Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Clallam County Public Transportation Benefit Area

(Clallam Transit System)

For the period January 1, 2014 through December 31, 2014

Published September 24, 2015

Report No. 1015080

Washington State Auditor's Office

September 24, 2015

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

The results of our audit of the Clallam Transit System 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 identified 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 under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.509	Formula Grants for Rural Areas

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 AUDIT FINDINGS AND RESPONSES

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

2014-001 The Transit's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.

Background

Board members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Transit to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the Transit's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal controls that when taken together, represent a significant deficiency:

- Although the Transit has a review process for the prepared financial statements, the review was not effective or sufficiently detailed to ensure the financial statements were accurate and complete.
- Staff responsible for reviewing the financial statements did not have adequate time to ensure compliance with all financial reporting requirements.
- The Transit did not have procedures in place to ensure supporting documentation for financial statement balances was properly maintained.

Cause of Condition

The Transit experienced turnover in the finance administrator's position responsible for financial reporting. The Transit relied on a consultant to produce their financial statements. The consultant and Transit management discovered the information in the general ledger lacked support, and current accounting personnel did not know the history for some of the transactions reported in the general ledger.

Effect of Condition

The Transit's financial statements contained misstatements which were not detected by Transit management. The following misstatements were identified in the audit:

- Depreciation expense was likely understated by $249,416. The Transit did not have adequate support for their depreciation calculation. As a result, we could not determine whether the amount reported on the Statement of Revenue, Expenses and Changes in Net Position was accurate.

- All five capital asset balances were likely overstated in aggregate by $1,067,651. The Transit did not have adequate support for the capital asset balances. As a result, we could not determine whether the amounts reported on the Statement of Net Position were accurate.

The uncorrected likely misstatements are not material to the financial statements, and did not change our opinion on the financial statements.

Recommendation

We recommend Transit management take action to establish ongoing, consistent internal controls over its financial accounting and reporting, to include the following:

- Establish an effective review process of the financial statements by a person knowledgeable of Generally Accepted Accounting Principles (GAAP) and Budgeting, Accounting and Reporting Systems (BARS) reporting requirements to ensure accurate preparation and reporting of the Transit's financial statements.

- Ensure staff responsible for reviewing the financial statements dedicate adequate time to verify the statements are in compliance with Generally Accepted Accounting Principles (GAAP) and the Budgeting, Accounting and Reporting Systems (BARS) reporting requirements.

- Establish and implement monitoring and oversight procedures to ensure general ledger balances are accurate, complete and adequately supported.

Transit's Response

Calendar years 2013 and 2014 were years of change and challenge with the retirement of the General Manager, the arrival of the new General Manager, the separation of the Finance Administrator and the engagement of an Interim Finance Administrator. The Interim position was filled just in time to begin *closing out 2013 and preparing for the filing of the financial statements by the state deadline and the subsequent state audit. The Interim Finance Administrator was faced with the difficult task of learning the financial system software, bringing the general ledger entries up to date, beginning the process of identifying areas needing improvement, and preparing for a permanent replacement for the finance position.*

CTS engaged the consulting services of a retired state auditor to assist with preparing and reviewing the 2013 financial statements. In addition, a peer agency Finance Manager assisted with the financial software training, reconstructing portions of the general ledger, depreciating assets and other related tasks. All three of these financially qualified individuals were able to compile the financial statements, notes and MD&A in time to submit them to the state by the state deadline. During this time period, the Interim Finance Administrator also worked on 2014 financial information and identification of areas needing improvement. The results of the 2013 audit provided additional direction for areas needing attention. Some of the 2013 audit corrective actions proposed by CTS were accomplished by the Interim Finance Administrator prior to the employment of a permanent Finance Manager. The permanent Finance Manager was hired in March of 2015.

As with the Interim Finance Administrator the prior year, the Finance Manager faced the same challenges and time constraints preparing the financial statements for 2014 and preparing for the subsequent state audit. Once again CTS engaged the consulting services of the same retired state auditor and together the manager and the consultant prepared the financial statements and reviewed them in preparation for the 2014 financial statement submission by the state deadline. During May of 2015, the Finance Manager identified specific areas still needing research but was unable to complete this work before the state mandated deadline. The financial statements were presented to the Board Administration and Finance Committee with an explanation of these areas and what adjustments could potentially be necessary. Prior to the onsite state audit, some of the misstatements were identified and corrected, and amended financial statements were filed with the SAO. The Finance Manager also identified a problem with the fixed assets, accumulated depreciation and depreciation expense and began work on this by initiating a physical inventory, reviewing past depreciation schedules, and talking with staff. However, due to the work necessary to accurately correct the information, the short time frame did not allow for this work to be completed.

Prior to the state audit, CTS management presented the amended, unaudited statements to the Board and identified what revisions had been made and what issues still needed to be addressed. Although the audit finding for 2014 was *similar to the 2013 finding, there are differences which illustrate improvement to internal controls due to the combined efforts of the above mentioned individuals. The 2013 finding was rated as a material weakness with misstatements identified in six areas. The 2014 finding is rated as a significant deficiency, a lesser severity than a material weakness. The 2014 finding focuses specifically on the fixed assets and related accumulated depreciation and depreciation expense. The Corrective Action Plan presented by CTS in response to the 2014 audit includes the continuation of the internal control improvements currently in progress.*

Auditor's Remarks

We thank the Transit for their commitment to addressing this issue in a timely fashion. We will review the Transit's corrective action during our next schedule audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2007 Revision - Section 5.11, provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

> a. Significant deficiency: 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.
>
> b. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

RCW 43.09.200 Local government accounting – Uniform system of accounting, states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction, all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting and Reporting System (BARS) manual - Accounting, Accounting Principles and General Procedures, Internal Control, states in part:

> Management and the governing body are responsible for the government's performance, compliance, and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

STATUS OF PRIOR AUDIT FINDINGS

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

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

Audit Period: January 1, 2013 – December 31, 2013	**Report Ref. No:** 1012707	**Finding Ref. No:** 1
Finding Caption: The Transit's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.		
Background: Board members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the Transit to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affect the Transit's ability to produce reliable financial statements.		
Status of Corrective Action: (check one) ☐ Fully Corrected X Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid		
Corrective Action Taken: • *Established a more complete methodology for calculating the compensated absences liability which incorporates wages due as well as associated payroll taxes.* • *Engaged the services of a qualified independent consultant to review financial information prepared for 2014 as well as assist with the drafting of the 2014 financial statements.* • *Employed a new Finance Manager who is experienced and knowledgeable in GASB, GAAP and BARS requirements.* • *Began a process for improved balance sheet account reconciliations to ensure the accuracy of the balance sheet financial information.* • *Developed new internal audit procedures for administrative staff to perform cross-checks on a monthly and quarterly basis.*		

- *Began a process of utilizing the existing software program more effectively. Continuing to work with the software support personnel to create new features for accurate reporting and monitoring and to develop integrated reports which will eliminate the majority of current external spreadsheets.*
- *Established a new capital depreciation policy.*
- *Performed research into the other areas needing process improvement. Currently formulating a plan to make the necessary improvements.*

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

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Clallam Transit System, Clallam County, Washington, as of and for the year ended December 31, 2014, 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 11, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transit'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 that we consider to be significant deficiencies.

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*.

TRANSIT'S REPONSE TO FINDINGS

The Transit's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Transit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 11, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Clallam Transit System, Clallam County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) 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, 2014. 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, 2014.

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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 11, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

Board of Commissioners
Clallam Transit System
Port Angeles, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Clallam Transit System, Clallam County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 22.

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 Clallam Transit System, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 23 through 28 and information on postemployment benefits other than pensions on page 45 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 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 11, 2015 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.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 11, 2015

FINANCIAL SECTION

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014
Statement of Revenues, Expenses and Changes in Net Position – 2014
Statement of Cash Flows – 2014
Notes to Financial Statements – 2014

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB) – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

CLALLAM COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA CLALLAM TRANSIT SYSTEM
MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended December 31, 2014

This section of the Annual Financial Report presents management's overview and analysis of Clallam Transit System's (CTS) financial performance for the fiscal year ended December 31, 2014. This section should be read in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

During 2014, CTS's net position decreased $424,339, as grants of $1,152,975 were less than the non-cash depreciation of $1,490,561 and the non-cash OPEB cost of $321,635 (see Note 10). While CTS's Board has designated a portion of cash and investments for certain purposes (see Note 2), there exist no outside restrictions, commitments, or other limitations that significantly affect the availability of fund resources (i.e. unrestricted net assets) for future use.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

FINANCIAL ANALYSIS

The following Summary of Financial Statements compares performance of CTS across two years and draws from the financial statements prepared for this year and the previous year. The Summary is part of the Management Discussion and Analysis to provide a useful reference for the discussion that follows regarding the impact of activities in the current year in the context of CTS's financial status in the previous year.

CTS's financial statements, summarized below, present the status of its assets, liabilities to others, and net worth of CTS (see the Statement of Net Position), how CTS was able to cover its costs of operation and capital investment (see the Statement of Revenue, Expenses, and Changes in Net Position), and how funds were received and disbursed during the period (see Statement of Cash Flows).

SUMMARY OF FINANCIAL STATEMENTS

SUMMARY STATEMENT OF NET POSITION

ASSETS:	**2014**	**2013**	**Net Increase (decrease) 2014 vs. 2013**	
Current Assets:				
Cash and Cash Equivalents	$ 2,531,675	$ 2,019,664	$ 512,011	25%
Other Current Assets	3,356,275	2,804,833	551,442	20%
Capital Assets Net of Depreciation	25,666,143	26,911,002	(1,244,859)	-5%
Total Assets	$ 31,554,093	$ 31,735,499	$ (181,406)	-1%
LIABILITIES:				
Current Liabilities	429,773	492,291	$ (62,518)	-13%
Noncurrent Liabilities	1,992,679	1,687,228	305,451	18%
Total Liabilities	$ 2,422,452	$ 2,179,519	$ 242,933	11%
NET POSITION:				
Net Invested in Capital Assets	$ 25,666,143	$ 26,911,002	$ (1,244,859)	-5%
Unrestricted Net Assets	3,465,498	2,644,978	820,520	31%
Total Net Position	**$ 29,131,641**	**$ 29,555,980**	**$ (424,339)**	-1%

For the year ended December 31, 2014, assets exceed liabilities by $29 million.

A majority of the Transit's net position (88.2%) represents its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the net position balance is not available for future spending.

SUMMARY STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2014	2013	Net Increase (decrease) 2014 vs. 2013	
Operating Revenue	$ 1,215,047	$ 1,106,267	$ 108,780	10%
Operating Expenses	9,094,050	9,047,359	46,691	1%
Operating Loss	$ (7,879,003)	$ (7,941,092)	$ 62,089	
Subsidies	6,965,091	7,071,065	(105,974)	-1%
Other Nonoperating Revenue (net)	103,917	73,222	30,695	42%
Loss before capital contributions, extraordinary and special items	(809,995)	(796,805)	(13,190)	2%
Capital contributions	385,654	2,820,369	(2,434,715)	-86%
Inc (Dec) in Net Position	(424,339)	2,023,564	(2,447,903)	-121%
Beginning Net Position	29,555,980	27,532,416	2,023,564	7%
Ending Net Position	**$ 29,131,641**	**$ 29,555,980**	**$ (424,339)**	-1%

OPERATING ACTIVITY

Operating Revenue increased $108,780 from 2013 to 2014 while Operating Expenses increased by $46,691.

OPERATING GRANTS

A significant source of funding for CTS is operating assistance in the form of grants, which are either appropriated on a formula basis or obtained through competitive grant application processes.

NON-OPERATING REVENUE

CTS's Tax Revenue increased by $244,280 (4.1%) in 2014. However, Total Non-operating Revenue decreased by $75,279 (1.1%) over 2013 primarily due to a decrease in capital grants in 2014.

CAPITAL CONTRIBUTIONS

Capital contributions decreased by $2,434,715 in 2014 over 2013.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows identifies sources and uses of cash.

SUMMARY STATEMENT OF CASH FLOWS

Cash Flows from:	2014	2013	Increase (Decrease) Change
Operating Activities	$ (5,740,940)	$ (6,332,466)	$ 591,526
Non Capital Financing Activities	6,674,650	6,913,397	(238,747)
Capital Financing Activities	166,967	(848,749)	1,015,716
Investing Activities	(491,037)	3,825	(494,862)
Net Increase (Decrease) in Cash and Cash equivalents	**$ 609,640**	**$ (263,993)**	**$ 873,633**

CTS's revenue streams are detailed below:

REVENUES BY SOURCE

	2014	2013	Net Increase (decrease) 2014 vs. 2013	
Passenger Fares	$ 1,196,861	$ 1,089,546	$ 107,315	10%
Other Operating Revenue	18,186	16,721	1,465	9%
Sales Tax	6,197,770	5,953,490	244,280	4%
Operating and Capital Grants	1,152,975	1,117,575	35,400	3%
Investment Revenue	14,429	15,622	(1,193)	-8%
Other Non-Operating Revenue	89,488	57,600	31,888	55%
Total Revenues	$ 8,669,709	$ 8,250,554	$ 419,155	

Expenses by department are summarized below:

OPERATING EXPENSES BY DEPARTMENT

	2014	2013	Net Increase (decrease) 2014 vs. 2013	
Operations	$ 5,302,833	$ 5,469,143	$ (166,310)	-3%
Maintenance	1,565,047	1,423,540	141,507	10%
Administration	735,609	861,884	(126,275)	-15%
Depreciation	1,490,561	1,292,792	197,769	15%
Total Expenses	$ 9,094,050	$ 9,047,359	$ 46,691	

ECONOMIC FACTORS AND FUTURE OUTLOOK

CTS relies on county-wide sales tax receipts of .6 of 1 percent as its primary source of revenue. Sales tax for 2014 increased by 4.1 percent over 2013 and is considered a very moderate return of sales tax activity compared to other statewide Public Transportation Benefit Authority (PTBA) areas. Sales tax returns showed an increase right around the time of a substantial highway capacity improvement, a two year project managed by the Washington State Department of Transportation (WSDOT). CTS is cautiously watching for the conclusion of WSDOT material purchases which would level out sales tax growth and other significant one-time purchases that could constitute unsustainable sales tax growth. In direct relation with steady sales tax growth, is population and unemployment rates. County population has increased over the last three-year census period by only 1.3 percent. While unemployment marginally improved over the previous year, the seasonal low county-wide unemployment rate for 2014 was 7.6 percent and the monthly high of 9.7 percent was in January 2014. The county's 18.8 percent of persons below poverty level continues to hover above the statewide statistic of 14.2 percent. Peninsula Community College enrollment was expected to slightly diminish as more jobs were available in the local community. The 2014 student enrollment diminished by 2.1 percent (i.e. 37 students) from 2013. The student body ballot initiative to increase the transportation fee to $7.00 per credit-earning student passed in April 2014. Additional revenue from college bus passes has compensated for the lower enrollment.

A secondary source of revenue for CTS is the state and federal operating dollars provided to rural PTBA based both on a formula and also competitively based on needs. In the 2013-2015 biennium, CTS received $1.3 million operating dollars to be distributed over the two-year period. CTS has mapped the distribution of these funds in accordance with the State's ability to release the funds and also, in a moderate way, to represent consistent financial reports throughout the period. Due to the federal transportation budget renewal process, the State could only process a partial reimbursement request for fourth quarter 2013. CTS received the remainder of the 2013-2015 biennium funds in 2014. CTS receives fewer operating dollars than many rural PTBAs while producing more revenue miles. With the understanding that CTS should not become reliant on grant operating dollars, CTS is supporting the continuation of the federal highway trust funds and the state legislative budget which supports WSDOT distributing transportation funds to transit agencies. Sometimes CTS receive sales tax equalization funds or rural mobility funds from Washington State; CTS received $140,000 in 2014. These funds are a small contribution to CTS's overall revenue plan and are seemingly an unexpected announcement. CTS does not plan for these dollars in future years. When CTS is awarded federal grant funds, CTS has the option to start the project or make the purchase concurrent with the processing of the grant. MAP-21, the new federal transportation act and sequestration upon the Federal Transit Administration, slowed down the processing of grants to such a degree that projects were completed in 2013 and the funds were received in federal fiscal year 2014 (FFY14). The future outlook of another new federal transportation act could make receiving federal funds in the same fiscal year bleak.

Throughout the next six years, CTS's strategic goals, as they directly pertain to the economic outlook, are to become more efficient with current revenue levels and to make better connections with local and commuter service. Service changes in the re-alignment of routes to facilitate local and regional connections are low cost methods to increase ridership and fare revenue. In the next six years, CTS does not anticipate raising the sales tax receipts percentage by a transit purpose tax measure or an increase of fares by public hearing. CTS is focused on the large and growing senior population which is 25.4 percent of the population compared to 13.2 percent statewide. The median age in Clallam County is 50.3 years and is 1.3 times greater than the state's median age of 37.4 years. CTS's complimentary paratransit services extend beyond the federal Americans with Disabilities Act (ADA) parameters and are serving the entire county. The cost per mile for these services which are out of ADA boundaries has incrementally increased and will be maximized in future years. CTS is actively encouraging seniors to take fixed route buses and is providing them with opportunities to purchase a Regional Reduced Fare Permit (RRFP) which is honored throughout the Olympic Peninsula and Puget Sound.

Another concern to the financial stability of CTS is the price and availability of ultra-low sulfur diesel and liquid propane. In 2013, CTS underwent a shift in purveyors of fuel which placed a crimp in the vanpool program. Pettit Fuel filed for bankruptcy, closed facilities, and terminated local employees. Fortunately, CTS had other fuel contracts in place and had recently purchased commuter vans fueled by propane. CTS was able to maintain the same level of service with nominal financial impact. CTS is suspended in its concerns and optimistic for the acceptance of propane as a state recognized alternative fuel. The benefits of propane in Clallam County and within the fleet are very positive.

The Amalgamated Transit Union 587 (ATU) negotiated two three-year contracts with CTS management negotiating team and ratified the same prior to the expiration of the prior contracts. CTS was alleviated of arduous arbitration and was able to proceed harmoniously into discussing non-negotiable work issues and concerns locally. The contracts are effective January 1, 2015.

CTS's management has survived the recession with one fare increase, attrition, a hiring freeze, cross-training, re-tooling of bus routes, hiring of temporary drivers for seasonal peaks and outward thinking for contracted service with non-profits and tribal nations. In 2014, CTS was able to increase designated operating reserves by $854,617 and almost reached policy targets for operating reserves. The Board and the ATU have aligned around providing the operating reserves necessary to promote fiscal stability in times of future instability. The Board and the employees are committed to meeting public transit needs of Clallam County in a fiscally responsible manner.

Requests for Information

This financial report is designed to provide a general overview of CTS's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

General Manager
Clallam Transit System
830 W. Lauridsen Blvd.
Port Angeles, WA 98363

CLALLAM TRANSIT SYSTEM
Statement of Net Position
As of December 31, 2014

	2014
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 2,531,675
Accounts Receivable	63,609
Taxes Receivable	1,072,501
Due from Other Governments	311,168
Prepaid Expenses	14,723
Inventory	118,052
Investments	1,776,222
TOTAL CURRENT ASSETS	5,887,950
Noncurrent Assets:	
Capital Assets Not Being Depreciated	
Land	4,100,000
Capital Assets Being Depreciated	
Buildings and Grounds	13,890,891
Shelters and Improvements	76,514
Vehicles and Related Equipment	6,958,513
Computers and Related Equipment	26,907
Major Capital Improvements	613,318
TOTAL NONCURRENT ASSETS	25,666,143
TOTAL ASSETS	$ 31,554,093
LIABILITIES	
Current Liabilities	
Accounts Payable	$ 60,614
Employee Leave Benefits (Current Portion)	168,632
Payroll & Related Expenses Payable	200,528
TOTAL CURRENT LIABILITIES	429,773
Noncurrent Liabilities	
Employee Leave Benefits	208,150
CTS Post-employment Healthcare Insurance Credits	143,790
Other Post-employment Benefit Programs (PEBB Retiree He	1,640,739
TOTAL NONCURRENT LIABILITIES	1,992,679
TOTAL LIABILITIES	$ 2,422,452
NET POSITION	
Net Investment in Capital Assets	$ 25,666,143
Unrestricted Net Assets	3,465,498
TOTAL NET POSITION	**$ 29,131,641**

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

CLALLAM TRANSIT SYSTEM
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2014

	2014
OPERATING REVENUES:	
Passenger Fares	$ 683,051
Special Services	87,858
Vanpool	386,881
Paratransit	39,071
Other Operating Revenue	18,186
Total operating revenues	1,215,047
OPERATING EXPENSES:	
Operations	3,575,636
Vanpool	248,605
Paratransit	1,478,592
Maintenance	1,565,047
Administration and Public Education	735,609
Depreciation	1,490,561
Total Operating Expenses	9,094,050
OPERATING INCOME (LOSS)	**$ (7,879,003)**
NONOPERATING REVENUES (EXPENSES)	
Sales Tax	6,197,770
External operating subsidies	767,321
Interest income	14,429
Other nonoperating revenues (expenses)	89,488
Total nonoperating revenues (expenses)	7,069,008
Loss before capital contributions, extraordinary and special items	(809,995)
Capital contributions	385,654
Increase/(Decrease) in net position	**$ (424,339)**
Net Position - beginning of period	29,555,980
Net Position - end of period	**$ 29,131,641**

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

CLALLAM TRANSIT SYSTEM
Statement of Cash Flows
For the Year Ended December 31, 2014

	2014
CASH FLOWS from OPERATING ACTIVITIES	
Receipts from customers	$ 1,504,002
Payments to suppliers	(1,744,048)
Payments to employees	(5,500,893)
Net cash used by operating activities	(5,740,940)
CASH FLOWS from NON CAPITAL FINANCING ACTIVITIES	
Operating Grant Receipts	456,153
Sales Tax Receipts	6,155,998
Other Nonoperating Receipts	62,499
Net Cash provided by noncapital financing activities	6,674,650
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES	
Capital Grant Receipts	385,654
Proceeds from Asset Sales & Related Receipts	29,973
Purchases of capital assets	(248,660)
Net cash used by capital and related financing activities	166,967
CASH FLOWS from INVESTING ACTIVITIES	
Interest	14,429
Purchase of investments	(505,466)
Net cash used by Investing activities	(491,037)
Net increase in cash and cash equivalents	609,640
Balances - beginning of the year	2,019,664
Balances - end of the year	$ 2,629,304
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Net Operating Loss	$ (7,879,003)
Adjustments to reconcile operating loss to to net cash used by operating activities	
Depreciation expense	1,490,561
Change in assets and liabilities:	
Receivables, net	288,955
Inventories	32,732
Prepaid Insurance	(14,723)
Accounts payable	(28,195)
Wages/expenses payable	325,045
Employee leave payable	43,689
Net cash used in operating activities	**$ (5,740,940)**

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

Clallam Transit System
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clallam County Public Transportation Benefit Area, d/b/a Clallam Transit System (CTS) was formed on July 29, 1979, when the voters authorized a 0.3 percent increase in the sales tax for a transit system.

CTS is a municipal corporation formed pursuant to Chapter 36.57 A of the Revised Code of Washington to provide public transportation services in Clallam County, and is governed by an eight member board composed of two county commissioners and two city council members from each of the three incorporated cities within the county.

A. Reporting Entity for Financial Reporting Purposes

The reporting entity for CTS includes only the CTS. No other entity exists for which CTS exercises oversight responsibility or has a special financing arrangement, nor does any other entity have a similar scope of service. Oversight responsibility was evaluated based on financial independency, selection of governing authority, designation of management, the ability to significantly influence management, and accountability for fiscal matters. During the period, CTS has not engaged in material related party transactions, nor participated in any joint ventures.

B. Basis of Accounting and Reporting

The accounting records of CTS are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. CTS uses the *Budgeting, Accounting and Reporting System 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 of noncurrent) associated with their activity are included on their financial statements of net position. The operating statement presents increases (revenues and gains) and decreases (expenses and losses) in net position. CTS discloses changes in cash flows by a separate statement that presents their operating, noncapital financing, capital and related financing and investing activities.

CTS uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized when acquired and long-term liabilities are recorded when obligated.

CTS defines income received as a direct result of providing transportation services (fares and advertising fees) as operating revenue, grant related reimbursements as capital contributions, and all other sources of income (such as Sales Tax collections, investment income, sale of surplus items, etc.) as non-operating revenue. The cost of operating and maintaining vehicles and the transit infrastructure, administering CTS, informing and educating the public, as well as the amortization of the acquisition cost of capital assets (see Note 3) are considered operating expense. Non-operating expenses are immaterial.

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents - See Note 2 (Deposits and Investments)

All temporary cash surpluses and funds designated for specific uses are invested. The Statement of Cash Flows considers all highly liquid investments (with a maturity of three months or less when purchased) and demand deposits to be cash equivalents.

2. Receivables

Accounts Receivable consist of amounts owed from private individuals or organizations for special services, rentals, fares or other charges and include amounts owed for such as of December 31, regardless of when the billings were prepared. Also included are amounts billed to other governmental agencies under various grant agreements. Accounts are generally paid within 30 days of receipt of billings.

Accrued Taxes Receivable consist of CTS's 0.6 percent sales tax collected in Clallam County during November and December of the reporting year and are remitted to CTS by the State Department of Revenue in January and February of the following year.

3. Amounts Due to and From Other Governments

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

4. Inventories

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

5. Compensated Absences

Compensated Absences are earned by employees for vacation, sick, and personal time off. Based upon provisions of their contract, bargaining unit employees accumulate general leave at the rate of 18 to 33 days per year based on longevity. The non-represented transit employees are covered by their own compensation plan and receive similar benefits. Employees may accumulate up to 960 hours of paid time off. CTS records the liquidated value of this time as an expense and liability when incurred, and revalues the accumulated leave balance every month for changes in compensation rates.

Under provisions of the contract and compensation plans employees may elect to use up their paid time off according to certain schedules and limitations. At termination, the cash value of any remaining leave balance is transferred to the employee's VEBA Healthcare Account for their benefit.

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

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

CTS pays premiums or contributions for employee retirement, insurance and healthcare reimbursement accounts when incurred to third parties that administer the plans except for the Post-employment Healthcare Benefits (see Notes 9 & 10) which is funded on a pay as you go basis.

Noncurrent liabilities for compensated absences, CTS's Post-Employment Healthcare Insurance Credits (see Note 9E), and Other Post-employment Benefit Programs (see Note 10) are obligations of CTS that are not expected to be extinguished within the next year.

8. Accrued Expenses

This consists primarily of accrued wages, fringe benefits and payroll taxes payable within 1 month.

NOTE 2. DESIGNATED FUNDS, DEPOSITS AND INVESTMENTS

DESIGNATED FUNDS

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

Balances as of December 31	**2014**	**2013**
Cash and Cash Equivalents and Investments	$ 4,307,897	$ 3,290,420
Designated Funds for:		
Maintaining Service Levels	1,600,000	1,600,000
Employee Leave and Post-Employment Healthcare Benefits	520,572	476,883
Vehicle Replacement	312,000	312,000
Vanpool Replacement	-	13,000
Major Projects	55,487	87,600
Facility Maintenance	64,383	78,400
Total Designated Funds	2,552,442	2,567,883
Undesignated Funds used for Working Capital	$ 1,755,455	$ 722,537

DEPOSITS & INVESTMENTS

All deposits and certificates are covered by federal depository insurance (FDIC and FSLIC) or by a collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) and are invested according to an Investment Policy approved by the Board and certified by the Washington State Treasurer's Association. This policy addresses types of investments and custodial risk.

All deposits and investments of CTS's funds (except as noted below) are obligations of the State Treasurer's Investment Pool or deposits with Washington State banks and/or savings and loans.

As of December 31, 2014, the following deposits and investments were insured through WPDPC or the FDIC, registered or held by CTS or the State Treasurer and thus not subject to custodial credit risk:

Balances as of December 31	**2014**	**2013**
Demand Deposits		
Bank Deposits	$ 1,231,059	$ 943,359
Local Government Investment Pool	1,300,216	1,076,305
Total Cash and Cash Equivalents	2,531,275	2,019,664
Investments maturing in less than 1 year		
Certificates of Deposits	785,422	765,186
Investments Maturing in 1 year of more		
Certificates of Deposits	496,301	505,570
Notes and Bonds	494,499	
Total Investments	$ 1,776,222	$ 1,270,756

The book value of deposits does not differ materially from the bank balance of deposits. Investments are stated at cost plus accrued interest, net of amortized premium or discount, which approximates market. Management intends to hold time deposits until maturity.

NOTE 3. CAPITAL ASSETS and DEPRECIATION

A. Expenditures over $5,000 for individual pieces of equipment and over $100,000 for infrastructure and building improvements, including major repairs that increase useful lives, are capitalized if they have a useful life over one year. Purchases of small equipment items are expensed but may be tagged for tracking purposes. There were no capital leases.

Capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair market value on the date donated. When a capital asset is sold or disposed the original cost and related accumulated depreciation is removed from the ledger and the net gain or loss on disposition is credited or charged to income.

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

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

Buildings and major components 10 to 50 years

Improvements (Equipment) 5 to 20 years

Vehicles 5 to 12 years

B. Impaired Capital Assets **-** None were considered permanently impaired before the end of their useful lives in 2014.

C. Summary of Capital Asset Transactions during 2014:

Changes in Capital Assets

	12/31/2013 Beginning Balance	Additions	Retirements	12/31/2014 Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 4,100,000	$ -	$ -	$ 4,100,000
Subtotal	4,100,000	-	-	4,100,000
Capital Assets, Being Depreciated:				
Buildings and Grounds	18,177,008	130,363	150,631	18,156,740
Shelters and Improvements	90,220	-	13,706	76,514
Vehicles and Related Equipment	13,086,759	112,716	170,655	13,028,820
Computers and Related Equipment	26,907	-	-	26,907
Major Capital Improvements	1,477,039	5,580	-	1,482,619
Subtotal	32,857,933	248,659	334,992	32,771,600
Less Accumulated Depreciation for:				
Buildings and Grounds	(4,030,959)	(398,876)	(163,986)	(4,265,849)
Shelters and Improvements	-	-		-
Vehicles and Related Equipment	(5,236,545)	(1,001,462)	(167,700)	(6,070,307)
Computers and Related Equipment	-	-	-	-
Major Capital Improvements	(779,427)	(89,874)	-	(869,301)
Subtotal	(10,046,931)	(1,490,212)	(331,686)	(11,205,457)
Total Capital Assets, Net of Accumulated Depreciation	**$ 26,911,002**	**$ (1,241,553)**	**$ 3,306**	**$ 25,666,143**

NOTE 4. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

CTS had no pending lawsuits or claims as of year-end that would have a material effect on its assets. There have been no material violations of finance-related legal or contractual provisions.

NOTE 5. RETIREMENT PLANS

Substantially all of CTS's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit 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 obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. 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 members 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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 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 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 plans 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, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 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 benefit may not exceed 60 percent of the 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 at least 20 years of service credit, and are 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 1, 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 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, PERS 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 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 benefits are 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 the 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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	101,191
Total	**368,272**

<u>Funding Policy</u>
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates 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.

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 statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**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.

Both CTS and the employees made the required contributions. CTS's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2014	$7,072	$299,442	$28,451
2013	$6,342	$264,682	$20,320
2012	$5,544	$238,615	$14,166

NOTE 6. LEASES AND LONG-TERM CONTRACTS

Leases/contracts are reported as liabilities when services are received. CTS is leasing from Quillayute Valley School District No. 402 for use of parking facilities, mechanical maintenance, repairs, and general service in Forks. In addition to the actual cost of maintenance to vehicles, Clallam Transit System paid $12,049 for shop rental in 2014.

NOTE 7. RISK MANAGEMENT

CTS is a founding member of the Washington State Transit Insurance Pool (WSTIP), formed in 1989 by an Interlocal Agreement, pursuant to Chapters 48.62 and 39.34 RCW.

The current membership consists of the following Washington public transportation systems: Asotin, Ben Franklin, Clallam, Columbia, Community, C-Tran, Grant, Grays Harbor, Everett, Intercity, Island, Jefferson, Kitsap, Link, Mason, Pacific, Pierce, Pullman, River Cities, Skagit, Spokane, Twin, Valley, Whatcom, and Yakima.

WSTIP was formed to provide member transit systems pooled self-insurance, better access to insurance and enable hiring of personnel to provide risk management, claims handling, and administrative services.

The pool provides liability insurance covering claims arising from the negligent or other tortuous conduct, or any error or omission on the part of the member transit systems, their officers, employees, or agents. Coverage for Public Dishonesty, Crime, Boiler and Machinery, and Property and Auto Physical was added in January 1991. After the initial 36-month period, a member transit system may withdraw at the end of any pool fiscal year. A member must give the pool 12 months written notice of its intent to withdraw from the pool. Any member who withdraws will not be allowed to rejoin the pool for a period of 36 months.

WSTIP's estimated net position at year end 2014 (which enables the Pool to fund losses without requiring additional contributions from its members) remained stable, strong and robust but did decrease slightly because of adverse loss development particularly in 2011 loss year. Insurance settlements did not exceed insurance coverage in any of the past three years.

NOTE 8. LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

CLALLAM TRANSIT SYSTEM
LIABILITIES
For the Year Ended December 31, 2014

		1	2	3	4
ID No.	**Description**	**Beginning Balance 1/1/14**	**Additions**	**Reductions**	**Ending Balance 12/31/14**
259.11	Compensated absences non current	$199,046	$11,751	$2,647	$208,150
263.98	Clallam Transit Retiree Health Insurance Benefit	130,950	12,840	-	143,790
263.93	OPEB Liability HCA Implicit Retiree Subsidy	1,357,232	283,507	-	1,640,739
TOTAL LIABILITIES		**$1,687,228**	**$308,098**	**$2,647**	**$1,992,679**

NOTE 9. EMPLOYEE BENEFIT INSURANCE

A. Unemployment Insurance - CTS remained self-insured for unemployment compensation. During 2014, CTS paid $29,686 in unemployment benefits.

B. Industrial Insurance - provided by the Washington State Department of Labor & Industries Program. CTS paid **$**193,177 in insurance premiums to the Program for 2014.

C. Medical, Dental, Vision and Life Insurance - From February 1, 2004 the Clallam Transit System has covered its employees and their dependents (partially funded by employee contributions) through the Washington State Public Employees Benefit Board (PEBB) Health Care Authority (HCA). CTS provides $25,000 of life insurance per employee. Employees are able to purchase supplemental insurance for themselves and their family members at their own cost.

CTS paid $1,021,070 in net premiums for medical, dental, vision and life plans for 2014.

D. Long-term Disability Insurance (LTD) – LTD is provided through PEBB HCA and CTS pays the premium cost for basic coverage. The basic coverage pays benefits based on pre-disability earnings. The amount of benefits paid is calculated on actual pre-disability earnings up to a maximum of $400 per month. Long-term Disability benefits have a minimum monthly benefit of $50 and a maximum monthly benefit of $240. Coverage begins after 90 days of disability and the maximum benefit period is determined by the employee's age. Employees have the option to pay the premium cost for coverage beyond the basic coverage.

CTS paid for the basic long-term disability coverage as part of its medical premiums in 2014.

E. Post-employment Healthcare Insurance Credits - CTS adopted a program in 2007 to assist employees who separate with at least 10 years of continuous service with the cost of obtaining healthcare insurance, reimbursing a maximum of $300 per month toward the cost of the employee's own healthcare coverage (excluding dependents). The benefit is earned at the rate of one month of insurance credit for every six months of service after January 1, 2007 and is not dependent on future medical costs.
Employees who separate after they become Medicare eligible are limited to reimbursement at the level of PEBB's Medicare Supplement Plan coverage. The value of their benefit is contributed to their VEBA HRA account upon termination.

The amount of the liability for each employee who qualifies is certain upon termination and is generally liquidated at that time, thus ending the employee's participation in the program. The calculation of the liability as of December 31 is based on the months of service of currently active employees, reduced by historical turnover rates for employees with less than 10 years of service, and adjusted for those employees who will not achieve 10 years of service before they become Medicare eligible. The program participants at December 31, 2014 included two separated employees and 23 active vested employees; together with the 33 employees with less than 10 years of service, the liability at year-end was $130,950.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLANS

PEBB Plan Description - CTS participates in the Public Employees Benefit Board (PEBB) health plan administered by the State of Washington Health Care Authority. It is a multiple employer plan which provides both active employee benefits and elective post employment benefits. System retirees and their surviving spouses who meet the retirements of their respective PERS Plans (see Note 5) are eligible to participate in PEBB group plans on a self-pay basis so long as CTS maintains its PEBB insurance coverage.

Medical and Dental Benefits - upon retirement under PERS, members are eligible to continue their healthcare insurance benefits. Retirees pay the following for medical and dental coverage (no aging factors have been applied these rates):

Monthly UMP Medical & UDP Dental Coverage Rates	2014	2013	2012
Retiree (Individual) < 65	$ 595.75	$ 592.17	$ 531.11
Retiree + Spouse or Domestic Partner < 65	1,185.28	1,178.16	1,056.69
Medicare Eligible Individual	268.59	262.58	213.87

The PEBB Funding Policy is based upon pay-as-you go financing requirements - Group premium rates are established by the PEBB and paid on a monthly basis by CTS based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis. The PEBB blends the retiree and active employee rates as part of its rate setting process, which creates an implicit rate subsidy and future post-employment benefit liability. The PEBB determines how this future liability will be funded when it sets the rates that employer groups pay for current insurance coverage. Historically, the PEBB has set rates to recover its costs only for the current plan year, thus not funding the future benefit liability of current and potential future retirees who may elect to participate in the PEBB's post-employment insurance plans. A tool developed by the State Actuary was used to determine CTS's share of this unfunded benefit liability - which approximates the present value of the future cost of post-employment benefits provided to CTS retirees (and indicates the size of the fee that the PEBB may have to charge n the future to cover these benefits).

Following GASB Statement No. 45, CTS has recorded its share of this unfunded Net OPEB Obligation (NOO) in its financial statements beginning with the year ended December 31. 2009.

OPEB Measurement Method - CTS has used the alternative measurement method permitted under GASB Statement No.45 for employers with fewer than one hundred plan members to determine the Actuarial Accrued Liability (AAL). A single retirement age of 62.2 years was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the Public Employer Retirement System Plan 2 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Heath care costs and trends were determined by Mercer and used by OSA in the state-wide PEBB study performed in 2008. The results were based on group data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

OPEB Measurements and NOO Calculation
For the last three Years Ending December 31

	2014	2013	2012
Annual OPEB Cost			
Annual Required Contribution	$ 345,834	$ 358,295	$ 274,965
Net OPEB Obligation Interest	54,289	41,266	35,413
Net OPEB Obligation Amortized	(78,489)	(59,661)	(48,311)
Annual OPEB Cost	$ 321,634	$ 339,900	$ 262,067
Net OPEB Obligation (NOO)			
Starting NOO	$ 1,357,232	$ 1,031,668	$ 786,955
Annual OPEB Cost	321,635	339,900	262,066
Contributions	(38,128)	(14,336)	(17,353)
Net OPEB Obligation (NOO)	**$ 1,640,739**	**$ 1,357,232**	**$ 1,031,668**
Increase in Net OPEB	$ 283,507	$ 325,564	$ 244,713
Employer percentage Contributions	12%	4%	7%

Required Supplementary Information

Other Postemployment Benefits Plan (OPEB)

Schedule of Funding Progress

Actuarial Validation Date	Actuary Value Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/12	$ -	$ 2,167,736	$ 2,167,736	0%	$ 3,700,381	59%
12/31/13	-	2,829,885	2,829,885	0%	3,749,370	75%
12/31/14	-	2,601,935	2,601,935	0%	3,767,533	69%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/12	$ 262,066	$ 17,353	7%	$ 1,031,668
12/31/13	339,900	14,336	4%	1,357,232
12/31/14	321,635	38,128	12%	1,640,739

Clallam County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Note
Other Programs							
Federal Transit Administration (fta), Department Of Transportation (via WA State DOT)	Formula Grants for Rural Areas	20.509	GCB1948	293,029	-	293,029	1, 2, 3
Federal Transit Administration (fta), Department Of Transportation (via WA State DOT)	Formula Grants for Rural Areas	20.509	GCB1596 (B)	650,000	-	650,000	1, 2
Federal Transit Administration (fta), Department Of Transportation (via WA State DOT)	Formula Grants for Rural Areas	20.509	Training & Travel	11,601	-	11,601	1, 2
			Total CFDA 20.509:	**954,630**	**-**	**954,630**	
			Total Federal Awards Expended:	**954,630**	**-**	**954,630**	

The accompanying notes are an integral part of this statement.

The following notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule:

Note 1 - Basis of Accounting

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

Note 2 - Program Costs and Income

Amounts shown above represent only the federal portion of the program costs. Total program costs are funded by a combination of local, state and federal funding according to the match requirements of each grant.

Note 3 - Identification of Unreported Expenditures for 2012 and 2013

Amounts shown for GCB 1948 include unreported expenditures of $2,506 from 2012 and $196,368 from 2013.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Clallam Transit System
Clallam County
January 1, 2014 through December 31, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Clallam Transit System.

Finding ref number: 2014-001	**Finding caption:** The Transit's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting.

Name, address, and telephone of auditee contact person:
Melinda Smithson, Finance Manager
830 W. Lauridsen Blvd.
Port Angeles, WA 98363
360-417-1353

Corrective action the auditee plans to take in response to the finding:

- *Continue the process created by the new Finance Manager for complete and accurate reconciliation of all balance sheet accounts.*
- *In order to allow the Finance Manager to perform the necessary review for accuracy and correctness of financial information, begin training staff in the creation and entry of journal entries.*
- *As was done for both the 2013 and 2014 audits, engage the services of a qualified consultant to review the 2015 unaudited financial statements prior to filing with the State Auditor's Office no later than May 30, 2016.*
- *Continue to clean up the fixed asset software module and perform additional physical inventories to complement the information gathered to date. Once the module is accurate, calculate the correct general ledger balances for both the fixed assets and the accumulated depreciation and make the necessary adjusting journal entries.*
- *Provide opportunities for the Finance Manager to expand her current knowledge of GASB and BARS by allowing her to keep current on additions and changes to regulations as they occur.*

Anticipated date to complete the corrective action: May 30, 2016

ABOUT THE STATE AUDITOR'S OFFICE

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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.

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