Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements and Federal Single Audit Report

Intercity Transit

Thurston County

For the period January 1, 2013 through December 31, 2013

Published September 22, 2014

Report No. 1012638

Washington State Auditor
Troy Kelley

September 22, 2014

Board of Directors
Intercity Transit
Olympia, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Intercity 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,

TROY KELLEY

STATE AUDITOR

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Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

Federal Summary

Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

The results of our audit of the Intercity Transit are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

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 each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Transit did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Prior Federal Audit Findings

Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

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

<table>
<tr><td>Audit Period:
January 1, 2012 through December 31, 2012</td><td>Report Ref. No:
1010625</td><td>Finding Ref. No: 1</td><td>CFDA Number(s):
20.200, 20.507</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Federal Transit Capital Investment Grants
Federal Transit Formula Grants
U.S. Department of Transportation/Federal Transit Administration</td><td colspan="2">Pass-Through Agency Name:
NA</td></tr>
<tr><td colspan="4">Finding Caption:
The Transit's internal controls were not adequate to ensure compliance with federal requirements.</td></tr>
<tr><td colspan="4">Background:
The Federal Transit Cluster is comprised of Federal Transit Capital Investment Grants and Federal Transit Formula Grants. The objectives are to assist in financing the planning, acquisition, construction, preventive maintenance, and improvement of facilities and equipment in public transportation services.

In 2012 the Transit charged $4,128,219 to the Formula Grant and $3,872,007 to the Capital Investment grant.

During our audit, we noted the following material weaknesses in the Transit's internal controls:

<u>Allowable Costs, Matching and Reporting</u> – The Transit does not have documentation to specifically identify grant expenditures and matching amounts included in the request for reimbursement through the Electronic Clearing House Operation or the quarterly Federal Financial Reports submitted to the Federal Transit Administration. Rather, the Transit maintains spreadsheets that pool the costs it deems allowable for reimbursement or matching, and removes the costs it determines are unallowable.

Further, the cost spreadsheets and quarterly reports are prepared by the Transit's grant coordinator without any review of the request for reimbursement or quarterly financial reports by Transit management to ensure they reconcile accurately to supporting documentation.</td></tr>
</table>

We also noted the following significant deficiency in the Transit's internal controls: <u>Equipment</u> – The Transit does not have a process in place to ensure that a physical inventory of assets purchased with federal funds is performed every two years. The last inventory was completed in August 2010.
Status of Corrective Action: (check one) ☐ Fully Corrected   X Partially Corrected   ☐ No Corrective Action Taken   ☐ Finding is considered no longer valid
Corrective Action Taken: *<u>Allowable Costs, Matching and Reporting -</u> Based upon reviews conducted by the Federal Transit Administration's Region 10 personnel and also upon the recently completed Federal Transit Administrations Triennial review our existing accounting system, and reporting system, were deemed to be compliant with federal requirements and no corrective action was necessary.* *<u>Equipment –</u> Inventory was completed on May 16, 2014.*

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*

Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

Board of Directors
Intercity Transit
Olympia, 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 Intercity Transit, Thurston County, Washington, as of and for the years ended December 31, 2013 and 2012, 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 16, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

Board of Directors
Intercity Transit
Olympia, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Intercity Transit, Thurston County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Transit's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

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 OMB Circular A-133, 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 OMB Circular A-133. 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.

TROY KELLEY
STATE AUDITOR

September 16, 2014

Independent Auditor's Report on Financial Statements

Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

Board of Directors
Intercity Transit
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Intercity Transit, Thurston County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 16.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Intercity Transit, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 16, 2014 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.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2014

Financial Section

Intercity Transit
Thurston County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

INTERCITY TRANSIT
Management's Discussion and Analysis

This section of Intercity Transit's Annual Financial Report represents management's overview and analysis of Intercity Transit's financial performance for the fiscal years ended December 31, 2013 and December 31, 2012. This section should be read in conjunction with the financial statements which follow.

Introduction

Intercity Transit is a public transportation benefit area corporation providing public transportation services to the Thurston County community. Services include:

- Local and intercounty bus services.
- Paratransit services for the elderly and disabled.
- A vanpool program and ridematch services.

Financial Highlights for 2013

- As of December 31, 2013, Intercity Transit's position exceeded its liabilities by $70.4 million. The full $70.4 million is available to meet the primary goal of providing service to the public. These funds may also be invested in future capital improvements as discussed in Intercity Transit's Six-Year Plan.
- Intercity Transit's total net assets increased by $2.4 million. Intercity Transit maintained approximately the same amount of fixed route service in 2013, except for grant funded express service between Tumwater and Lakewood, and Olympia to DuPont with continuing service to Seattle. Small increases in demand response service and vanpool operations also occurred in 2013.
- Capital grants amounted to $312,000.
- Intercity Transit's primary source of funding is from local sales taxes. Intercity Transit's sales tax revenue increased from $28.1 million in 2012 to $29.4 million in 2013.

Overview of the Financial Statements

This discussion and analysis section serves as an introduction to Intercity Transit's basic financial statements. Intercity Transit is a stand-alone enterprise fund, and the financial statements report information using accounting methods similar to those used by private-sector businesses.

The Statement of Net Position presents information about all of Intercity Transit's assets and liabilities. The difference between assets and liabilities is reported as net position. When net position is compared for several years, increases and decreases may serve as a useful indicator of whether Intercity Transit's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how Intercity Transit's net position changed during the fiscal year. All changes in net position are reported as soon as the event occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows presents information on Intercity Transit's cash receipts, cash payments, and changes in cash and cash equivalents during the fiscal year.

The basic financial statements can be found in this report.

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

In addition to the basic financial statements, the accompanying notes contain supporting schedules comparing revenues and expenses to the budget using a cash basis of accounting. These schedules are intended to provide additional information for analysis, but they are not a required part of the basic financial statements. These notes can be found in this report.

Intercity Transit's Financial Position

Intercity Transit's financial position, like the economy as a whole, was shaken during 2011 and 2012, but has stabilized in 2013. One major concern during the last few years has been the rising cost of fuel, and that issue was a concern at the end of 2013 as well. The other major concern is the fluctuation of sales tax revenue that has occurred since 2008. However, Intercity Transit's current financial reserves allowed it to weather these stresses through 2013, and the same level of service is planned into the foreseeable future.

From the Comparative Statement of Net Position:

> Current assets net of current liabilities amounted to $33.1 million for the year ended December 31, 2013 as compared to $28.6 million for 2012.
>
> Cash reserves available to meet current and future obligations increased from $23.4 million in 2012 to $24.4 million in 2013.
>
> As of December 31, 2013, Intercity Transit had no long-term public financing debt.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended December 31, 2013, Intercity Transit's assets exceeded liabilities by $70.4 million.

The following is a summary of Intercity Transit's net position:

Summary Statements of Net Position

	2013	2012	2011	Net increase (decrease) 2012 vs. 2013
Assets:				
Current Assets	$35,166,628	$30,716,951	$26,867,284	$4,449,677
Capital Assets	38,531,052	40,495,829	37,077,542	(1,964,777)
Total Assets	73,697,680	71,212,780	63,944,826	2,484,900
Liabilities:				
Current Liabilities	2,069,755	2,070,454	1,882,326	(699)
Long-Term Liabilities	1,098,864	1,031,259	1,073,949	67,605
Total Liabilities	3,168,619	3,101,713	2,956,275	66,906
Deferred Inflows	80,326	50,886	44,129	29,440
Net Position:				
Investment in capital assets (net)	38,531,052	40,495,829	37,077,542	(1,964,777)
Unrestricted	31,917,683	27,564,352	23,866,880	4,353,331
Total Net Position	$70,448,735	$68,060,181	$60,944,422	$2,388,554

Public transportation is a capital-intensive enterprise. Consequently, 54.7 percent of Intercity Transit's net position was invested in capital assets. Because these assets are used to provide services to citizens, they are not available for future spending.

There are no external restrictions on assets. However, Intercity Transit's Authority has designated an operating reserve equal to one fourth of the current operating budget (a ninety-day reserve). For 2013 the designated reserve was $8.9 million.

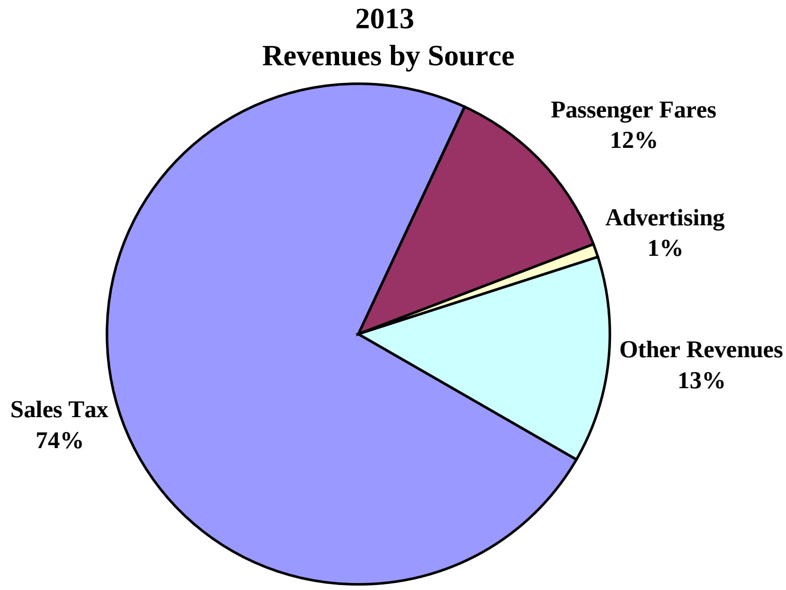
Intercity Transit's net position increased by $2.4 million during the current fiscal year. Key elements of this increase are on the following page:

Summary Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011	Net increase (decrease) 2012 vs. 2013
Operating Revenues:				
Passenger Fares	$ 4,906,192	$ 4,380,984	$ 4,042,793	$ 525,208
Advertising	321,774	299,758	278,765	22,016
Non-Operating Revenues:				
Sales Tax	29,381,345	28,193,293	27,828,553	1,188,052
Other revenues	5,287,913	4,877,202	2,305,745	410,711
Gain(Loss) on Capital Assets	18,116	182,024	118,004	(163,908)
Total Revenues	39,915,340	37,933,261	34,573,860	1,982,079
Expenses:				
Operations and Maintenance	25,476,662	26,392,775	23,519,826	(916,113)
General and Administrative	7,101,105	7,662,330	6,958,255	(561,225)
Depreciation	5,177,241	5,103,585	4,606,193	73,656
Accrued Vac/Sick Leave Exp	83,972	(146,977)	270,339	230,949
Total Expenses	$37,838,980	$39,011,713	35,354,613	(1,172,733)
Net Income Before Contributions	2,076,360	(1,078,452)	(780,753)	3,154,812
Capital Grants/Contributions	312,194	8,194,211	1,822,975	(7,882,017)
Total Change in Net Position	2,388,554	7,115,759	1,042,222	(4,727,205)
Net Position–Beginning of Year	68,060,181	60,944,422	59,902,200	7,115,759
Net Position – End of Year	$70,448,735	$68,060,181	$60,944,422	$ 2,388,554

Revenues

During 2013, revenues increased by $2 million, or 5.23 percent, while capital contributions decreased by $7.9 million. Revenues from major sources are illustrated below (Source: Summary Statement of Revenues):



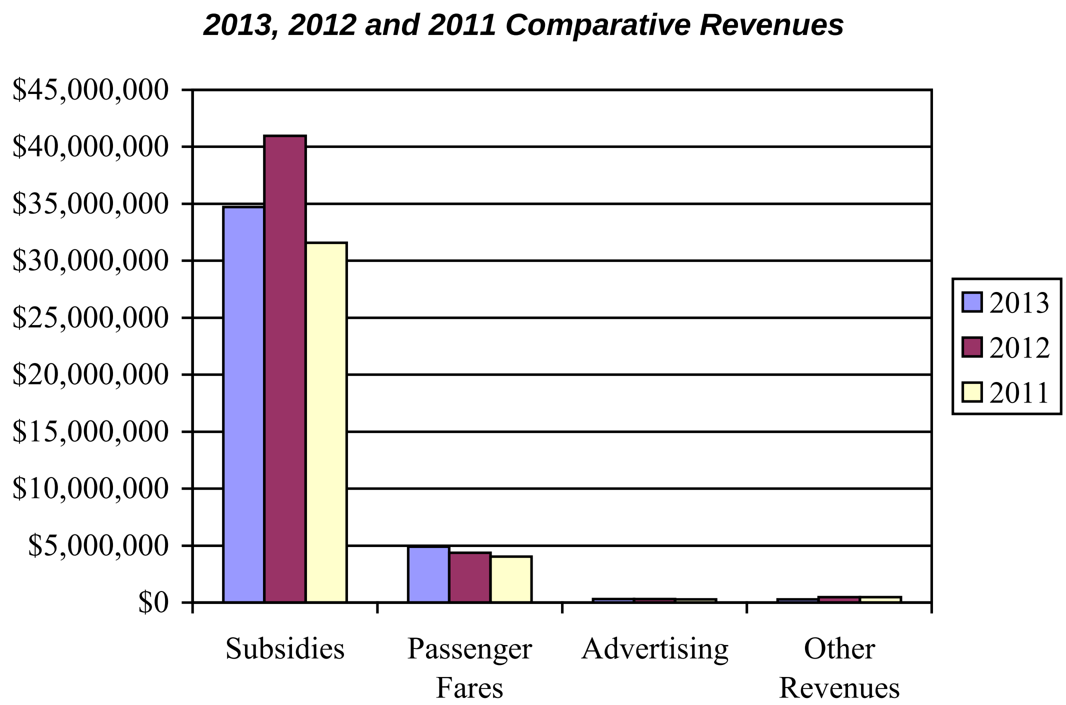
Total operating revenue sources (passenger fares and advertising) increased between 2012 and 2013 by $547,224 (12% increase). Sales tax revenues increased by $1.2 million from 2012, (4.2% increase). Other revenue sources (operating grants, interest income, miscellaneous revenues and gain/loss on disposal of assets) increased by $247,000 (4.9% increase) between 2012 and 2013, and capital contributions decreased by $7.9 million (96.2% decrease).

Passenger fares increased slightly in 2013. Total ridership decreased from 5,662,000 in 2012 to 5,352,000 in 2013, a 0.18% decrease. Fares increased 25% on January 1, 2013 resulting in increased revenues despite the slight decrease in ridership.

Other revenues increased by $247,000 or 0.7%. There was a slight increase in Federal/State operating assistance, and decreases in interest earnings, miscellaneous income and revenue from the disposal of assets between 2013 and 2012.

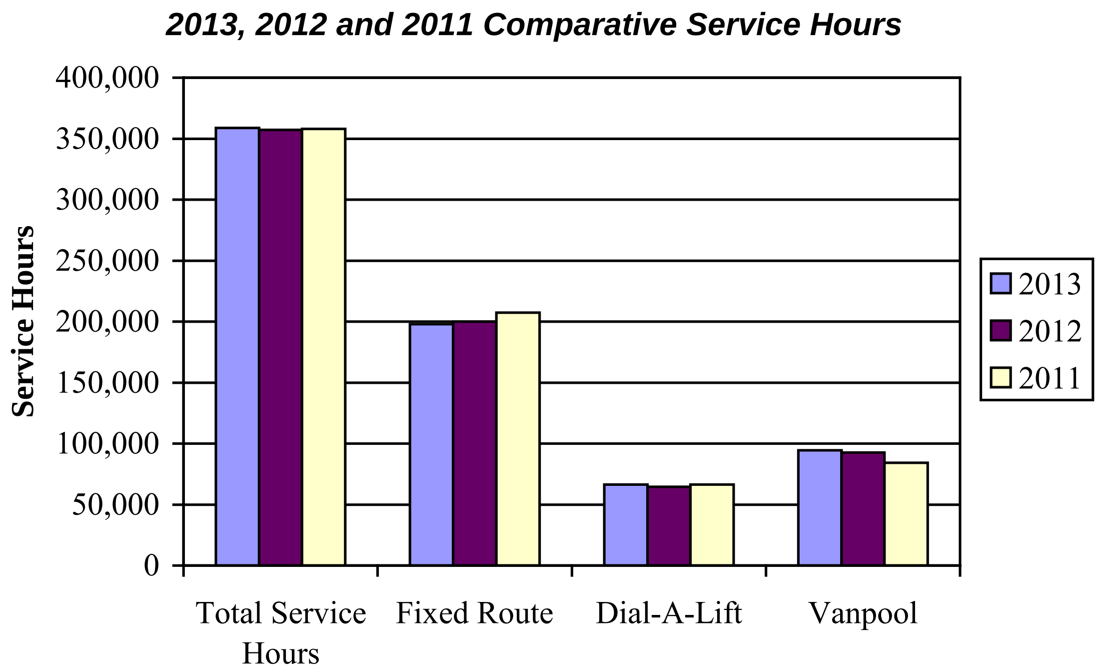
Advertising revenue didn’t significantly change from 2011 to 2012.

The following graph compares revenues by function for 2013, 2012 and 2011.



Expenses

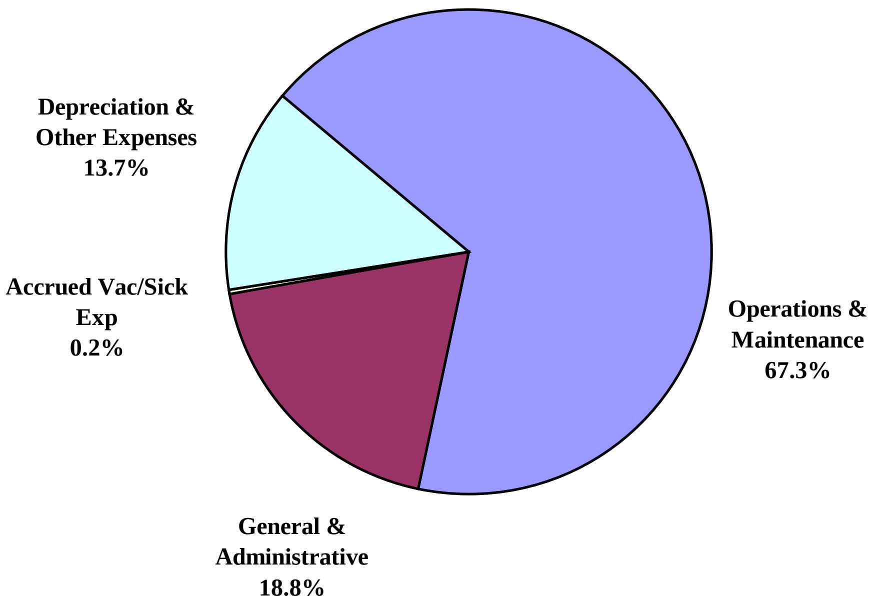
Per the Comparative Statement of Expenses, 2013 expenses decreased by $1.2 million, or 3 percent.



Total operating expense, excluding depreciation, is significantly impacted by the number of hours of service Intercity Transit provides. Total service hours for all modes increased slightly in 2013.

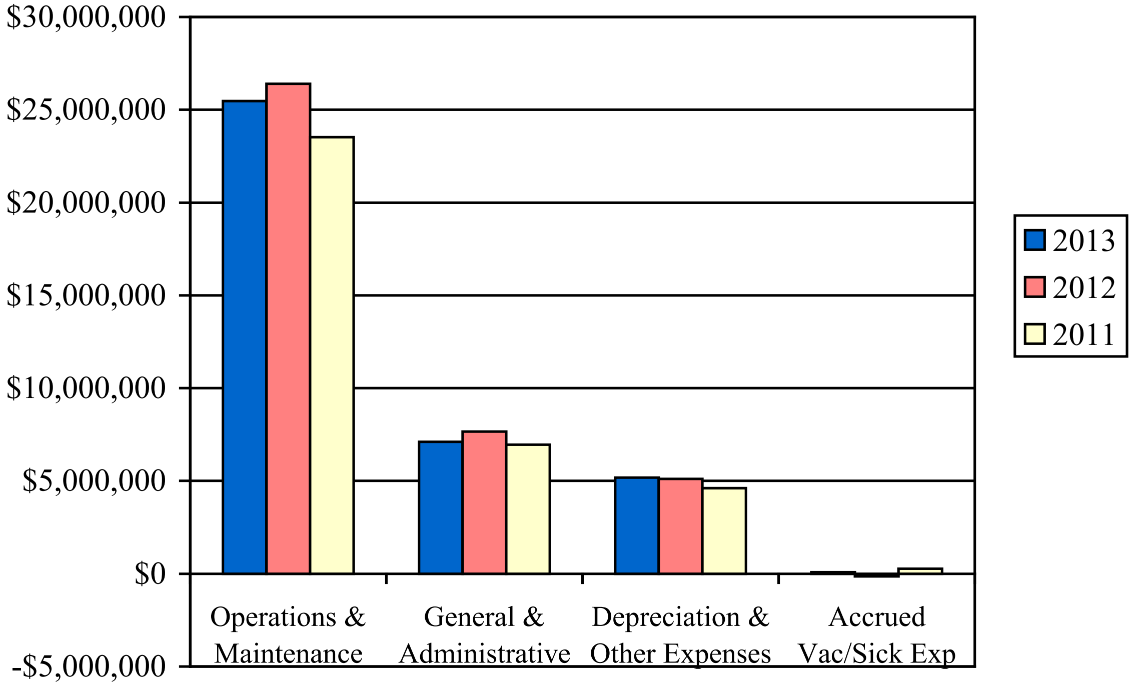
Expenses by major function are shown below:

2013 Expenses by Function



The graph on the following page compares expenses by function for 2013, 2012 and 2011.

2013, 2012 and 2011 Comparative Expenses



Operations and maintenance expenses decreased by $916,000, or 3.5 percent. In 2012, Intercity Transit expensed approximately $1.8 million in improvement costs to the Martin Way Park & Ride, which caused an increase in 2012 costs. Also, there were increases in the costs for fuels and lubricants.

General and administrative expenses decreased by $561,000 or 7.3 percent. In 2012, there were higher expenditures for engineering services for a bus stop improvement project, which was not repeated in 2013.

Depreciation expenses increased $73,600, or 1.44%.

Capital Assets

Capital assets include revenue vehicles, support vehicles, land and buildings, equipment, and passenger facilities.

Intercity Transit's investment in capital assets as of December 31, 2013, amounted to $38.5 million, net of accumulated depreciation. Capital assets decreased $1.9 million or 4.9% during 2013. The decrease consisted of $1.4 million in net additions and $3.3 million increase in accumulated depreciation.

Major acquisitions during 2013 included:

- Completion of an automated fueling system ($247,000)
- Purchase of ten Dial A Lift buses ($1.4 million)
- Purchase of 55 replacement and expansion vanpool vans ($1.4 million)

For additional information on Intercity Transit's capital assets please see the notes to the financial statements included with this report.

Debt Administration

At December 31, 2011, December 31, 2012 and December 31, 2013 Intercity Transit had no long-term debt.

Economic Factors and Future Outlook

Thurston County's March unemployment rates for 2012, 2013 and 2014 compared to Washington State and the nation as a whole are as follows:

	March 2014	March 2013	March 2012
Thurston County	6.9%	7.9%	8.4%
Washington State	6.3%	7.3%	8.3%
United States	6.7%	7.7%	8.2%

The 2013 budget is summarized below:

Operating Fund Revenues	$ 5,134,834
Capital Grants and Contributions	6,928,868
Non-Transportation Revenue	410,186
Subsidies (Sales Tax/Operating Assistance)	33,312,912
Total Budgeted Revenues	$45,786,800
Operating Expenses	$35,657,518
Capital Projects	12,110,682
Total Expenditures	$47,768,200

Requests for Information

This financial report is designed to provide a general overview of Intercity Transit finances for anyone who has an interest. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to:

Leslie Williamson
Intercity Transit
P.O. Box 659
Olympia, WA 98507-0659

INTERCITY TRANSIT
COMPARATIVE STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2013 AND 2012

		2013		2012
ASSETS				
CURRENT ASSETS				
Cash & Cash Equivalents	$	24,414,471	$	23,396,617
Receivables		5,634,499		5,392,734
Due From Government Units		4,308,724		996,961
Inventories		808,934		930,639
TOTAL CURRENT ASSETS	**$**	**35,166,628**	**$**	**30,716,951**
NONCURRENT ASSETS				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$	5,331,565	$	5,331,565
Work In Process		8,990,444		8,969,152
CAPITAL ASSETS BEING DEPRECIATED				
Facilities		15,820,434		15,820,434
Revenue Equipment		38,694,571		37,732,530
Communication Equipment		5,742,209		5,742,209
Administrative Vehicles		578,212		584,697
Shop Equipment		1,871,676		1,615,508
Office/IS Equipment/Software		1,545,077		1,413,816
Miscellaneous Equipment		707,286		707,286
(Less) Total Accumulated Depreciation		(40,750,422)		(37,421,368)
TOTAL NONCURRENT ASSETS	**$**	**38,531,052**	**$**	**40,495,829**
TOTAL ASSETS	**$**	**73,697,680**	**$**	**71,212,780**
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	$	433,804	$	617,646
Accrued Wages & Benefits		1,136,435		969,660
Accrued Vacation		499,516		483,148
TOTAL CURRENT LIABILITIES	**$**	**2,069,755**	**$**	**2,070,454**
NONCURRENT LIABILITIES				
Accrued Vacation/Sick Leave	$	1,098,864	$	1,031,259
TOTAL NONCURRENT LIABILITIES	**$**	**1,098,864**	**$**	**1,031,259**
TOTAL LIABILITIES	**$**	**3,168,619**	**$**	**3,101,713**
DEFERRED INFLOWS OF RESOURCES				
Payments received in advance		80,326		50,886
TOTAL DEFERRED INFLOWS OF RESOURCES	**$**	**80,326**	**$**	**50,886**
NET POSITION				
Net Investment in Capital Assets	$	38,531,052	$	40,495,829
Unrestricted		31,917,683		27,564,352
TOTAL NET POSITION	**$**	**70,448,735**	**$**	**68,060,181**

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

INTERCITY TRANSIT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

		2013		**2012**
OPERATING INCOME				
Fares	$	3,060,258	$	2,739,437
Vanpool		1,845,934		1,641,547
Advertising		321,774		299,758
TOTAL OPERATING REVENUE	**$**	**5,227,966**	**$**	**4,680,742**
OPERATING EXPENSES				
Operations	$	16,084,290	$	15,019,883
Vehicle Maintenance		7,992,777		7,910,941
Non-Vehicle Maintenance		1,399,595		3,461,951
General & Administration		7,101,105		7,662,330
Depreciation		5,177,241		5,103,585
Accrued Vacation Expense		20,256		(121,893)
Accrued Sick Leave Expense		63,716		(25,084)
TOTAL OPERATING EXPENSES	**$**	**37,838,980**	**$**	**39,011,713**
OPERATING INCOME (LOSS)	**$**	**(32,611,014)**	**$**	**(34,330,971)**
NON-OPERATING REVENUES (EXPENSES)				
Sales Tax	$	29,381,345	$	28,193,293
Federal/State Operating Assistance		5,036,135		4,576,677
Interest Income		142,073		159,924
Miscellaneous		109,705		140,601
Gain (Loss) on Disposal of Assets		18,116		182,024
TOTAL NON-OPERATING REVENUES (EXPENSES)	**$**	**34,687,374**	**$**	**33,252,519**
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	**$**	**2,076,360**	**$**	**(1,078,452)**
Capital Contributions		312,194		8,194,211
CHANGE IN NET POSITION	**$**	**2,388,554**	**$**	**7,115,759**
NET POSITION, BEGINNING	**$**	**68,060,181**	**$**	**60,944,422**
NET POSITION, ENDING	**$**	**70,448,735**	**$**	**68,060,181**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INTERCITY TRANSIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING ACTIVITIES:		
Cash Received From Customers	$ 4,918,827	$ 4,461,608
Payments for Wages & Benefits	(23,599,533)	(22,876,659)
Payments for Operating Expenses	(8,791,827)	(11,004,299)
Cash Received From Advertising Income	343,688	294,159
NET CASH USED BY OPERATING ACTIVITIES	**$ (27,128,845)**	**$ (29,125,191)**
NONCAPITAL FINANCING ACTIVITIES		
Cash Received From Sales Tax	$ 29,250,739	$ 28,175,394
Cash Received From Operating Grants	1,021,137	4,551,871
NET CASH PROVIDED FROM NONCAPITAL ACTIVITIES	**$ 30,271,876**	**$ 32,727,265**
CAPITAL & RELATED FINANCING ACTIVITIES		
Capital Contributed by Federal Agencies	$ 131,586	$ 3,792,568
Capital Contributed by State/Local Agencies	883,842	3,689,511
Cash Received From Sale of Capital Assets	18,116	205,733
Acquisition of Capital Assets	(3,294,230)	(8,449,761)
NET CASH USED FOR CAPITAL & RELATED ACTIVITIES	**$ (2,260,686)**	**$ (761,949)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest on Investments	$ 135,509	$ 172,250
NET CASH PROVIDED BY INVESTING ACTIVITIES	**$ 135,509**	**$ 172,250**
NET INCREASE IN CASH & CASH EQUIVALENTS	**1,017,854**	**3,012,375**
CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR	**$ 23,396,617**	**$ 20,384,242**
CASH & CASH EQUIVALENTS - END OF THE YEAR	**$ 24,414,471**	**$ 23,396,617**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

For the year ending December 31, 2013 there were no noncash investing, capital or financing activities.

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INTERCITY TRANSIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

		2013		2012
NET OPERATING LOSS	**$**	**(32,611,014)**	**$**	**(34,330,971)**
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation	$	5,177,241	$	5,103,585
Misc Non-Operating Income		109,705		140,601
CHANGE IN ASSETS AND LIABILITIES:				
Decrease in Advertising Receivable		1,081		(5,599)
Increase in Miscellaneous Accounts Receivable		(105,676)		(66,735)
Decrease in Inventories		121,705		(22,448)
Increase in Accrued Vacation Payable		20,256		(121,893)
Increase in Accrued Sick Leave Payable		63,716		(25,084)
Decrease in Accounts Payable		(102,074)		125,842
Increase in Wages and Benefits Payable		166,775		70,753
Increase in Deferred Inflows		29,440		6,758
TOTAL ADJUSTMENTS	**$**	**5,482,169**	**$**	**5,205,780**
NET CASH USED BY OPERATING ACTIVITIES	**$**	**(27,128,845)**	**$**	**(29,125,191)**

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

INTERCITY TRANSIT

NOTES TO FINANCIAL STATEMENTS

JANUARY 1, 2012 THROUGH DECEMBER 31, 2013

Intercity Transit was incorporated in 1981 and operates under the laws of the state of Washington applicable to a public transportation benefit area. The financial statements of Intercity Transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

The following summary of the significant accounting policies is presented to assist the reader. These notes should be viewed as an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Entity:

Intercity Transit is a special purpose government which provides fixed route, demand response and vanpool services to the general public. It is governed by a nine member board consisting of elected officials, citizen representatives and a labor representative. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Intercity Transit has no component units.

B. Basis of Accounting and Reporting:

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position. The reported total net assets is segregated into invested in capital assets, net of related debt; and restricted and unrestricted net assets. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total position. Intercity Transit discloses changes in cash flows by a separate statement that presents its operating, noncapital financing, capital and related financing, and investing activities.

Intercity Transit consists of a single enterprise fund and uses the full-accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and become measurable; and expenses are recognized in the period incurred, if measurable.

Enterprise 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 an enterprise fund's principal ongoing operation. Intercity Transit's principal operating revenues are charges to customers in the form of bus and vanpool fares. Operating expenses include the cost of providing transit service, administration expenses, depreciation on capital assets, and gain/loss on sale of assets. Tax revenue, grants used to finance operations, interest, and expenses not related to the provision of transit service are reported as non-operating revenues and expenses.

Accrued revenues include sales tax, state and federal subsidies, and interest earnings. Capital grant revenues are accrued in the amount of reimbursable liabilities incurred as of year end.

C. Budgetary Data:

a. The annual budget is prepared on the same basis as the statements with the exception of depreciation and accrued vacation and sick leave expense. These are items not requiring cash outlay.

b. Appropriations lapse at year-end.

c. Expenses cannot exceed appropriations at the total budget level. Resolution No. 04-2012 set the total 2013 budgeted revenues at $45,786,800 and expenses at $47,768,200. Actual revenues, including capital grants, were $40,227,534. Actual expenses and capital outlay less depreciation and accrued vacation/sick leave expense were $35,790,229.

d. A resolution is required by Intercity Transit if amendments are needed to the original budget. No amendments were made to the 2013 budget.

e. Accounts encumbered but not expended by the end of the budget year become an encumbrance of the following year's appropriations.

Detail of budgeted versus actual amounts are shown on the following page.

SCHEDULE OF REVENUES AND NON-REVENUES: BUDGET VERSUS ACTUAL

Year Ended December 31, 2013

	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	$ 4,836,214	$ 4,906,192	$ 69,978
Advertising	298,620	321,774	23,154
Interest Income	296,610	142,073	(154,537)
Sales Tax	28,952,878	29,381,345	428,467
Operating/Capital Subsidies	11,288,902	5,348,329	(5,940,573)
Miscellaneous	113,576	109,705	(3,871)
Gain on Disposal of Assets	-	18,116	18,116
TOTAL	**$45,786,800**	**$40,227,534**	**($5,559,266)**

SCHEDULE OF EXPENSES AND EXPENDITURES: BUDGET VERSUS ACTUAL

Year Ended December 31, 2013

	BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Operations	$ 16,243,875	$ 16,084,290	$ 159,586
Vehicle Maintenance	8,335,051	7,992,777	342,274
Non-Vehicle Maintenance	2,023,238	1,399,595	623,643
General & Administration	9,055,354	7,101,105	1,954,249
Capital Purchases	12,110,682	3,212,462	8,898,220
Accrued Vac/Sick Lv Expense	-	83,972	(83,972)
Depreciation	-	5,177,241	(5,177,241)
TOTAL*	**$47,768,200**	**$41,051,442**	**$ 6,716,759**

*Expenditures in excess of revenues were funded by reserves.

A reconciliation of the revenue and expenditures shown on the Budget vs. Actual Schedules and the Statement of Revenues, Expenses and Changes in Net Position is as follows:

REVENUES		EXPENSES	
Passenger Fares	$ 4,906,192	Operations	$ 16,084,290
Advertising	321,774	Vehicle Maintenance	7,992,777
Investment Interest	142,073	Non-Vehicle Maintenance	1,399,595
Miscellaneous	109,705	General & Administrative	7,101,105
Operating Subsidies	34,417,480	Accrued Vac/Sick Lv Expense	83,972
Gain on Disposal of Assets	18,116	Depreciation	5,177,241
TOTAL	**$39,915,340**	**TOTAL**	**$37,838,980**
Revenues From the Budget to Actual Schedule		**Expenditures From the Budget to Actual Schedule**	
Capital Grants	312,194	Capital Purchases	3,212,462
TOTAL	**$40,227,534**	**TOTAL**	**$41,051,442**

D. Cash and Cash Equivalents:

Cash equivalents are composed of all highly liquid investments with an original maturity of three months or less. Cash consists of cash on hand; petty cash; and demand deposits,

.

E. Investments:

Investments are carried at cost, adjusted for purchase discounts or premiums. The discounts or premiums are amortized over the holding period of the investments. See Note 3 for further information.

F. Receivables

At December 31, 2013 Intercity Transit had the following receivables:

Accounts Receivable	**2013**	**2012**
Miscellaneous	$ 286,796	$ 181,120
Sales Tax	5,313,305	5,182,699
Advertising	4,518	5,599
Interest in Investments	29,880	23,316
TOTAL	**$ 5,634,499**	**$ 5,392,734**
Due from Government Units	**$ 4,308,724**	**$ 996,961**

G. Inventories:

Inventories consist of vehicle maintenance supplies, fuel, lubricants, and oils. They are valued using the average cost method. A physical inventory was taken on November 1, 2013 with appropriate adjustments made to recorded inventories.

H. Capital Assets:

Property, plant and equipment with individual values of at least $5,000 and a useful life of three years are stated at historical cost or if unknown, at fair market value. Donated capital assets are valued at their estimated market value. Improvements, which add to the value of or extend the life of the asset, are capitalized. Repairs and maintenance are expensed as incurred. Labor and other expenses incurred in the acquisition and construction of capital assets are capitalized. See Note 4 for further details.

I. Restricted Assets:

As of December 31, 2013, there were no restricted assets designated for specific purposes.

J. Accumulated Unpaid Vacation and Sick Leave:

Transit operators accumulate vacation benefits under the agreement between Intercity Transit and Amalgamated Transit Union (ATU), Local Division 1384. Maintenance employees accumulate vacation benefits under the agreement between Intercity Transit and International Association of Machinists and Aerospace Workers (IAM), Lodge No. 160. All other employees accumulate vacation benefits under Intercity Transit Policy HR-3503. Based upon the provisions of these documents, vacation benefits are accumulated per the following schedules:

Transit Operators	
Years of Service	Vacation Hours
1	112
2	120
3-4	128
5	136
6-7	144
8-10	152
11-12	160
13-16	168
17-18	176
19	184
20-25	192
26+	200

Maintenance Workers	
Years of Service	Vacation Hours
0-12 months	96
2nd year	104
3-4	112
5	120
6-7	128
8-10	136
11-13	144
14-16	152
17-18	160
19	168
20-25	176
26+	184

Other Employees	
Years of Service	Vacation Hours
1	112
2	120
3-4	128
5	136
6-7	144
8-10	152
11-12	160
13-16	168
17-18	176
19	184
20-25	192
26+	200

Non-represented employees may accumulate 360 hours of vacation; members of IAM may accumulate 340 hours of vacation; and members of ATU may accumulate 320 hours of vacation. All employees may accumulate 960 hours of sick leave. At termination employees receive cash for accrued vacation, and may receive partial pay for sick leave based on their years of service and the number of hours accrued. Intercity Transit records unpaid leave for compensated absences as an expense and liability when incurred.

K. Comparative Data:

Comparative financial statements have been presented in the accompanying financial statements in order to provide an understanding of changes in Intercity Transit's financial position and operations.

NOTE 2 - STEWARDSHIP/COMPLIANCE/ACCOUNTABILITY

As of December 31, 2013 there were no excess of expenditures over appropriations; and no violations of finance related legal and contractual provisions.

NOTE 3 - DEPOSITS AND INVESTMENTS

Composition of cash and cash equivalents are shown on the following page:

	2013	2012
Cash on Hand	$ 8,650	$ 8,950
Demand Deposits	9,500	7,000
Investments having original maturities of less than three months	24,396,321	23,380,667
Cash and Cash Equivalents	**$24,414,471**	**$23,396,617**

All bank deposits are entirely insured under FDIC limitations.

As required by State law, all investments of Intercity Transit's funds are obligations of the US. Government, the Thurston County Treasurer's Investment Pool, bankers' acceptance, or deposits with Washington State banks and savings and loan institutions. As of December 31, 2013 all the transit's investments are in the Thurston County Treasurer's Investment Pool.

The Thurston County Investment Pool (TCIP) operates on an amortized cost-book value basis rather than a net asset value (NAV) basis. All funds deposited in the pool are returned to the participant at full face value without regard to current market values of the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's cash in the pool. Investments are stated at amortized cost.

GASB Statement 31, relating to adjustments to financial statements to reflect the difference between amortized cost and market value, has not been implemented by the Thurston County Treasurer's Office due to its determination of immateriality to the county's financial statements.

The Thurston County Treasurer serves as the transit's treasurer. The county issues a publicly available annual financial report that includes financial statements and required supplementary information. The report may be obtained by writing to:

Thurston County Auditor
2000 Lakeridge DR SW
Olympia, WA 98502

Per GASB Statement 3, investments in pools managed by another government and in mutual funds need not be categorized as to credit risk.

NOTE 4 - CAPITAL ASSETS AND RELATED DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase the useful life of an asset, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known), or estimated market value for donated assets.

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

Upon retirement of a capital asset, the cost and the related allowance for depreciation is removed from the property accounts. The gain or loss is reflected in non-operating income.

Costs incurred in the planning and design of projects are deferred until programs are approved or abandoned. At that time, the related costs are transferred to the asset accounts or charged to expense as appropriate. Items of plant and equipment, which are incomplete, unclassified or otherwise not in service, and therefore not subject to depreciation, are deferred until they are placed in service.

Depreciation expense is charged to operating expenses to allocate the cost of capital assets over their estimated useful lives, using the straight-line method. Individual useful lives are assigned to new assets as follows:

Land	Not Depreciated
Buildings, Facilities	10 to 30 years
Revenue Vehicles	4.5 to 12 years
Other Vehicles	3 to 5 years
Equipment, Furniture	3 to 5 years
Intangible Assets	3 to 5 years

Summaries of changes in plant, property and equipment for 2012 and 2013 are shown on the following pages:

2012 Summary of Changes

	Balance 12/31/11	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated				
Land	$5,331,565			$5,331,565
Work in Process	6,186,898	4,837,523	2,055,269	8,969,152
Total capital assets, not being depreciated	**$11,518,463**	**4,837,523**	**2,055,269**	**14,300,717**
Capital assets, being depreciated				
Administrative Vehicles	494,040	156,814	66,158	584,696
Shop Equipment	1,615,508			1,615,508
Office Equipment	11,505			11,505
IS Equipment/Software	1,177,715	224,595		1,402,310
Miscellaneous Equipment	700,226	7,060		707,286
Facilities	15,820,434			15,820,434
Revenue Equipment	33,920,826	5,374,858	1,563,152	37,732,532
Communication Equipment	5,742,209			5,742,209
Total capital assets, being depreciated	**59,482,463**	**5,763,327**	**1,629,310**	**63,616,480**
Less accumulated depreciation for:				
Administrative Vehicles	416,246	70,480	59,883	426,843
Shop Equipment	778,934	138,882		917,816
Office Equipment	11,505			11,505
IS Equipment/Software	799,724	113,276		913,000
Miscellaneous Equipment	463,609	72,631		536,240
Facilities	11,912,257	369,467		12,281,724
Revenue Equipment & Vanpool	16,934,731	3,520,806	1,545,718	18,909,819
Communication Equipment	2,606,378	818,043		3,424,421
Total accumulated depreciation	**33,923,384**	**5,103,585**	**1,605,601**	**37,421,368**
Total capital assets, being depreciated, net	**25,559,079**			**26,195,112**

2013 Summary of Changes

	Balance 12/31/12	Increases	Decreases	Balance 12/31/13
Capital assets, not being depreciated				
Land	$5,331,565			$5,331,565
Work in Process	8,969,152	3,112,186	3,090,894	8,990,444
Total capital assets, not being depreciated	**$14,300,717**	**3,112,186**	**3,090,894**	**14,322,009**
Capital assets, being depreciated				
Administrative Vehicles	584,696	37,187	43,671	578,212
Shop Equipment	1,615,508	256,168		1,871,676
Office Equipment	11,505			11,505
IS Equipment/Software	1,402,310	131,262		1,533,572
Miscellaneous Equipment	707,286			707,286
Facilities	15,820,434			15,820,434
Revenue Equipment	37,732,532	2,766,555	1,804,516	38,694,571
Communication Equipment	5,742,209			5,742,209
Total capital assets, being depreciated	**63,616,480**	**3,191,172**	**1,848,187**	**64,959,465**
Less accumulated depreciation for:				
Administrative Vehicles	426,843	53,893	43,671	437,065
Shop Equipment	917,816	136,692		1,054,508
Office Equipment	11,505			11,505
IS Equipment/Software	913,000	109,101		1,022,101
Miscellaneous Equipment	536,240	69,155		605,395
Facilities	12,281,724	355,064		12,636,788
Revenue Equipment & Vanpool	18,909,819	3,635,293	1,804,516	20,740,596
Communication Equipment	3,424,421	818,043		4,242,464
Total accumulated depreciation	**37,421,368**	**5,177,241**	**1,848,187**	**40,750,422**
Total capital assets, being depreciated, net	**26,195,112**			**24,209,043**

Work in progress as of 12/31/13 consists of the following projects:

Land	$ 0
Facilities	8,368,782
Equipment	621,662
TOTAL	**$8,990,444**

NOTE 5 - PENSION PLAN

All Intercity Transit employees, except for personnel working less than 70 hours per month in five months in a calendar year, participate in the Public Employees' Retirement Systems (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. 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 downloaded from the DRS website at www.drs.wa.gov, or may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380;

The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and superior courts; employees of legislative committees; community and technical college, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plan accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

Plan I retirement benefits are vested after an employee completes five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the retirement benefit may not exceed 60 percent of AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have 20 years of service credit and are at least 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan I employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan I are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contributions for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statue in accordance with chapters 41.40 and 41.45 RCW.

Intercity Transit's required contribution rates expressed as a percentage of current-year covered payroll as December 31, 2013 were:

Members Not Participating in JBM:

	PERS Plan I	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan I	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Government*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Government	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** Plan 3 defined benefit portion only.

*** Minimum rate.

Intercity Transit and employees made the required contributions. IT’s required contributions for the years ending December 31, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$36,667	$2,064,953	$179,313
2012	$75,249	$1,832,553	$146,567
2011	$68,481	$1,537,399	$128,795

The Transit’s contribution in 2013 represents its full liability with the exception of an unknown contingent liability for certain employees. Intercity Transit's leave policy allows for the accumulation of 320 or more hours of leave for all employees. PERS is liable for only 30 days of leave. Certain employees are also eligible for partial payment for sick leave based on their years of service and the number of hours accrued. PERS is not liable for payment of sick leave upon retirement. A lump sum payment may be required if an employee retires with more than 30 days of vacation, and/or receives payment for sick leave, and is a member of PERS Plan I. Currently, one employee has exceeded 30 days of accrued vacation, three employees are eligible for sick leave payout, and are members of PERS 1. Intercity Transit’s estimated liability for these employees is immaterial and will not have any significant effect on its financial position.

NOTE 6 - OUTSTANDING DEBT

Intercity Transit did not engage in any short term debt activities in 2013 and had no outstanding debt as of December 31, 2013, other than the current accounts payable, wages and benefits payable, and accrued vacation and sick leave payable per the Statement of Net Position.

NOTE 7 - SEGMENT INFORMATION

Intercity Transit operates as a public transportation entity. No other operation other than public transportation services is involved. Exterior and interior advertising is offered on the buses but represents an insignificant portion of the operation.

NOTE 8 - PUBLIC ENTITY RISK POOLS

A. Washington State Transit Insurance Pool

In December of 1988, Intercity Transit signed an interlocal government agreement per Chapters 48.62 and 39.34 of the Washington State RCWs, with seven public Washington transit systems for the joint purchase of liability insurance, joint self-insurance, and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. The agreement created an agency known as the Washington State Transit Insurance Pool. Intercity Transit's commitment to the Pool was a minimum of four years. Currently, there are 24 members in the transit insurance pool.

A board of Directors consisting of a representative of each member system governs the Pool. Member systems include: Intercity Transit, Grays Harbor Transit, Kitsap Transit, Ben Franklin Transit, Clallam Transit, Jefferson Transit, Community Transit, Pacific Transit, Link Transit, Island Transit, Mason Transit, Whatcom Transit, Grant Transit and Skagit Transit, Columbia County Transit, CUBS, Everett Transit, Pullman Transit, Spokane Transit, Twin Transit, Valley Transit, Asotin Transit, Pierce Transit and Yakima Transit.

The purpose of the Pool is stabilization of present insurance costs and reduction of costs in the long term future.

The Pool self insures for the first $1,000,000 of each auto and general liability claim and provides excess insurance with private carriers for up to eleven million above the initial $1,000,000 on a per claim basis.

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

WSTIP
2629 12th Ct SW
Olympia, WA 98502

B. Risk Management

The transit maintains insurance against most normal hazards. There have been no insurance settlements that exceeded the amount of insurance coverage within the past three years.

NOTE 9 - ACCOUNTING CHANGES

Intercity Transit had no accounting policy changes in 2013.

NOTE 10 - SIGNIFICANT CONTINGENCIES

Intercity Transit has various unresolved claims and suits against it as of December 31, 2013. Management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of these actions will not have any significant effect on the Agency's financial position or result of operations.

Intercity Transit has received several federal grants for specific purposes that are subject to review and audit. Such audits could lead to requests for reimbursements for expenditures disallowed under the terms of the grants. In the opinion of management, such disallowances, if any, will be immaterial and will not have any significant effect on the financial position of Intercity Transit.

NOTE 11 -SUBSEQUENT EVENTS

In 2014, various capital assets will be purchased. The amount budgeted for these capital acquisitions is more than $22 million and includes revenue vehicles, facility enhancements, and other items.

MCAG NO. 0269

Intercity Transit

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Federal Highway Administration (fhwa), Department Of Transportation/WA State Dept of Transportation	Highway Planning and Construction	20.205	LA-7619	21,733		21,733	
Federal Transit Administration (fta), Department Of Transportation/	Federal Transit_Capital Investment Grants	20.500	WA-04-0038		24,500	24,500	
Federal Transit Administration (fta), Department Of Transportation/	Federal Transit_Formula Grants	20.507	WA-95-0055		5,221	5,221	
Federal Transit Administration (fta), Department Of Transportation/	Federal Transit_Formula Grants	20.507	WA-90-0531		806,696	806,696	
Federal Transit Administration (fta), Department Of Transportation/	Federal Transit_Formula Grants	20.507	WA-90-0533		3,024,032	3,024,032	
			Total CFDA 20.507	**0**	**3,835,949**	**3,835,949**	
Federal Transit Administration (fta), Department Of Transportation/	Job Access And Reverse Commute Program	20.516	WA-37-0009		36,544	36,544	
Federal Transit Administration (fta), Department Of Transportation/WA State Dept of Transportation	Job Access And Reverse Commute Program	20.516	GCA6822	62,961		62,961	
Federal Transit Administration (fta), Department Of Transportation/WA State Dept of Transportation	Job Access And Reverse Commute Program	20.516	GCB1610	60,444		60,444	
			Total CFDA 20.516	**123,405**	**36,544**	**159,949**	
Department Of Energy/Thurston Regional Planning Council	Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0003802	15,374		15,374	
			Total Federal Awards Expended:	**160,512**	**3,896,993**	**4,057,505**	

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

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditure of Federal Awards is prepared on the same basis of accounting as the transit's financial statements. Intercity Transit uses the accrual basis of accounting.

NOTE 2- PROGRAM COSTS

The amounts shown as current year expenses represent only the federal portion of the program costs. Actual program costs, including Intercity Transit's portion, may be more than shown.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov