAR

The amounts presented for each fiscal year were determined by the Department of Retirement System (DRS) as of their June 30 year-end that occurred within Island Transit's calendar fiscal year.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
PERS Pension Plans 1, 2, and 3
As of December 31, 2017
Last 10 Fiscal Years (see Note 1 below)

PERS # 1	2017	2016	2015
Statutorily or contractually required contribution	$ 268,964	$ 234,665	$ 203,576
Contributions in relation to the statutorily or contractually required contribution	(268,964)	(234,665)	(203,576)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 5,484,311	$ 4,919,605	$ 4,641,821
Contributions as a percentage of covered payroll	4.90%	4.77%	4.39%
PERS # 2/3	**2017**	**2016**	**2015**
Statutorily or contractually required contribution	$ 377,353	$ 306,492	$ 269,741
Contributions in relation to the statutorily or contractually required contribution	(377,353)	(306,492)	(269,741)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 5,484,311	$ 4,919,605	$ 4,641,821
Contributions as a percentage of covered payroll	6.88%	6.23%	5.81%

Notes to the *Schedule of Employer Pension Contributions.*

NOTE 1. METHOD OF PRESENTATION

The *Schedule of Employer Pension Contributions* is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available.

NOTE 2. FISCAL YEAR

The amounts presented for each fiscal year were determined by the Department of Retirement System (DRS) as of their June 30 year-end that occurred within Island Transit's calendar fiscal year.

Island County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
Federal Transit Administration (via Washington State Department of Transportation)	Formula Grants for Rural Areas	20.509	5311	280,612	-	280,612	-	1,2,3
Federal Transit Administration (via Washington State Department of Transportation)	Formula Grants for Rural Areas	20.509	5311	245,227	-	245,227	-	1,2
Federal Transit Administration (via Washington State Department of Transportation)	Formula Grants for Rural Areas	20.509	5311	3,580	-	3,580	-	1,2
Federal Transit Administration (via Washington State Department of Transportation)	Formula Grants for Rural Areas	20.509	STP 5311	9,691	-	9,691	-	1,2
Federal Transit Administration (via Washington State Department of Transportation)	Formula Grants for Rural Areas	20.509	5311	372,065	-	372,065	-	1,2
			Total CFDA 20.509:	**911,175**	**-**	**911,175**	-	
Transit Services Programs Cluster								
Federal Transit Administration (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	5311	3,324	-	3,324	-	1,2,3
Federal Transit Administration (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	5310	510,537	-	510,537	-	1,2,3
Federal Transit Administration (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	5310	11,335	-	11,335	-	1,2
			Total Transit Services Programs Cluster:	**525,196**	**-**	**525,196**	-	
Federal Transit Cluster								

The accompanying notes are an integral part of this schedule.

Island County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed through to Subrecipients	Note
Federal Transit Administration (via Washington State Department of Transportation)	Bus and Bus Facilities Formula Program	20.526	5339	4,208	-	4,208	-	1,2
			Total Federal Transit Cluster:	**4,208**	**-**	**4,208**	**-**	
			Total Federal Awards Expended:	**1,440,579**	**-**	**1,440,579**	**-**	

The accompanying notes are an integral part of this schedule.

Island Transit
Notes to the *Schedule of Expenditures of Federal Awards.*
As of 12/31/2017

NOTE 1. BASIS OF ACCOUNTING

This *Schedule of Expenditures of Federal Awards* is prepared on the same basis of accounting as Island County Public Transportation Benefit Area's (DBA Island Transit) financial statements. The Island Transit uses the accrual basis of accounting.

NOTE 2. PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including Island Transit's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

The District has not 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.

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

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

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