



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Kitsap County Public Transportation Benefit Area (Kitsap Transit)

For the period January 1, 2013 through December 31, 2014

Published September 30, 2015

Report No. 1015293





Washington State Auditor's Office

September 30, 2015

Board of Commissioners
Kitsap Transit
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

**Kitsap Transit
Kitsap County
January 1, 2014 through December 31, 2014**

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

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the Transit's compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.525	Federal Transit Cluster - Federal Transit - State of Good Repair Grants

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

The Transit qualified as a low-risk auditee under OMB Circular A-133.

**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**

**Kitsap Transit
Kitsap County
January 1, 2013 through December 31, 2014**

Board of Commissioners
Kitsap Transit
Bremerton, 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 Kitsap Transit, Kitsap County, Washington, as of and for the years ended December 31, 2014 and 2013, 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 25, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 25, 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**

**Kitsap Transit
Kitsap County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Kitsap Transit
Bremerton, Washington

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

We have audited the compliance of the Kitsap Transit, Kitsap 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 25, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Kitsap Transit Kitsap County January 1, 2013 through December 31, 2014

Board of Commissioners
Kitsap Transit
Bremerton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Kitsap Transit, Kitsap County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kitsap Transit, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit's basic financial statements. The accompanying Schedule of

Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 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 25, 2015

FINANCIAL SECTION

**Kitsap Transit
Kitsap County
January 1, 2013 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2014 and 2013

Statement of Cash Flows – 2014 and 2013

Notes to Financial Statements – 2014 and 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014

Notes to the Schedule of Expenditures of Federal Awards – 2014

**KITSAP COUNTY
PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT**

January 1, 2014 through December 31, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

The **FINANCIAL STATEMENTS** and **ACCOMPANYING NOTES** follow this discussion of the basic Financial Statements of Kitsap Transit. The management of Kitsap Transit has prepared this information in accordance with the Governmental Accounting Standard's Board Statement 34, Basic Financial Statements – and Management's Discussion and Analysis for State and Local Government.

The attached statements have been prepared by Kitsap Transit for submission to its Board, the State of Washington, the U. S. Department of Transportation, lenders and creditors, and the general public. The data and presentation comply with relevant laws and procedures.

The attached Financial Statements consist of three individual statements; the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position and the Comparative Statement of Cash Flows for 2014 and 2013. Immediately following the Financial Statements are the Notes to the Financial Statements, which further explain the information presented and should be read and reviewed in conjunction with the Financial Statements.

The Condensed Comparative Statement of Net Position summarizes the assets, the liabilities, and the net value of the assets of Kitsap Transit for the years ended 2012 through 2014. This Statement is presented on an accrual basis of accounting, where the assets and liabilities are recognized as earned or incurred rather than the payment or receipt of funds.

Summary of Statement of Net Position

(In millions)

	December 31,		
	2014	2013	2012
Assets:			
Current Assets - Unrestricted	\$ 19.35	\$ 15.60	\$ 14.41
Restricted Assets	2.58	2.82	2.39
Capital Assets, Net	77.53	79.84	84.36
Other Assets	<u>0.53</u>	<u>0.54</u>	<u>0.57</u>
Total Assets	<u><u>99.99</u></u>	<u><u>98.80</u></u>	<u><u>101.73</u></u>
Liabilities:			
Current Liabilities	5.73	6.73	9.65
Noncurrent Liabilities	<u>5.31</u>	<u>5.76</u>	<u>6.18</u>
Total Liabilities	11.04	12.49	15.83
Net Position:			
Net Investment in Capital Assets	73.53	75.40	76.02
Restricted Assets	2.58	2.82	2.39
Unrestricted Assets	<u>12.84</u>	<u>8.09</u>	<u>7.49</u>
Total Net Position	<u><u>\$ 88.95</u></u>	<u><u>\$ 86.31</u></u>	<u><u>\$ 85.90</u></u>

Current Assets - Unrestricted

Unrestricted current assets increased \$3.75 million in 2014, or approximately 24%, as compared to 2013. The increase in unrestricted current assets in 2014 is largely due to an increase in cash and cash equivalents and amounts due from other governments. In 2013, unrestricted current assets increased \$1.19 million, or 8%, largely due to an increase in cash and cash equivalents.

Restricted Assets

Restricted assets decreased \$240 thousand in 2014, or approximately 9%, as compared to 2013. The decrease in restricted assets in 2014 is due primarily to increased spending for the purpose of transit enhancements for the Puget Sound Naval Shipyard. In 2013, restricted assets increased \$430 thousand, or approximately 18%, as compared to 2012. The increase in restricted assets is due primarily to increase fares collected and reserved for the purpose of transit enhancements for the Puget Sound Naval Shipyard.

Capital Assets

Net capital assets declined \$2.31 million in 2014, or approximately 3%, as compared to 2013. The decrease in net capital assets in 2014 is due primarily to annual depreciation in excess of asset acquisitions. Net capital assets declined \$4.52 million in 2013, or approximately 5%, as compared to 2012 is due largely to annual depreciation in excess of asset acquisitions. For additional information of capital asset activity, refer to Note 3 (Capital Assets and Depreciation).

Current Liabilities

Current liabilities decreased \$1.0 million in 2014, or approximately 15%, as compared to 2013. The decline is due primarily to the decline in accounts payable at year end. Current

liabilities decreased \$2.92 million in 2013, or approximately 30%, as compared to 2012. The decline is due primarily to the redemption of Limited Sales Tax General Obligation Bond Anticipation Notes. For additional information regarding long-term debt activity, refer to Note 8 (Long-Term Debt and Leases).

Noncurrent Liabilities

Noncurrent liabilities decreased \$450 thousand in 2014, or approximately 8%, as compared to 2013. The decline in noncurrent liabilities in 2014 is due primarily to a decrease in amounts due on Limited Sales Tax General Obligation Bonds. Noncurrent liabilities decreased \$420 thousand in 2013, or approximately 7%, as compared to 2012. The decline in noncurrent liabilities in 2013 is due primarily to a decrease in amounts due on Limited Sales Tax General Obligation Bonds. For additional information regarding long-term debt activity, refer to Note 8 (Long-Term Debt and Leases).

Net Position

Net position increased \$2.64 million in 2014, or approximately 3%, as compared to 2013. Net Position increased \$410 thousand in 2013, or approximately 1%, as compared to 2012. The increase in net position in years 2014 and 2013 are due primarily to capital contributions related to state and federal grants awarded for purposes of capital asset acquisitions coupled with a continued increase in sales tax revenue received.

The Condensed Comparative Statement of Revenues, Expenses and Changes in Fund Net Position reports the results of operations for the years ended 2012 through 2014. This Statement is presented on an accrual basis of accounting, where the revenues and expenses are recognized as earned or incurred rather than the payment or receipt of funds.

Summary of Revenues, Expenses, and Changes in Fund Net Position

(In millions)

	Years Ended December 31,		
	2014	2013	2012
Revenues:			
Operating Revenues			
Passenger Fares	\$ 5.97	\$ 6.03	\$ 6.35
Other Transit Revenue	0.76	0.78	0.83
Other Operating Revenue	0.57	0.51	0.52
NonOperating Revenues			
Sales Tax	29.63	27.82	26.65
State and Other Operating Grants	2.29	1.58	1.48
Interest Revenue	0.04	0.04	0.05
Other Nonoperating Revenue	<u>0.04</u>	<u>0.02</u>	<u>0.10</u>
Total Revenues	<u>39.30</u>	<u>36.78</u>	<u>35.98</u>
Expenses:			
Operating Expenses	38.90	38.21	36.98
Nonoperating Expenses	<u>0.41</u>	<u>0.51</u>	<u>0.68</u>
Total Expenses	<u>39.31</u>	<u>38.72</u>	<u>37.66</u>
Net Income (Loss) Before Contributions	<u>(0.01)</u>	<u>(1.94)</u>	<u>(1.68)</u>
Capital Contributions	<u>2.65</u>	<u>2.35</u>	<u>3.86</u>
Increase (decrease) to Net Position	<u>2.64</u>	<u>0.41</u>	<u>2.18</u>
Net Position – Beginning of Period	<u>86.31</u>	<u>85.90</u>	<u>83.72</u>
Net Position – End of Period	<u>\$ 88.95</u>	<u>\$ 86.31</u>	<u>\$ 85.90</u>

Operating Revenues

Operating revenues consist primarily of transit and transit related services such as passenger fares, parking lot fees, advertising revenue and tenant lease income. Operating revenues in 2014 were relatively unchanged as compared to 2013. In 2013, passenger fares declined \$318 thousand, or approximately 5 %, due primarily to a decrease in monthly transit passes sold to Puget Sound Naval Shipyard and federal employee commuters.

Nonoperating Revenues

Nonoperating revenues consist primarily of sales tax revenue, operating grants and interest income. Kitsap Transit receives eight-tenths of a percent of Kitsap County sales and use tax. Sales tax revenue increased \$1.81 million in 2014, or approximately 7%, and \$1.17 Million, or approximately 4%, in 2013. State and other operating grant revenue

increased \$710 thousand, or approximately 45%, in 2014 and \$90 thousand, or approximately 6%, in 2013. The increase in 2014 was largely due to the receipt of federal funds for preventive maintenance. The receipt of State and Other Operating Grants may fluctuate significantly year over year based on the availability and the appropriation of state and federal grant funding.

Operating Expenses

Operating expenses consist of expenditures related to transit operations, maintenance, administration, customer service, marketing, depreciation and amortization. In 2014, operating expenses increased \$690 thousand, or approximately 2%, as compared to 2013 due largely to an increase in wages and benefits. In 2013, operating expenses increased \$1.23 million, or approximately 3%, as compared to 2012 due primarily to an increase in wages and benefits and an increase in maintenance expense. The increase in wages and benefits in 2013 was largely attributable to the settlement of a collective bargaining agreement coupled with recent hiring of positions that had remained open for an extended period of time.

Nonoperating Expenses

Nonoperating expenses consist primarily of interest expense, a sales tax collection fee administered by the Washington State Department of Revenue, and other miscellaneous nonoperating expenses or loss on the disposition of assets.

Change in Net Position

Net position increased \$2.64 million in 2014, or approximately 3%, as compared to year end 2013. Net Position increased \$410 thousand in 2013, or approximately 1%, as compared to 2012. The increase in net position in years 2014 and 2013 are due primarily to capital contributions related to state and federal grants awarded for purposes of capital asset acquisitions coupled with a continued increase in sales tax revenue received.

Capital Assets

As of December 31, 2014, Kitsap Transit's investment in capital assets, net of depreciation and amortization, is approximately \$77.53 million, as reflected in the following schedule (in millions).

	01/01/2014	Additions	Retirements	12/31/2014
Land	\$ 13.87	\$ -	\$ -	\$ 13.87
Office Equipment	1.58	0.35	(0.01)	1.92
Shop Equipment	2.70	0.34	(0.01)	3.03
Regional Fare Equipment	3.98	-	-	3.98
Facilities	77.41	0.19	-	77.60
Rolling Stock / Ferries	49.57	0.34	(0.61)	49.30
Construction in Progress	4.85	5.11	(1.25)	8.71
Leased Assets and Improvements	1.69	0.05	-	1.74
Total	155.65	6.38	(1.88)	160.15
Less: Depreciation	(75.80)	(7.44)	0.62	(82.62)
Net Capital Assets:	<u>\$ 79.85</u>	<u>\$ (1.06)</u>	<u>\$ (1.26)</u>	<u>\$ 77.53</u>

Net capital assets decreased \$2.31 million in 2014, or approximately 3%, due primarily to annual depreciation of existing assets exceeding capital asset additions. For additional information, refer to Note 3 (Capital Assets and Depreciation).

Kitsap Transit has commitments for capital projects and capital asset acquisitions of approximately \$2.43 million. Those capital expenditures are expected to be largely offset with federal and state grant funding assistance.

The year-end financial position of Kitsap Transit is adequate for its current operating budget provided there are no further significant declines of sales tax revenue.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND DECEMBER 31, 2013

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and Cash Equivalent	\$ 10,621,232	\$ 7,981,493
Cash and Cash Equivalent - Restricted	2,576,531	2,818,004
Taxes Receivable	5,334,744	5,130,817
Accounts Receivable	257,204	207,471
Due From Other Governments	1,917,363	1,104,673
Inventory	894,763	838,698
Prepaid Expenses	327,859	331,363
Total Current Assets	<u>21,929,696</u>	<u>18,412,519</u>
NONCURRENT ASSETS:		
CAPITAL ASSETS not being depreciated		
Construction in Progress	8,705,710	4,846,241
Land	13,867,440	13,867,440
CAPITAL ASSETS being depreciated		
Property, Plant and Equipment	135,839,599	135,243,089
Less: Accumulated Depreciation	(81,524,232)	(74,762,266)
Leasehold, Capital Improvements, Leased Park & Rides	1,741,849	1,687,113
Less: Accumulated Amortization	(1,096,255)	(1,038,730)
Total Net Capital Assets	<u>77,534,111</u>	<u>79,842,887</u>
OTHER NONCURRENT ASSETS:		
Prepaid Expenses	59,457	53,155
Intangible Assets, Net	469,296	491,553
Total Other Noncurrent Assets	<u>528,753</u>	<u>544,708</u>
TOTAL ASSETS	<u><u>\$ 99,992,560</u></u>	<u><u>\$ 98,800,114</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND DECEMBER 31, 2013

	2014	2013
CURRENT LIABILITIES:		
Accounts/Warrants Payable	\$ 255,225	\$ 1,096,483
Accounts Payable to Other Agencies	2,303,885	2,283,400
Accrued Expenses	907,962	888,604
Unearned Revenue	1,682,884	1,962,178
Current Portion of Long-term Obligations	467,184	460,423
Other Current Liabilities	118,064	41,809
Total Current Liabilities	<u>5,735,205</u>	<u>6,732,897</u>
NONCURRENT LIABILITIES:		
General Obligation Bonds	4,007,542	4,463,800
Employee Leave Benefits	1,301,193	1,293,304
Total Noncurrent Liabilities	<u>5,308,735</u>	<u>5,757,104</u>
TOTAL LIABILITIES	<u>11,043,940</u>	<u>12,490,001</u>
NET POSITION:		
Net Investment In Capital Assets	73,528,681	75,397,731
Restricted for Debt Obligations	300,311	330,123
Restricted for Other Agencies	2,149,866	2,093,043
Restricted for Puget Sound Naval Shipyard Enhancements	126,354	394,839
Unrestricted	12,843,409	8,094,377
TOTAL NET POSITION	<u>\$ 88,948,621</u>	<u>\$ 86,310,113</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR FISCAL YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013**

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Passenger Fares	\$ 5,969,759	\$ 6,032,548
Other Transit Revenue	143,395	134,811
Supplementary Transportation	761,780	779,834
Other Operating Revenue	424,425	375,432
Total Operating Revenue	<u>7,299,359</u>	<u>7,322,625</u>
OPERATING EXPENSES:		
Operations:		
General Operations	15,422,618	14,977,667
Contracted Operations	940,210	955,721
Cost of Fuel	2,280,926	2,358,262
Maintenance	7,694,929	7,181,767
Customer Service & Marketing	1,252,996	1,269,145
Administration:		
General Administration	2,792,618	2,629,129
Planning and Development	1,108,970	881,368
Excise and B&O Taxes	18,851	3,231
Depreciation and Amortization	7,388,938	7,956,143
Total Operating Expenses	<u>38,901,056</u>	<u>38,212,433</u>
OPERATING INCOME (LOSS)	<u>(31,601,697)</u>	<u>(30,889,808)</u>
NONOPERATING REVENUES (EXPENSES):		
Sales Tax	29,631,000	27,822,266
State Operating Grant	1,524,678	1,493,909
Other Operating Grant	760,469	82,235
Interest Revenue	42,097	41,728
Interest Expense	(61,743)	(212,538)
Gain (Loss) on Asset Disposition	42,960	21,712
Other Nonoperating Revenue (Expense), net	(351,387)	(297,329)
Total Nonoperating Revenues (Expenses)	<u>31,588,074</u>	<u>28,951,983</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(13,623)</u>	<u>(1,937,825)</u>
Capital Contributions	2,652,131	2,349,471
INCREASE (DECREASE) IN NET POSITION	<u>2,638,508</u>	<u>411,646</u>
NET POSITION - BEGINNING OF PERIOD	86,310,113	85,898,467
NET POSITION - END OF PERIOD	<u>\$ 88,948,621</u>	<u>\$ 86,310,113</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR FISCAL YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 6,420,894	\$ 6,549,748
Cash Received for Agencies	4,203,266	4,588,949
Cash Payments to Suppliers for Goods and Services	(16,246,888)	(15,560,064)
Cash Payments to Employees for Services	(15,342,721)	(15,042,372)
Cash Payments to Other Agencies	(3,952,412)	(3,920,473)
Other Operating Cash Received	428,130	364,475
NET CASH FLOWS FROM OPERATING ACTIVITIES	(24,489,731)	(23,019,737)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales Tax Received	29,374,058	27,339,695
State Operating Subsidies	761,899	1,986,002
Cash Received Other than Customers	2,995	6,005
Cash Payments Other than Customers	(336,552)	(133,843)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	29,802,401	29,197,859
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(5,429,414)	(3,486,923)
Principal Paid on Debt	(449,501)	(3,798,419)
Interest Paid on Debt	(61,564)	(208,715)
Cash Flows from Sales and Disposition of Equipment	42,960	24,674
Capital Grants Received	2,941,018	2,683,123
NET CASH FROM CAPITAL FINANCING ACTIVITIES	(2,956,501)	(4,786,260)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	42,097	41,728
NET CASH PROVIDED BY INVESTING ACTIVITIES	42,097	41,728
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	2,398,266	1,433,590
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	10,799,497	9,365,907
CASH AND CASH EQUIVALENT AT END OF YEAR	\$ 13,197,763	\$ 10,799,497

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR FISCAL YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013**

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
NET OPERATING INCOME (LOSS)	\$ (31,601,697)	\$ (30,889,808)
ADJUSTMENTS TO RECONCILE OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation & Amortization	7,388,938	7,956,143
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(49,733)	(76,536)
(Increase) Decrease in Inventory	(56,065)	(102,333)
(Increase) Decrease in Prepaid Expenses	(2,798)	(58,598)
Increase (Decrease) in Accounts Payable	(195,623)	78,870
Increase (Decrease) in Wages & Benefits Payable	27,247	72,525
TOTAL ADJUSTMENTS	<u>7,111,966</u>	<u>7,870,071</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (24,489,731)</u>	<u>\$ (23,019,737)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY
PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
Notes to Financial Statements
Years Ended December 31, 2014 and 2013.**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kitsap County Public Transportation Benefit Area Authority, dba Kitsap Transit, was authorized by the voters as a public transportation system in September 1982 and began operations in 1983. Kitsap Transit assumed ownership of the Bremerton Charleston, Bremerton Suburban Transportation and Cascade Trailways franchise in 1983 and the Horluck Foot Ferry franchise in 2003.

The financial statements of Kitsap Transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principle. In 1999, GASB approved Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This and other applicable Statements are reflected in the accompanying financial statements (including notes to financial statements).

Kitsap Transit implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements in 2012.

Kitsap Transit implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in 2012.

Kitsap Transit implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities in 2013.

A. REPORTING ENTITY

Kitsap Transit is a special purpose government entity which provides fixed route (including worker driver commute service to the Puget Sound Naval Shipyard), demand response, foot ferry, and vanpool services to the general public. Kitsap Transit is primarily funded with sales tax revenue and passenger fares.

Kitsap Transit is governed by an elected nine-member board. In 2010, a non-voting member of the board representing the interests of union employees was added to the board. Kitsap Transit's reporting entity includes only its transportation activities. No other entity exists for which Kitsap Transit exercises oversight responsibility or has a special financing arrangement, nor does any other entity have a similar scope of service.

B. BASIS OF ACCOUNTING AND PRESENTATION

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with Kitsap Transit's activity are included on its Comparative Statement of Net Position. The reported fund equity (total net position) is segregated into four net asset groups; net investment in capital assets, restricted for debt obligations, restricted for other agencies, and unrestricted net position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues and gains) and decreases (expenses and losses) in total net position. Kitsap Transit discloses changes in cash and cash equivalents in the Comparative Statement of Cash Flows. The cash flows within this statement are segregated by operating, non-capital financing, and capital financing activities.

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

Kitsap Transit distinguishes between operating revenues and expenses from non-operating revenues and expenses based upon whether the services provided are principal ongoing transit related operations or ancillary transit related services.

Operating revenues are related primarily to transit and transit related services such as passenger fares, parking lot fees, advertising revenue and tenant lease income. Non-operating revenues consist primarily of sales tax revenue, operating grants and interest income. Kitsap Transit receives eight tenths of a percent of Kitsap County sales and use tax.

Operating expenses consist of expenditures related to transit operations, maintenance, administration, customer service, marketing and depreciation and amortization. Non-operating expenses consist primarily of interest expense and a sales tax collection fee administered by the Washington State Department of Revenue.

C. ASSETS, LIABILITIES AND EQUITIES

1. Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, including restricted assets, with a maturity of three months or less at the time acquisition. Total cash and cash equivalents balance was \$13,197,763 and \$10,799,497 as of December 31, 2014

and December 31, 2013, respectively. It is Kitsap Transit's policy to temporarily invest surplus cash reserves and restricted assets with the Kitsap County Treasurers Office. Specific deposits and investments are described in Note (Deposits and Investments Note No. 2).

2. Temporary Investments – See Note (Deposits and Investments Note No. 2)

3. Receivables

Kitsap Transit had tax receivables of \$5,334,744 as of December 31, 2014 and \$5,130,817 as of December 31, 2013. These balances represent sales tax accruals for the last two months of each respective year that are collected by the Washington State Department of Revenue on behalf of Kitsap Transit and paid to Kitsap Transit with interest on the last business day of January and February, net of a 1.0% collection fee.

Customer account receivables consist of amounts owed from private individuals or organizations for contract sales or services. Kitsap Transit had \$257,204 and \$207,471 due from customers as of December 31, 2014 and December 31, 2013, respectively.

4. Amounts Due From Governments

These accounts include amounts due from other government entities. The balance was \$1,917,363 as of December 31, 2014 and \$1,104,673 as of December 31, 2013. These accounts are described in Note (Other Disclosures Note No. 14).

5. Inventories

Inventories consist of consumable supplies for maintenance of rolling stock. Inventories are valued by the FIFO method. Inventories approximate fair market value and are composed of the following:

	<u>2014</u>	<u>2013</u>
Rolling stock parts	\$664,692	\$615,640
Fuel, oil and other fluids	135,655	157,696
Engines	67,685	43,807
Tires	<u>26,731</u>	<u>21,555</u>
	<u>\$894,763</u>	<u>\$838,698</u>

6. Restricted Assets and Liabilities

Restricted assets and liability reserves correspond to future obligations for debt service, cash and investments due to other agencies, and cash and investments that are reserved for a specific purpose. In accordance with the terms of the Limited Sales Tax General Obligation, separate restricted reserve accounts are maintained. Specific debt service reserve requirements are described in Note (Long-Term Debt and Leases Note No. 8). Cash and investments due other agencies reflect amounts due Puget Sound

public transit agencies participating in the Regional Fare Coordination System (RFCS). The amounts on deposit reflect fare collections on behalf of participating public transit agencies whereby Kitsap Transit acts as the lead agent of federal contracts for the region. The RFCS non-equity joint venture is further described in Note (Joint Ventures Note No. 12). Cash and investments restricted for Puget Sound Naval Shipyard (PSNS) enhancements reflect fares collected for purposes of enhancing commuter transit programs that serve personnel commuting to and from PSNS.

The restricted assets are comprised of the following:

	<u>2014</u>	<u>2013</u>
Cash and Investments – Reserve for Debt Service	\$ 65,121	\$ 96,128
Cash and Investments – Bond Reserve	235,190	233,995
Cash and Investments – Due Other Agencies	2,149,866	2,093,042
Cash and Investments – PSNS Enhancements	<u>126,354</u>	<u>394,839</u>
	<u>\$2,576,531</u>	<u>\$2,818,004</u>

7. Capital Assets and Depreciation - See Note (Capital Assets and Depreciation Note No. 3).

8. Other Property and Investments - See Note (Deposits and Investments Note No. 2).

9. Other Assets

Other assets consist of intangible assets related to the acquisitions of Cascade Trailway's franchise in 1983 and Horluck Foot Ferry franchise in 2003. Intangible asset balances net of accumulated amortization are composed of the following:

	<u>2014</u>	<u>2013</u>
Cascade Trailway's	\$ 68,978	\$ 76,938
Horluck Foot Ferry	<u>400,318</u>	<u>414,615</u>
	<u>\$ 469,296</u>	<u>\$ 491,553</u>

10. Other Current Liabilities

Other current liabilities consist of retainage payable, rental deposits, and unclaimed property in the amount of \$118,063 and \$41,809 as of December 31, 2014 and December 31, 2013, respectively.

11. Employee Leave Benefits

Compensated absences include general leave and compensatory time earned for which employees will be paid. Kitsap Transit records general leave and compensatory time as an expense and liability when the employee compensated absence is earned and vested.

An employee, who leaves Kitsap Transit in good standing, is paid the remaining balance of their general leave and compensatory time. An employee who is discharged or resigns in lieu of discharge is not eligible for general leave pay. The balance accrued for general leave and compensatory time was \$1,301,193 as of December 31, 2014 and \$1,293,304 as of December 31, 2013.

12. Accrued Liabilities

The accrued liabilities balance was \$907,962 and \$888,604 as of December 31, 2014 and December 31, 2013, respectively. These balances consist primarily of accrued wages and employee benefits.

13. Long-Term Debt - See Note (Long-Term Debt and Leases Note No. 8).

14. Unearned Credit

The unearned credits balance was \$1,682,884 and \$1,962,178 as of December 31, 2014 and December 31, 2013, respectively. This unearned revenue is recognized as a liability rather than revenue because the revenue recognition criteria have not been met. See Note (Other Debits (Credits) Note No. 11).

15. Other Credits – See Note (Other Debits (Credits) Note No. 11).

NOTE 2 – DEPOSITS AND INVESTMENTS

Kitsap Transit's funds are either deposited with the Kitsap County Treasurer's Investment Pool, a Washington State bank and savings and loan institution, or other investments allowed by Chapter 39.59 RWC.

A. DEPOSITS

Kitsap Transit's bank deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The deposit balance was \$2,306,048 as of December 31, 2014 and \$2,664,774 as of December 31, 2013.

Also consolidated within the Comparative Statement of Net Position are deposits of \$15,656 as of December 31, 2014 and \$12,136 as of December 31, 2013 that Kitsap Transit had on deposit with the fiscal agent of the Regional Fare Coordination System

(RFCS). Amounts on deposit with the fiscal agent of RFCS represent Kitsap Transit's proportional share of its undivided interest in the non-equity joint venture. The RFCS non-equity joint venture is further described in Note (Joint Ventures Note No. 12).

B. INVESTMENTS

Kitsap Transit's investment balance with the Kitsap County Treasurer's Investment Pool was \$10,736,599 as of December 31, 2014 and \$7,985,643 as of December 31, 2013. Kitsap Transit investments are at cost, which approximates fair value.

Also consolidated within the Comparative Statement of Net Position are investments of \$139,459 as of December 31, 2014 and \$136,944 as of December 31, 2013 that the fiscal agent of the Regional Fare Coordination System (RFCS) had on deposit in the Local Government Investment Pool (LGIP). Amounts on deposit in the LGIP represent Kitsap Transit's proportional share of its undivided interest in the non-equity joint venture. The RFCS non-equity joint venture is further described in Note (Joint Ventures Note No. 12).

The investments are composed of the following:

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 8,299,527	\$ 5,304,583
Restricted – Debt Service	300,311	330,123
Restricted – Due Other Agencies	2,149,866	2,093,042
Restricted – PSNS Enhancement	<u>126,354</u>	<u>394,839</u>
	<u>\$10,876,058</u>	<u>\$ 8,122,587</u>

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Furnishings and equipment are capitalized if they have a unit value of at least \$2,500 and a useful life that exceeds a year. All rolling stock, buildings and other structures are capitalized and depreciated over the life of the asset as determined by the Federal Transit Administration. Additions, improvements, or rehabilitation to buildings and other structures with a value of at least \$2,500 are also capitalized.

All capital assets are valued at historical cost, less accumulated depreciation, within the Comparative Statement of Net Position. When an asset is sold, retired or otherwise disposed of, the asset and related accumulated depreciation is removed from the Comparative Statement of Net Position and a gain or loss is recognized within the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position.

Kitsap Transit has acquired certain assets with funding provided by federal grant or Washington State grant programs. Depending on the terms of agreements involved, the federal government or the State of Washington could retain an equity interest in these assets. Kitsap Transit has sufficient legal interest to accomplish the purpose for which the assets were acquired, and has capitalized such assets within the applicable

capital asset account.

Depreciation expense is charged to operating expense using the straight-line method to allocate the cost of capital assets over their estimated useful lives. The recommended useful life guidelines from the Federal Transportation Administration are as follows:

Land	Not Depreciated
Furnishings & Equipment	2 to 5 years
Shop & Equipment	2 to 10 years
Buildings	3 to 20 years
Rolling Stock	2 to 15 years
Floating Stock	2 to 15 years

Kitsap Transit
Notes to Financial Statements

Capital assets activity for the year ended December 31, 2014 are as follows:

	Beginning Balance 01/01/2014	Increase	Decrease	Ending Balance 12/31/2014
Capital Assets, not Depreciated				
Construction in Progress	\$ 4,846,241	\$ 5,114,014	\$ (1,254,545)	\$ 8,705,710
Land	<u>13,867,440</u>	<u>-</u>	<u>-</u>	<u>13,867,440</u>
Total Capital Assets, not Depreciated	<u>18,713,681</u>	<u>5,114,014</u>	<u>(1,254,545)</u>	<u>22,573,150</u>
Capital Assets, being depreciated:				
Office Equipment	1,577,445	350,882	(6,097)	1,922,230
Shop & Other Equipment	2,704,258	333,047	(9,138)	3,028,167
Regional Fare	3,983,185	-	-	3,983,185
Facilities	77,414,995	191,622	-	77,606,617
Rolling Stock	33,485,039	342,794	(606,601)	33,221,232
Ferries	16,078,168	-	-	16,078,168
Leased Park & Rides	1,424,087	54,736	-	1,478,823
Capital Improvements	71,118	-	-	71,118
Leasehold Improvements	191,908	-	-	191,908
Intangible Assets	<u>890,277</u>	<u>-</u>	<u>-</u>	<u>890,277</u>
Total Capital Assets Being Depreciated	<u>137,820,480</u>	<u>1,273,081</u>	<u>(621,836)</u>	<u>138,471,725</u>
Depreciation & Amortization				
Less Accumulated Depreciation:				
Office Equipment	(1,434,422)	(72,121)	6,097	(1,500,446)
Shop & Other Equipment	(2,433,602)	(165,847)	9,138	(2,590,311)
Regional Fare	(1,292,390)	(402,032)	-	(1,694,422)
Facilities	(41,047,354)	(3,435,769)	-	(44,483,123)
Rolling Stock	(26,125,861)	(2,686,312)	606,601	(28,205,572)
Ferries	(2,428,637)	(621,721)	-	(3,050,358)
Less Accumulated Amortization				
Leased Park & Rides	(820,179)	(50,376)	-	(870,555)
Capital Improvements	(42,979)	(3,425)	-	(46,404)
Leasehold Improvements	(175,572)	(3,723)	-	(179,296)
Intangible Assets	<u>(398,724)</u>	<u>(22,257)</u>	<u>-</u>	<u>(420,981)</u>
Total Accumulated Depreciation and Amortization	<u>(76,199,720)</u>	<u>(7,463,583)</u>	<u>621,836</u>	<u>(83,041,468)</u>
Total Capital Assets	<u>\$ 80,334,439</u>	<u>\$ (1,076,488)</u>	<u>\$ (1,254,545)</u>	<u>\$ 78,003,407</u>

Construction and Other Commitments

A. Construction Commitments

Kitsap Transit has active construction projects as of December 31, 2014. The projects include:

PROJECT	Spent to Date	Remaining Commitment
Rolling Stock – Access Propane Buses	\$ -	\$ 542,862
Rolling Stock – Routed Coaches	-	1,536,145
Floating Stock – Vessel Wake Research	1,869,076	219,934
Facilities – Annapolis Ferry Terminal Improvements	185,259	66,522
Facilities – Bremerton Transportation A Float	2,220,467	19,158
Facilities – Electric Vehicle Charging Stations	<u>56,244</u>	<u>43,751</u>
TOTAL	<u>\$ 4,331,046</u>	<u>\$ 2,428,372</u>

Kitsap Transit expects to receive contributed capital from grants for the remaining commitment amount.

B. Other Significant Commitments

Kitsap Transit has no other commitments.

NOTE 4 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions.

NOTE 5 – PENSION PLANS

Substantially all Kitsap Transits 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.

The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; 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.

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

Funding Policy

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.

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:

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$26,848	\$ 1,114,737	\$209,481
2013	20,818	957,816	187,213
2012	16,783	819,696	144,402

Local Government Pension and Other Employee Benefit Trust Funds

One employee is covered at their option under the Automotive Machinist Pension Plan (AMPP). The Automotive Machinist Union administers AMPP. There is not an employee contribution. The employer contribution to AMPP in 2014 was \$8,174.

NOTE 6 – RISK MANAGEMENT

A. LIABILITY AND PROPERTY DAMAGE INSURANCE

1. General

Kitsap Transit is a member of the Washington State Transit Insurance Pool (WSTIP). pursuant to Chapter 48.62 RCW which authorizes the governing body of a local government entity to self-insure, join or form a self-insurance program or may jointly purchase insurance. In addition, the entities may jointly hire or contract for risk management, claims handling and administrative services.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. WSTIP was formed on January 1, 1989 when eight transit agencies in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2013, 25 transit agencies have joined WSTIP.

Kitsap Transit joined the Washington State Transit Insurance Pool in December 1988 for coverage effective January 1, 1989. Each member's premium contribution is based on their estimated exposure of miles and experience rating. Adjustments are made in the succeeding premium year based on prior year's actual miles and experience rating.

WSTIP pools its member's premium contributions to purchase insurance and self-insure against property and liability losses and jointly contract to provide risk management, claims handling and administrative services. The coverage provided by WSTIP includes property and liability insurance for its members' assets and employees for claims arising from the negligent or other tortuous conduct of the member transit system, their officers, employees, or agents.

Members file claims with WSTIP. WSTIP staff assists with claim adjustments, loss prevention, and appraisal services for its members. Kitsap Transit had no settlements that exceeded its insurance coverage limits in the past three years.

2. Liability and Property Insurance Coverage

Kitsap Transit carries the following policies on insurance with the indicated limits of liability, pool self-insured risk (SIR) and agency deductibles for 2014:

COVERAGE	LIMIT	POOL SIR	AGENCY DEDUCTIBLE
Comprehensive Liability (Includes auto and general)	\$12,000,000 / occurrence	\$1,510,000	-
Public Officials Liability	\$12,000,000 aggregate	\$1,510,000	\$5,000
All Risk Property Policy (Includes auto physical)	\$1,000,000,000 / occurrence	\$500,000	\$5,000
Boiler and Machinery	\$100,000,000 / occurrence	\$500,000	\$5,000
Crime	\$1,000,000 / occurrence	\$10,000	\$10,000
Pollution Liability	\$5,000,000 aggregate	\$100,000	\$5,000

B. EMPLOYEE BENEFIT COVERAGE

1. Employee Medical Benefits

Kitsap Transit full-time employees, as defined by Kitsap Transit policy and/or bargaining agreements, and Amalgamated Transit Union (ATU) extra board operators are eligible for medical coverage.

Full-time non-represented, ATU, and Teamster employees are offered medical coverage through Association of Washington Cities. They may choose Group Health or, as of October 1, 2013, Health First 250(Regence Blue Shield).

Full-time Machinist employees receive medical coverage through the Machinist Health and Welfare Trust. They may choose from Group Health or Regence Blue Shield.

Vision coverage is included in Health First. All employees electing Group Health or with the Machinist Trust are enrolled for vision through Association of Washington Cities.

Kitsap Transit pays 92.3% of the premium for both medical plans and 100% of vision coverage based on the eligibility criteria.

Full-time non-represented and part-time non-represented employees working at least 20 hours a week receive medical benefits for the employee and dependents beginning the first of the month following date of hire.

Full-time Teamster employees receive medical benefits for the employee and dependents beginning the first of the month following date of hire. Temporary Teamster employees are eligible for coverage on the first day of the month following notification that their position becomes permanent.

Full time Machinist employees receive medical on the first day of the second month following the month in which they were compensated for 80 hours. Coverage ends at the end of the month immediately following the month in which they fail to be compensated for 80 hours.

ATU Access and Routed full-time and extra board employees receive medical benefits for the employee and dependents beginning the first of the month following full-time or extra board status.

Part time Machinist and Teamsters working 20 – 35 hours per week receive medical benefits for the employee and spouse, or employee and two or more children beginning the first of the month following date of hire.

ATU Access and Routed part-time “A” board operators receive 92.3% employer paid medical benefits for the employee and two dependents at the beginning of the seventh month of employment. ATU Access and Routed part-time “B” board operators are offered 50% employer paid medical benefits for the employee only at the beginning of the seventh month of employment.

Beginning in 2003, Kitsap Transit offered employees the Premium Payment Plan where employee premiums are deducted on a pre-tax basis.

Effective in 2005, Kitsap Transit offered employees eligible for medical benefits the opportunity to participate in the Flexible Spending Plan. The Flexible Spending Plan allows employees to elect an annual pre-tax deduction for Plan eligible expenses.

2. Medical Insurance Coverage

Kitsap Transit a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2014, 263 cities/towns/non-city entities participate in the AWC Trust HCP. The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool

is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and the AWC Board of Directors President and Vice President. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

3. Dental Benefits

Kitsap Transit pays the full cost of dental coverage with Washington Dental Service or Willamette Dental of Washington for all full-time non-represented employees, Machinist and Teamster employees, and ATU employees. Full-time non-represented temporary employees are eligible at the beginning of the fourth month of employment.

4. Short-term Disability

Kitsap Transit non-represented employees receive short-term disability benefits from the eighth through the sixtieth calendar day of the injury or illness. The employee must use general leave or leave without pay if no leave is available for the first seven calendar days. When a holiday falls within the first seven disability days, the holiday will be paid. Holidays that fall between the eighth and sixtieth calendar days will not be paid. The employee may use general leave to cover an unpaid holiday. Kitsap Transit pays the employee's full rate of pay, less holidays, from the eighth through the sixtieth calendar day.

ATU full-time and extra-board Routed and Access, and full-time Machinist and Teamster employees receive short-term disability benefits for an off the job illness or injury. Part-time Machinist and Teamsters receive short-term disability benefits if they elected medical for self-only. Benefits begin the first day of absence for injuries and the eighth day of absence for illness. The benefit is paid up to a maximum of 26 weeks at 66 2/3% of the weekly gross salary, not to exceed \$700 per week. Kitsap Transit funds short term disability benefits from the fourth to the seventh calendar day for illness. The employee uses general leave, or leave without pay, if general leave is not available for the first three days.

5. Long-term Disability

For non-represented employees, a benefit of 60 percent of the employee's salary begins on the 61st calendar day for approved claims. The benefit is paid by Kitsap Transit's long-term disability provider. Kitsap Transit pays the premium for disability insurance for non-represented employees working 20 hours a week or more. Full-time and part-time temporary and represented employees are not eligible for long-term disability insurance.

6. Life and Accidental Death and Dismemberment

For all non-represented employees, Machinist and Teamster employees, and ATU employees, Kitsap Transit provides life insurance and accidental death and dismemberment policies with a face value of \$10,000. At age 70, insurance carrier reduces coverage to \$5,000. Kitsap Transit self insures \$5,000 for employees 70 or more years of age.

7. Workers Compensation Insurance

As established by Title 51 RCW, all Kitsap Transit employees are covered for on-the-job injuries or illness through Workers Compensation Insurance as administered by State of Washington Department of Labor and Industries.

8. Unemployment Insurance

Kitsap Transit self insures for unemployment insurance claims. Washington State Employment Security Department processes claims on behalf of Kitsap Transit. Kitsap Transit submits amounts due for claims processed. Kitsap Transit paid to Employment Security \$6,762 in unemployment claims in 2014.

NOTE 7 – SHORT-TERM DEBT

In 2007, Kitsap Transit established a five year \$2,000,000 revolving line of credit (Credit Facility) with Bank of America. In 2012, Kitsap Transit extended the Credit Facility for three years. The interest rate of the Credit Facility is the applicable LIBOR Rate for the term that is elected plus 1.05%.

Short-term activities for the year ended December 31, 2014 were as follows:

Line of Credit	Beginning Balance 01/01/2014	Issued	Redeemed	Ending balance 12/31/2014
\$2,000,000	\$0.00	-	-	\$0.00

As of December 31, 2014, there was no principal or interest due on the Credit Facility.

NOTE 8 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

On December 1, 1997, Kitsap Transit issued Limited Sales Tax General Obligation Bonds, Series 1997 in the amount of \$4,750,000. Interest on the bonds is payable semiannually on June 1 and December 1 of each year commencing on June 1, 1998. Principal and interest are payable directly to the Deposit Trust Company (DTC) by the Fiscal Agency of the State of Washington currently the Bank of New York, New York, and Wells Fargo Bank, National Association, Seattle, Washington. The bond proceeds are not subject to federal arbitrage regulations.

The proceeds of the sale of the bonds were used to finance construction of the Bremerton Transportation Center, other capital projects, and to pay the costs of issuance. The Bonds are a limited sales tax obligation of Kitsap Transit secured by

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sales and use tax revenues and payable from other money lawfully available, which may include fares and interest income. Sales and use tax revenues are collected at a rate of eight-tenths of a percent. Sales and use tax revenues are the amounts available for distribution to Kitsap Transit by the state treasurer pursuant to RCW 82.14.060 on account of the Sales and Use Tax authorized to be levied by public transportation benefit areas pursuant to RCW 82.14.045.

In April 2011, Kitsap Transit issued Limited Sales Tax General Obligation Refunding Bond, Series 2011 in the amount of \$2,305,392 to refund the Series 1997 Limited Sales Tax General Obligation Bonds and to pay the costs of issuance. The Series 2011 Bond matures in 2017 and has a 2.875% fixed rate of interest. Principal and interest on the bond is payable semiannually on June 1 and December 1 of each year commencing on December 1, 2011.

The annual debt service requirements to maturity for the 2011 General Obligation Bonds are as follows:

Coupon Rate	Payment Date	Principal	Interest
2.875%	2015	\$ 336,037	\$ 29,784
2.875%	2016	343,948	20,124
2.875%	2017	<u>355,987</u>	<u>10,234</u>
	TOTALS	<u><u>\$ 1,035,972</u></u>	<u><u>\$ 60,142</u></u>

On May 1, 2003, Kitsap Transit issued Limited Sales Tax General Obligation Bonds, Series 2003 in the amount of \$20,000,000. Interest on the bonds is payable semiannually on November 1 and May 1 of each year commencing on November 1, 2003. Principal and interest are payable directly to the DTC by the Fiscal Agency of the State of Washington currently the Bank of New York, New York, and Wells Fargo Bank, National Association, Seattle, Washington. The bond proceeds are subject to federal arbitrage regulations. Kitsap Transit is in compliance with those federal arbitrage regulations.

The proceeds of the sale of the bonds were used to acquire certain vehicles, partially fund the construction of the Harborside Building, to repay a bond anticipation note, to fund a debt service reserve account, and to pay the costs of issuance of the bonds. The bonds are a limited sales tax obligation of Kitsap Transit secured by sales and use tax revenues and payable from other money lawfully available, which may include fares and interest income. Sales and use tax revenues are collected at a rate of eight-tenths of a percent. Sales and use tax revenues are the amounts available for distribution to Kitsap Transit by the state treasurer pursuant to RCW 82.14.060 on account of the sales and use tax authorized to be levied by public transportation benefit areas pursuant to RCW 82.14.045. The bonds are on a parity of lien with Kitsap Transit's outstanding Limited Sales Tax General Obligation Bonds, Series 1997.

Pursuant to a reserve requirement of the 2003 Limited Sales Tax General Obligation Bonds, Kitsap Transit deposited \$2,000,000 in a reserve account with the Kitsap County

Treasurer upon receipt of bond proceeds. In 2005, Kitsap Transit purchased a surety bond insuring the principal and interest on the bonds in lieu of its reserve account obligation. Ambac Assurance Corporation is the issuer of the surety bond.

The Bonds are not subject to redemption prior to their fixed dates of maturity. In July 2012, Kitsap Transit deposited \$2,520,000 into an irrevocable trust and, in so doing, legally defeased its remaining principal and interest obligations due on its Series 2003 Limited Sales Tax General Obligation Bonds.

On September 24, 2003, Kitsap Transit received proceeds from Bank of America for the district's Limited Sales Tax General Obligation Bond Anticipation Notes, Series A (Tax-Exempt) Loan Proceeds of \$1,316,000 and Series B (Taxable) Loan Proceeds of \$4,574,000 with a total disbursement of \$5,890,000 to be applied to the construction of the Harborside Building. The Bond Anticipation Note, Series A proceeds are subject to federal arbitrage regulations. Kitsap Transit is in compliance with those federal arbitrage regulations.

Interest is paid monthly beginning November 1, 2003. Principal on this Note is paid in monthly installments commencing November 1, 2004, in accordance with the Note Resolution, based on a twenty year amortization. Each principal installment is equal to the amount of the outstanding principal balance of this Note at the close of business on October 1, 2004, divided by 240. Interest rates were fixed in 2005 on Series A at 4.56% and Series B at 5.40% and will remain in effect until maturity. The outstanding principal balance was redeemed in 2013.

In July 2012, Kitsap Transit entered into a Reimbursement, Maintenance and Use Agreement with the Port of Bremerton (Port Note) wherein Kitsap Transit is fulfilling its obligation from a prior agreement signed between the parties in 2009 to reimburse the Port of Bremerton for Kitsap Transit's portion of costs to install a large passenger only ferry float and reassume maintenance and insurance responsibilities in consideration for use of the float for its intended purpose of cross sound passenger ferry operations between Bremerton and Seattle. Kitsap Transit has agreed to reimburse the Port of Bremerton \$2,999,905 in equal installments over a period of 30 years effective March 1, 2013. No interest will be accrued on the \$2,999,905 amount due to the Port of Bremerton over the 30 year repayment term.

In September 2012, Kitsap Transit entered into a \$695,000 real estate contract with Kitsap Bank (Bank Note) for the purchase of a two and one-half acre parcel in Bremerton for purposes of a future transfer station. The term of the Bank Note is ten years based on a twenty year amortization period and a 2.90% fixed rate of interest.

The activity for Long-Term Debt is as follows:

Bond	Balance 12/31/13	2014 Additions	2014 Payments	Balance 12/31/14	Due Within One Year
11 Bond	\$1,358,487	\$ -	\$ 322,515	\$ 1,035,972	\$ 336,037
12 Port Note	2,899,905	-	100,000	2,799,905	100,000
12 Bank Note	<u>662,467</u>	<u> </u>	<u>26,986</u>	<u>635,481</u>	<u>27,779</u>
Totals	<u>\$ 4,920,859</u>	<u>\$ -</u>	<u>\$ 449,501</u>	<u>\$ 4,471,358</u>	<u>\$ 463,816</u>

B. Leases

Operating Leases

Kitsap Transit has an operating lease with Development Services for the Gateway Center. The Gateway Center is located in Bremerton and is leased primarily for the purpose of use as a park and ride. Effective September 2014, Kitsap Transit agreed to a five year lease with an annual lease expense of \$64,380. As of December 31, 2014, the remaining amount due under the lease was \$305,805.

C. Changes in Long-Term Liabilities

Kitsap Transit accrues employee compensated absences as they are earned and vested by the employees. Activity for compensated absences are as follows:

Balance 12/31/13	2014 Additions	2014 Payments	Balance 12/31/14
\$1,293,304	1,595,241	1,587,352	\$1,301,193

NOTE 9 – RESTRICTED ASSETS

Kitsap Transit's Statement of Net Position reports restricted assets of \$2,576,531 as of December 31, 2014 and \$2,818,004 as of December 31, 2013. The restricted assets are reserved primarily for purposes of paying obligations related to long-term debt obligations and amounts due other transits participating in the Puget Sound regional fare coordination system (RFCS). The RFCS non-equity joint venture is further described in Note (Joint Ventures Note No. 12).

NOTE 10 – CONTINGENCIES AND LITIGATION

In the ordinary course of operations, Kitsap Transit is subject to pending and threatened legal actions and proceedings. In certain of these actions and proceedings, claims for monetary damages are asserted against Kitsap Transit. Such claims against Kitsap Transit are insured under its comprehensive liability policies with Washington State

Transit Insurance Pool. As of December 31, 2013, Kitsap Transit's liability coverage is sufficient to cover all known or pending litigation and any potential decisions against Kitsap Transit will not have a material affect on the financial position of Kitsap Transit. See Note (Risk Management Note No. 6) for additional information regarding Kitsap Transit's insurance coverage with the Washington State Transit Insurance Pool.

Kitsap Transit participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Kitsap Transit's management believes that it is in compliance with the terms of each of its grants and such request for reimbursement is unlikely.

In 2012, a Washington State Public Employee Relations Commission (PERC) hearing examiner concluded that Kitsap Transit unlawfully failed to fulfill its bargaining obligation when it eliminated the Premera Blue Cross preferred provider medical plan (PPO) previously available to Amalgamated Transit Union (ATU) employees and ordered Kitsap Transit to pay certain ATU employees monetary damages equal to the net insurance premium savings realized by Kitsap Transit as a result of moving employees from the more expensive PPO plan to a more affordable Group Health medical plan. The hearing examiner rejected Kitsap Transit's "business necessity" defense that it could not continue to provide the PPO plan, as the ATU employee group did not qualify to participate as a result of a significant number of Kitsap Transit employees electing to make the transition to Group Health, which resulted from Kitsap Transit's lawful negotiations with other bargaining units and actions with respect to unrepresented employees. Kitsap Transit appealed the hearing examiner's decision to the full PERC, arguing, in part, that PERC does not have authority to award punitive damages like the award imposed by the hearing examiner. In March 2013, PERC decided in favor of Kitsap Transit on the remedy question and overturned previously awarded monetary damages related to insurance premium savings. The ATU appealed the PERC's revision of the remedy to the Superior Court of Washington State. In November 2013, the Thurston County Superior Court upheld PERC's revision of remedy. In December 2013, the ATU filed an appeal with the Washington State Court of Appeals. In April 2015, the Washington State Court of Appeals reversed the Superior Court's decision and remanded this matter to the Commission for further proceedings, including strong guidance that the hearing examiner's remedy was lawful, and that the PERC's remedy was insufficient. Kitsap Transit has petitioned the Washington State Supreme Court to accept discretionary review of the Court of Appeals decision. The possibility of a future liability to Kitsap Transit is contingent on whether the decision of the Washington State Court of Appeals is sustained or whether the Commission reverses its previous decision to overturn monetary damages.

In 2014, Kitsap Transit received a notice of claim for damages in the amount of \$71,000,000 related to a pedestrian's injuries sustained in an event with a Kitsap Transit vehicle that occurred on May 7, 2014. Kitsap Transit is insured under its comprehensive liability policies with Washington State Transit Insurance Pool. The liability coverage limit is \$12,000,000. Liability and fault, if any, related to this event is unknown at this

time. Kitsap Transit will defend this case vigorously. See Note (Risk Management Note No. 6) for additional information regarding Kitsap Transit's insurance coverage with the Washington State Transit Insurance Pool.

NOTE 11 – OTHER DEBITS (CREDITS)

In accordance with generally accepted accounting principles, Kitsap Transit's other debits and credits consist of assets and liabilities that are unearned and amortized over the life of the asset or liability or when the expense has been incurred or the earnings process is complete.

Other debits include prepaid expenses and intangible assets. Intangible assets consist of acquisitions of Cascade Trailway's franchise in 1983 and Horluck Foot Ferry franchise in 2003. Other debits are composed of the following:

	<u>2014</u>	<u>2013</u>
Prepaid Expenses	\$ 387,316	\$ 384,518
Intangible Assets, Net - Cascade Trailway's	68,978	76,938
Intangible Assets, Net - Horluck Foot Ferry	400,318	414,615
	<u>\$ 856,612</u>	<u>\$ 876,071</u>

Other credits include unearned revenue. Unearned revenue consists primarily of unearned passenger fare revenue. Other credits are composed of the following:

	<u>2014</u>	<u>2013</u>
Unearned Revenue – Passenger Fare Revenue	1,682,884	1,962,178

NOTE 12- JOINT VENTURES

In 2009, Kitsap Transit and six other participating Puget Sound public transit providers initiated a phased deployment of the regional fare coordination system (RFCS). The RFCS is an electronic fare collection system designed to utilize smart chip technology that is embedded within a fare card to create a common, electronic fare system shared among each of the participating Puget Sound public transit providers.

Coinciding with the deployment of the RFCS, the participating public transit providers entered into an interlocal agreement in 2009 to establish policy and terms for the operation and maintenance of the RFCS. The interlocal agreement created a non-equity joint venture rather than a separate legal entity. Each participating agency is committed for no less than ten years to the operation and a proportionate share of regionally shared costs of the RFCS system. This ongoing financial responsibility has

created an undivided interest in the non-equity joint venture that is shared among Kitsap Transit and each of the participating public transit providers.

Kitsap Transit's share of interest in the RFCS assets and liabilities are consolidated and reported within the Comparative Statement of Net Position. As of December 31, 2014, Kitsap Transit's pro-rata share of the RFCS assets and liabilities are as follows:

Assets	2014	2013
Deposits	\$ 15,656	\$ 12,136
Investments	139,459	136,944
Accounts Receivable	655	927
Total Assets	\$ 155,770	\$ 150,007
Liabilities		
Accounts Payable	\$ 35,727	\$ 36,632
Unearned Revenue	120,043	113,375
Total Liabilities	\$ 155,770	\$ 150,007

Kitsap Transit and the City of Bremerton entered into an agreement for the construction of the Harborside Building parking and plaza facilities. Construction of the Harborside Building was complete in 2004. Kitsap Transit and the City of Bremerton share the cost of facility maintenance.

Kitsap Transit and Washington State Ferries share the cost of operating and maintaining the Bremerton Transportation Center.

NOTE 13 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

Kitsap Transit does not provide post employment benefits.

NOTE 14 – OTHER DISCLOSURES

A. MAJOR ACCOUNT RECEIVABLES

Kitsap Transit's major receivables consist of the following:

	<u>2014</u>	<u>2013</u>
Federal Transportation Administration	\$ 814,064	\$ 366,313
Commute Trip Reduction Grant	41,765	40,500
Washington State – Department of Ecology	50,146	47,200
Washington State – Rural Mobility	867,912	-
Washington State Department of Transportation	143,476	650,660
Total	<u>\$ 1,917,363</u>	<u>\$1,104,673</u>

NOTE 15 – SUBSEQUENT EVENT

In 2012, a Washington State Public Employee Relations Commission (PERC) hearing examiner concluded that Kitsap Transit unlawfully eliminated the Premera Blue Cross preferred provider medical plan (PPO) previously available to Amalgamated Transit Union (ATU) employees and ordered Kitsap Transit to pay certain ATU employees monetary damages equal to the net insurance premium savings realized by Kitsap Transit as a result of moving employees from the more expensive PPO plan to a more affordable Group Health medical plan. The hearing examiners decision was appealed by Kitsap Transit to the full PERC (Commission). The hearing examiner's decision on monetary damages was overturned by the Commission. The ATU appealed the Commission's decision to the Superior Court of Washington. The Superior Court upheld the Commission's decision. The ATU appealed the Superior Court decision to the Washington State Court of Appeals.

On April 14, 2015, the Washington State Court of Appeals reversed the Superior Court's decision and remanded this matter to the Commission for further proceedings, including strong guidance that the hearing examiner's remedy was lawful, and that the PERC's remedy was insufficient. Kitsap Transit has petitioned the Washington State Supreme Court to accept discretionary review of the Court of Appeals decision. The possibility of a future liability to Kitsap Transit is contingent on whether the decision of the Washington State Court of Appeals is sustained or whether the Commission reverses its previous decision to overturn monetary damages. See Note (Contingencies and Litigation Note No. 10) for additional information regarding the background and status of this case.

On July 21st, 2015, Kitsap Transit issued a ten year \$2,500,000 Limited Sales Tax General Obligation Bond. The Bond has a 2.24% rate of interest and principal may be

Kitsap Transit

Notes to Financial Statements

prepaid without penalty in five to seven years. Interest and principal on the bond is due semi-annually on January 1st and July 1st of each year.

On July 21st, 2015, Kitsap Transit entered into a three year \$2,000,000 Bond Anticipation Note with Heritage Bank which may be utilized for transit capital projects. The Bond Anticipation Note has an interest rate of daily LIBOR plus one percent.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA KITSAP TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year Ended December 31, 2014

CFDA Number	Federal Agency Name/Pass-Through Agency Name	Federal Program Name	Other I.D. Number	Expenditures				
				From Pass-Through Awards	From Direct Awards	Total	ARRA	Foot-note Ref.
20.205	U.S. Department of Transportation/FHWA	Highway Planning & Construction PROJECT POF - Preventative Maintenance	WA70X-022		46,137	46,137	NO	1,2
	Subtotal CFDA #20.205							
20.500	U.S. Department of Transportation/FTA	Federal Transit Capital Investment Grants PROJECT POF - RP1 BTC Dock	WA03X-240 WA03X-240		7,420 959,365	966,785	NO	1,2 1,2
	Subtotal CFDA #20.500							
20.507	U.S. Department of Transportation/FTA	Federal Transit Formula Funds PROJECT BTC Dock North Base Design Bus Facilities - Preventive Maintenance Annapolis Dock North Base Design and Construction POF - RP1 Operations and Planning Annapolis Dock Upgrade Bus Facilities - Preventive Maintenance	WA90X-473 WA90X-472 WA90X-539 WA90X-511 WA90X-348 WA90X-509 WA950-057 WA90X-549		332,210 103,885 300,000 1,667 278,588 259,730 82,757 230,000	1,588,837	NO	1,2 1,2 1,2 1,2 1,2 1,2 1,2 1,2
	Subtotal CFDA #20.507							
20.525	U.S. Department of Transportation/FTA	State of Good Repair Grants Program PROJECT POF - Preventive Maintenance	WA540-003		236,733	236,733	NO	1,2
	Subtotal CFDA #20.525							
Total Federal Awards Expended						2,838,492		

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as Kitsap Transit's financial statements. Kitsap Transit uses the full accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amount shown as current year expenditures represent only the Federal portions of the program costs. Actual program costs, including Kitsap Transit's portion may be more than shown.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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