



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

**Skagit County Public Transportation
Benefit Area
(Skagit Transit)**

For the period January 1, 2016 through December 31, 2016

Published September 28, 2017

Report No. 1019950





Office of the Washington State Auditor
Pat McCarthy

September 28, 2017

Board of Directors
Skagit Transit
Burlington, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Skagit Transit
Skagit County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit Formula Grants

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

The Transit qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**Skagit Transit
Skagit County
January 1, 2016 through December 31, 2016**

Board of Directors
Skagit Transit
Burlington, 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 Skagit Transit, Skagit County, Washington, as of and for the year ended December 31, 2016, 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 20, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

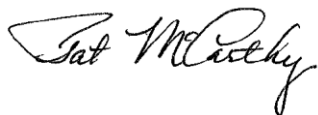
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

September 20, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

Skagit Transit

Skagit County

January 1, 2016 through December 31, 2016

Board of Directors
Skagit Transit
Burlington, Washington

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

We have audited the compliance of the Skagit Transit, Skagit County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Transit's major federal programs for the year ended December 31, 2016. The Transit's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Transit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Transit's compliance.

Opinion on Each Major Federal Program

In our opinion, the Transit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Transit is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Transit's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Transit's internal control over compliance.


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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 20, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Skagit Transit Skagit County January 1, 2016 through December 31, 2016

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Skagit Transit, Skagit County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Skagit Transit, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2017 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 20, 2017

FINANCIAL SECTION

**Skagit Transit
Skagit County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

Skagit Transit

Management Discussion & Analysis

This section of Skagit Transit's Annual Financial Report presents management's overview and analysis of the PTBA's financial performance for the fiscal year ending December 31, 2016. This section should be read in conjunction with the financial statements and notes to the financial statements that follow this section.

Financial Highlights

- The assets of Skagit Transit exceeded its liabilities at December 31, 2016, by \$39,387,704. Of this amount, \$15,819,386 may be used to meet Skagit Transit's ongoing obligations to provide services to the public, including the capital program, and to meet the obligations of creditors.
- Skagit Transit's total net position increased by \$1,939,642 in 2016. The overall financial condition of Skagit Transit as of December 31, 2016 was considered to have improved. At year-end, the budget was balanced with Skagit Transit projected to remain in the black for operating expenses throughout 2017.
- Passenger Fares decreased by \$86,997 between 2015 and 2016.
- Skagit Transit remained free of long-term debt during the period.

Summary Statement of Net Position

		2016	2015
Assets			
	Current Assets	\$16,426,030	\$14,953,099
	Capital Assets	23,568,318	23,100,670
	Total Assets	39,994,349	38,053,769
Liabilities			
	Current Liabilities	377,558	404,001
	Noncurrent Liabilities	229,086	201,706
	Total Liabilities	606,645	605,707
Net Position			
	Investment in Capital Assets	23,568,318	23,100,670
	Unrestricted	15,819,386	14,347,393
	Total Net Position	\$39,387,704	\$37,448,063

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

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Passenger Fares	\$859,171	\$ 946,168
Non-Operating Revenues		
Sales Tax	11,119,193	10,233,474
Interest	35,891	27,469
Grants	2,440,089	2,158,524
Gain (loss) on Disposition of Assets	12,082	61,626
Other Non-operating Revenues	41,564	39,568
Total Revenues	<u>14,507,990</u>	<u>13,466,829</u>
Operating Expenses		
Operations	6,464,329	6,168,579
Maintenance	2,369,025	2,209,430
Administration	2,570,331	2,534,230
Depreciation	1,805,736	1,784,819
Total Expenses	<u>13,209,420</u>	<u>12,697,059</u>
Net Income (loss) Before Contributions	1,298,570	769,769
Capital Contributions	641,071	572,948
Increase (decrease) in net position	<u>1,939,641</u>	<u>1,342,717</u>
Prior Period Adjustment	-	75,283
Net Position - Beginning of period	<u>37,448,063</u>	<u>36,030,063</u>
Net Position - End of period	<u><u>39,387,704</u></u>	<u><u>37,448,063</u></u>

Overview of the Financial Statements

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

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

The Statement of Revenues, Expenses and Changes in Fund Net Position present information showing how the PTBA's net position changed during the fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless

of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to the PTBA, and earned but unused vacation leave).

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

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

Financial Analysis

Net Position

For the year ending December 31, 2016, assets exceeded liabilities by \$39,387,704. Transit is a capital-intensive enterprise, and 59.84% of Skagit Transit's net assets are invested in capital assets.

Skagit Transit ended 2016 with \$23,568,318 in Capital Assets. See Note 3 for further information.

During 2016 Capital Assets increased by \$467,649. Skagit Transit's purchased assets includes one (1) Fixed Route bus, one (1) Staff vehicle, and four (4) Vanpool vans.

Inventory levels increased by \$15,325 during 2016. It is expected that inventory levels will be maintained at appropriate levels to match our service levels.

Cash and cash equivalents were increased by \$888,882 in 2016 from 2015.

Skagit Transit was successful in receiving state and federal grants to fund some of the capital projects such as a Bike Shelter and a Next Stop Announcement system. Skagit Transit continues to aggressively seek all available grants.

Operating Revenues

Operating revenues for fares decreased by \$86,997 during 2016. Fixed Route service had a revenue decrease of \$56,652 or 14.0%, Paratransit had an increase of \$576, or 9.2% and Vanpool had a decrease of \$30,922, or 6.9%. Fixed Route ridership decreased by 13% and Vanpool by 9%. Paratransit ridership increased by 7.1%. For all modes, there were 877,448 unlinked passenger trips in 2016. Fares are structured so that commuter routes are two times the local fixed route fare and paratransit is operated fare free.

Non-Operating Revenues

Revenues from the transit portion of the sales tax increased by \$885,719 or 8.7% over 2015. In November 2008, the proposition to increase sales tax from 2/10 of 1% to 4/10 of 1% was approved by the voters and went into effect in April 2009.

Interest income was \$35,891 in 2016. It increased in 2016 by 30.7% from the \$27,469 received in 2015.

Grant revenues were derived from thirteen (13) federal, state and local grants for use in capital and operating expenditures.

Operating Expenses

Operating expenses increased during 2016 as a result of increase in salaries, wages, and benefits and inflation.

Fixed Route refers to regularly scheduled buses operating on established routes.

ADA Paratransit service is scheduled through a dispatch center.

Vanpool service was initiated in June 2002. The Skagit Transit Vanpool program decreased slightly in 2016 due to lower fuel prices and supported an average of 47 vanpool groups. Many large employers subsidize their employees to make it advantageous to use vanpools. The program will continue to target new markets to expand the program in 2017.

Operating Expenses by Department

Operations – \$6,464,329 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$2,369,025 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$2,570,331 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation - \$1,805,736 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total Operating Expenses were \$13,209,420.

Capital Assets are depreciated based on their actual costs spread over their useful life.

Economic Factors and Future Outlook

Skagit County includes the Mount Vernon Urbanized Area (UZA). This UZA is comprised of the urban growth areas of the cities of Mount Vernon, Burlington, and Sedro-Woolley. This designation of the UZA brings to Skagit Transit the availability of receiving federal funding for urban transit systems. It also brings the responsibility of Skagit Transit's involvement in the new Metropolitan Planning Organization.

The population of Skagit County has been growing at rates slightly less than population growth throughout the state. During the time period from April 2010 through July 2016, the county population grew at 5.8% rate compared to 8.4% for the state.

The economy had been hit hard by the layoffs by the various large employers located in Seattle and Everett. The economy has been recovering in 2016.

Skagit Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. The sales tax revenue increased by 4.8% in 2013 over 2012, 2.3% in 2014 over 2013, 6.7% in 2015 over 2014 and 8.7% in 2016 over 2015.

The county's average unemployment rate in 2016 was 6.8% compare to 5.4% for the state.

Skagit Transit's revenues were severely cut in 2000 when the Motor Vehicle Excise Tax (MVET) was removed. Skagit Transit operated slightly reduced service levels for the next two years using reserve funding as authorized by our Board of Directors. When the PTBA residents soundly defeated an attempt to increase the local transit portion of sales tax in September of 2002, Skagit Transit was forced to reduce service substantially and live within its revenue flow. The budget was designed to allow minimal growth in services while staying within the revenue stream. In November 2008, the Proposition to increase sales tax by 2/10 of 1% for Skagit Transit was passed. And in April 2009, the sales tax percentage for Skagit Transit was increased to 4/10 of 1%. The increase in sales tax revenue will ensure Skagit Transit will be able to implement more services in the PTBA.

Grant applications have been submitted for the 2017-2019 fiscal years.

Skagit Transit management has made a commitment to meeting the needs of the public, but in a financially sound manner.

Capital Assets

Skagit Transit's investment in capital assets as of December 31, 2016 amounted to \$23,568,318 net accumulated depreciation. Capital assets consist of transit coaches and other vehicles, buildings, equipment, transit centers and park and ride lots. Capital assets increased by approximately 2% during the year, which includes one (1) Fixed Route bus, one (1) Staff vehicle, and four (4) Vanpool vans.

Please refer to Note 3 of Notes to the Financial Statements for more information.

Request for Information

This financial report is designed to provide a general overview of the PTBA's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Manager of Finance & Administration, 600 County Shop Lane, Burlington, WA 98233, telephone 360-757-8801.

Skagit Transit
Statement of Net Position
December 31, 2016

ASSETS

Current Assets:		
Cash	\$	4,983,659
Investments		8,560,274
Taxes receivables		2,013,690
Accounts receivable (net of allowance for uncollectibles)		13,231
Due from other governments		480,124
Inventory		375,053
Total Current Assets		<u>16,426,030</u>
Noncurrent Assets:		
Capital assets not being depreciated		
Land		4,930,899
Right of way		850,000
Construction in Progress		996,676
Capital assets being depreciated		
Buildings		8,202,448
Improvements other than buildings		6,108,841
Vehicles		12,534,861
Intangible Assets		1,038,936
Equipment & Furnishings		1,601,512
Less: Accumulated depreciation		
Buildings		(2,383,968)
Improvements other than buildings		(1,221,593)
Vehicles		(7,512,832)
Equipment & Furnishings		(1,014,767)
Intangible Assets		(562,694)
Total Net Capital Assets		<u>23,568,318</u>
Total Noncurrent Assets		<u>23,568,318</u>
Total Assets		<u>39,994,349</u>

LIABILITIES

Current Liabilities:		
Accounts payable		145,238
Compensated Absences		50,051
Benefit payable		73,658
Taxes and other payables		108,611
Total Current Liabilities		<u>377,558</u>
Noncurrent liabilities:		
Compensated Absences		229,086
Total Noncurrent Liabilities		<u>229,086</u>
Total Liabilities		<u>606,645</u>

NET POSITION

Net Position:		
Net Investment in Capital Assets		23,568,318
Unrestricted		15,819,386
Total Net Position	\$	<u>39,387,704</u>

The Notes to the Financial Statements are an integral part of this statement

Skagit Transit
Statement of Revenues, Expenses, and Changes in Fund Net Position
For Fiscal Year Ended December 31, 2016

Operating Revenues:		
Passenger Fares	\$	859,171
Total Operating Revenues		<u>859,171</u>
Operating Expenses:		
Operations		6,464,329
Maintenance		2,369,025
Administration		2,570,331
Depreciation		1,805,736
Total Operating Expenses		<u>13,209,420</u>
Operating Income (Loss)	\$	<u>(12,350,250)</u>
Non-Operating Revenues (Expenses):		
Sales Tax		11,119,193
Interest		35,891
Grants		2,440,089
Gain (loss) on Disposition of Assets		12,082
Other Non-operating Revenues (Expenses)		41,564
Total Non-Operating Revenues (Expenses)		<u>13,648,820</u>
Income(loss) before contributions, gains, losses, other revenues and expenses		<u>1,298,570</u>
Capital Contributions		641,071
Increase (decrease) in net position		1,939,641
Net Position - Beginning of period	\$	37,448,063
Net Position - End of period	\$	<u><u>39,387,704</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Skagit Transit
Statement of Cash Flows
For Fiscal Year Ended December 31, 2016

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 868,714
Cash Payments to Suppliers for Good & Services	(2,663,601)
Cash Payments to Employees for Services	(8,754,469)
Other Cash Receipts	45,104
Net Cash Provided (Used) by Operating Activities	<u>(10,504,253)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	10,879,960
Federal, State and Local Assistance Received	2,360,199
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>13,240,159</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(2,273,384)
Capital Grants and Contributions	414,927
Proceeds from Sale of Equipment	11,434
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,847,024)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(32,999)
Interest on Investments	32,999
Net Cash Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>888,882</u>
Cash and Cash Equivalents, Beginning	4,094,777
Cash and Cash Equivalents, Ending	<u><u>\$ 4,983,659</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Skagit Transit
Reconciliation Operating Loss / Operating Activities
For Fiscal Year Ended December 31, 2016

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (12,350,250)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation on Capital Assets	1,805,736
Nonoperating Expenses/Misc Nonoperating Revenue	45,104
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	9,543
Decrease (Increase) in Inventories	(15,325)
Increase (Decrease) in Accounts Payable	(81,124)
Increase (Decrease) in Wages & Benefits Payable	82,063
Total Adjustments	<u>1,845,997</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,504,253)</u>

The Notes to the Financial Statements are an integral part of this statement.

Notes to Financial Statements

December 31, 2016

Note 1: Summary of Significant Accounting Policies

Skagit Transit Authority (Skagit Transit) was authorized on November 3, 1992 and operates under the laws of the State of Washington applicable to a Public Transportation Benefit Area (PTBA). The accounting and reporting policies of Skagit Transit conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below. These notes should be viewed as an integral part of the accompanying financial statements.

a) Reporting Entity

Skagit Transit is a special purpose government and provides public transportation to the general public and is supported primarily through local sales tax. The agency is governed by an elected nine member board. Skagit Transit has no component units. Skagit Transit's basic financial statements include the financial position and results of the operations of the PTBA. A review of other units of local government, using the criteria set forth in GAAP, indicates there are no additional entities or funds for which the PTBA has reporting responsibilities. Based on the standards set by GASB-14, there are no component units of Skagit Transit.

b) Basis of Accounting & Presentation

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

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

Skagit 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(s).

Skagit Transit distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with Skagit Transit's principal

ongoing operations. The principal operating revenues of the transit are charges to customers for fare box collections and bus pass sales. Operating expenses for Skagit Transit include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting records of Skagit Transit are maintained in accordance with the methods prescribed by the Federal Transit Administration (FTA) and the Washington State Auditor under the authority of Revised Code of Washington (R.C.W.) 43.09. The authority for the FTA to prescribe an accounting and reporting system is found in Section 15 of the Federal Transit Act of 1992, as amended.

Skagit Transit began participating in the FTA National Transit Database beginning with FY 2005. A Six-Year Planning summary report has been sent to the Washington State Department of Transportation (WSDOT), under separate cover.

c) Assets, Liabilities, and Net Position

a) Cash and Cash Equivalents

It is Skagit Transit's policy to invest all temporary cash surpluses. For purposes of the Statement of Cash Flows, the agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. State statutes permit Skagit Transit to invest in obligations of the United States, certificates of deposits issued by banks that are designated as public depositories by the Washington Public Deposit Commission, the Local Government Investment Pool of the Washington State Treasurer or authorized investments through the Skagit County Treasurer.

Investments for Skagit Transit are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. For other property and investments – See Note 2.

b) Receivables

Accounts receivable consist mainly of bus passes sold, vanpool charges and local sales tax collected. Total accounts receivable was \$13,231 and local sales tax receivable was \$2,013,690.

c) Amounts Due From Other Governments

Amounts due from other governments include grant reimbursements of \$467,483, sales tax interest of \$971, and L&I, property tax and fuel refunds of \$11,671.

d) Inventories

Inventory consists of fuel, repair parts and supplies. No general administrative expenses are included in the inventory valuation. Expenses are recorded as the materials are consumed. Inventory is valued on the average cost method. At December 31, 2016, Skagit Transit carried an inventory valued at \$375,053 for consumable parts and supplies used in the maintenance and repair of vehicles and facilities.

e) Restricted Assets and Liabilities

Skagit Transit has no restricted assets and liabilities.

f) Capital Assets

Capital Assets include property, facilities, and equipment and are capitalized at total acquisition cost provided that such costs exceed \$5,000 and the asset has a useful life of at least one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

Land	Not Depreciated
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	3-5 years
Shop Equipment	10 years
Route Improvements	20 years
Furniture & Fixtures	10 years
Intangible Assets	5-10 years
Computer Equipment	5 years
Vehicle Improvements	3-5 years

Capital Assets & Depreciation – See Note 3

g) Compensated Absences

Compensated absences are absences for which employees will be paid using general leave.

General leave, which may be accumulated up to 25 days, is payable upon resignation, retirement, or death if the employee has successfully completed their probation period.

All compensated absences that are unused at the end of each year are listed on the balance sheet as a liability. The current liability for compensated absences equaled \$50,051 as of December 31, 2016 and noncurrent liability was \$229,086.

The classification of short-term and long-term is based on a five-year historical average on leave paid as a percentage of the liability.

	Current Liability	Noncurrent Liability	Total
Beginning Balance	\$ 44,566	\$ 201,706	\$ 246,273
Leave Earned	106,502	531,616	638,118
Leave Paid	101,017	504,237	605,254
Ending Balance	50,051	229,086	279,137

h) Fund Reserves & Designations – See Note 10

- i) There were no material violations of finance related legal or contractual provisions during FY 2016.

Note 2 – Deposits & Investments

a) Deposits

The Board of Directors of Skagit Transit adopted Resolution 2001-06 appointing its own treasurer. The treasurer is responsible for the management and investment decisions of the Transit's deposit and investment accounts. The Board also approved an Interlocal agreement with the Skagit County Treasurer to invest the Transit's reserve funds in an instrument authorized by law for the Treasurer of Skagit County.

Skagit Transit has established direct banking services with Skagit Bank. Skagit Transit's deposits are covered entirely by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the LGIP and Skagit Treasurer's office. The LGIP and the Treasurer's assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

b) Investments

State of Washington under Chapter 39.59 RCW limits the investment of public funds by local governments to the following authorized instruments: (i) bonds of the State or any local government in the State, (ii) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (iii) registered warrants of a local government in the same county as the local government making the investment, (iv) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided that at the time of investment, the United States government must be the largest shareholder of such institution, (v) obligations of the Federal Home Loan Bank, Fannie Mae and other government-sponsored enterprises whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system, (vi) bankers' acceptances purchased in the secondary market, (vii) commercial paper purchased in the secondary market, subject to

State Investment Board policies, and (viii) corporate notes purchased in the secondary market, subject to State Investment Board policies.

Investments Measured at Amortized Cost

As of December 31, 2016, the transit held the following investments at amortized cost:

Type of Investment	Maturities	Transit's own investments	Investments held by Transit as an agent for others	Total
WA State Local Government Investment Pool	Less Than One Year	\$4,534,049	0	\$4,534,049
Money Market Funds	Less Than One Year	\$4,026,224	0	\$4,026,224
Total		\$8,560,273	\$0	\$8,560,273

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the LGIP and Skagit Treasurer's office. The LGIP and the Treasurer's assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

Interest Rate Risk

Interest rate risk is the risk that changes in interest will adversely affect the fair market value of an investment. Skagit County Treasurer and state pool policies state that safety of funds is the number one priority in all investment decisions. The LGIP and the County Treasurer investment policy requires a 90-day maximum on the weighted average maturity. Thus, all investments held are considered to have a low interest rate risk.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Funds currently held at the LGIP and the County Treasurer have minimal to no risk. The investment policy for those limits the types of securities available for investment to obligations of the U.S. Government or its agencies, bankers' acceptance, commercial paper, certificate of deposit, or obligations of the state of Washington.

Note 3 – Capital Assets & Related Depreciation

Major expenses for Capital Assets, including major repairs to assets that increase their useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

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

Furnishings, equipment and buildings are capitalized if they have a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Items that are sensitive in nature and whose acquisition cost is less than \$5,000 are coded to an appropriate expense category when purchased, but are assigned a capital asset number.

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

The original cost of operating property retired or otherwise disposed of and the cost of installation is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from Skagit Transit asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line basis. Depreciation expense is charged to operations to allocate the cost of Capital Assets over their estimated useful lives, using the straight-line method with useful lives of three to fifty years.

Capital Assets and accumulated depreciation are categorized at January 1, 2016, and again at December 31, 2016. Depreciation for 2016 is as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
Capital Assets not Being Depreciated				
Land	\$4,927,556	\$ 3,343	\$ -	\$4,930,899
Right of Way	850,000	-	-	850,000
Construction/Work in Progress	-	996,676	-	996,676
Total Assets not Being Depreciated	5,777,556	1,000,019	-	6,777,575
Capital Assets Being Depreciated				
Buildings	8,190,278	12,170	-	8,202,448
Improvements other than buildings	6,111,570	46,183	48,912	6,108,841
Vehicles	12,024,650	718,539	208,328	12,534,861

Equipment & Furnishings	1,298,097	356,691	53,276	1,601,512
Intangible Assets	808,817	251,033	20,914	1,038,936
Total Assets Being Depreciated	28,433,412	1,384,616	331,429	29,486,598

**Less
Depreciation for:**

Buildings	2,236,042	147,926	-	2,383,968
Improvements other than buildings	1,063,225	160,610	2,242	1,221,593
Vehicles	6,361,689	1,355,386	204,242	7,512,832
Equipment & Furnishings	990,933	77,109	53,276	1,014,767
Intangible Assets	458,407	106,378	2,091	562,694
Total Assets Being Depreciated	11,110,296	1,847,409	261,851	12,695,854

Total Capital Assets, Being Depreciated, Net	\$17,323,115	\$16,790,744
Total Net Capital Assets	<u>\$23,100,670</u>	<u>23,568,318</u>

Individual useful lives are assigned to newly acquired or rebuilt assets as follows:

Land	Not Depreciated
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	3-5 years
Shop Equipment	10 years
Route Improvements	20 years
Furniture & Fixtures	10 years
Intangible Assets	5-10 years
Computer Equipment	5 years
Vehicle Improvements	3-5 years

Note 4 – Prepaid Rent – Skagit Station

Skagit Transit had no prepaid rent at year end 2016.

Note 5 – Qualified Retirement

Effective January 1, 1998, the Board of Directors approved Resolution No. 64 declaring Empower-Retirement (formally Great-West Retirement Services) as Skagit Transit's third

party administrator for the Skagit Transit 401(a) and 457 plans. All of Skagit Transit's employees have the opportunity to participate in a 401(a) Defined Contribution Plan.

Effective 7/01/2002, the employees voted to participate in Social Security (OASDI/Old Age, Survivors and Disability Insurance). At that time, the Skagit Transit Board of Directors modified the contribution levels to be:

401(a) Defined Contribution Plan (mandatory)

5.00% by Skagit Transit

5.00% by the employee

401(a) Defined Contribution Plan

A defined contribution plan provides benefits in return for services rendered, provides an account for each participant, and specifies how contributions to the individual's accounts are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participants' accounts.

Skagit Transit employees begin mandatory participation in the 401(a) plan on the first day of employment. Contributions made by Skagit Transit vest over a 5-year period, upon the completion of each year of service (10%, 20%, 30%, 40%, 100%). An employee who leaves Skagit Transit is entitled to Skagit Transit contributions plus investment earnings at the vesting level attained. As of December 31, 2016, there were 126 current employees and 52 former employees participating in the plan.

Plan balances and contributions for FY 2016 and FY 2015 were as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	5,248,521	5,265,603
Employee 401(a) Contributions	336,923	336,075
SKAGIT TRANSIT 401(a) Contributions	301,190	285,646
Loan Issuances	(74,714)	(57,163)
Loan payments	161,863	132,677
Distributions	(392,215)	(741,083)
Adjustments	170,259	(71,146)
Earnings	<u>98,920</u>	<u>97,914</u>
Total Ending Fund Balances	<u>\$5,850,747</u>	<u>\$5,248,521</u>

Under Current IRS rules, the 401(a) plan is held in trust for the employees. It is the opinion of Skagit Transit's legal counsel that Skagit Transit has no liability for losses under the plans, but does have the duty of due care that would be required of an ordinary prudent investor.

There are no other post-employment benefits.

Note 6 – Insurance

A. Unemployment Insurance

Skagit Transit has elected to remain self-insured for unemployment compensation.

B. State Industrial Insurance

Skagit Transit is covered by State Industrial Insurance.

C. Medical, Dental, and Vision Insurance

Skagit Transit is 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, 2016, 258 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, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2016, the AWC Trust HCP purchased 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 two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. 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.

Other insurances are 100% paid for by Skagit Transit.

D. Life Insurance

Regular employees have a \$12,000 term life insurance policy that also offers some coverage for dependents. Skagit Transit pays the premium.

E. Short & Long-Term Disability Insurance

Skagit Transit pays up to 2% of the gross wage of the regular employee (who works a minimum 30 hours per week) to purchase short and long-term disability insurance. The

short-term disability benefit is for 180 days. The long-term disability benefits the employee for two years beyond the exhaustion of the short-term benefit.

Note 7 – Risk Management

Skagit Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25 member self-insurance program located in Olympia, Washington. WSTIP supplies Skagit Transit auto liability, general liability, public official's liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2016, Skagit Transit retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Skagit Transit has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving 12 months' notice. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the WSTIP Board of Directors. Underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

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

Here is a summary of coverage provided in 2016:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage	\$60,000	Per occurrence	\$0

PUBLIC OFFICIALS LIABILITY	\$20 million	Per occurrence and aggregate	\$5,000
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,00 minimum per occurrence per unit
Auto Physical Damage	Fair market value	Limited to \$1 million any one vehicle	\$5,000
Auto Physical Damage if the vehicle is less than 10 years old and valued over \$250,000	Replacement Cost		\$5,000
Information Security and Privacy with electronic media (Cyber Liability) with the following sublimits:	\$2 million	Annual aggregate	\$50,000
Privacy Notification costs	\$500,000		
Regulatory Defense and Penalties	\$2 million		
PCI Fines and Penalties	\$100,000		
Website Media Liability	\$2 million		
Data Protection Loss	\$2 million		
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

Note 8 – Contingent Liabilities

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

Based on the above criteria Skagit Transit has no unresolved claims against it at December 31, 2016.

The agency participates in a number of Federally assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement by grantor agencies for expenses disallowed under the terms of the grant. Skagit Transit management believes that such disallowance, if any, will be immaterial.

Note 9 – Commitments & Leases

Commitments:

At December 31, 2016 Skagit Transit had the following in effect:

2016 Commitments – Contracts over \$25,000

(Excluding Lease Agreements)

Contractor	Contract No. & Title	Initial Contract Term	Option Years	YTD Contract Amount 4/27/17
Americaneagle.com	11-024 / Website Enhancement & Hosting Svcs	3/1/12 – 2/28/17	2 Option Years until 2019	\$115,900.00
Associated Petroleum Products	15-020-F / Card Lock Fueling	12/1/15 – 11/30/18	2 Option Years until 2022	\$204,611.41
Associated Petroleum Products	14-015-F / ULSD Fuel Delivery	2/1/15 – 1/31/20	2 Option Years until 2022	\$891,553.46
Blue Star Gas	16-012-F / Propane AutoGas Card Lock Services	12/1/16 – 11/30/19	2 Option Years until 11/30/21	\$2,438.06
Cummins, Inc.	16-001 / Diesel Engine Replacements	5/1/16 – 4/30/21	N/A	\$50,408.77
Duo-Gard Industries	12-007-F / Bus Shelters	12/1/12 – 11/30/17	N/A	\$137,126.67
Frontline Cleaning Services	15-015-P / Janitorial Services	11/1/15 – 10/31/18	2 Option Years until 2020	\$65,530.00
G4S Secure Solutions (USA)	14-001-F / Security Guard Services	4/1/14 – 5/31/16	3 Option Years until 2019	\$318,976.49
Garner's Northwest	12-001 / Landscape Maintenance Services	9/1/12 – 8/31/15	2 Option Years until 8/31/17	\$238,283.98
Gillig, LLC	14-019-F / Fixed Route Transit Coaches	7/1/15 – 6/30/20	N/A	\$2,274,028.76
Langabeer & Traxler	13-013 / General Counsel Legal Services	12/1/13 – 11/30/18	2 Optional 5-YR Terms	\$47,509.50
Mortenson Signs	14-004 / Vehicle Graphics	6/1/14 – 5/31/17	2 Option Years until 2019	\$35,546.43
Pat Rimmer Tire Center	14-008 / Tires & Related Services	9/1/14 – 8/31/16	3 Option Years until 2019	\$221,694.00
Seaside Auto Body	14-014 / Auto Body Services	2/1/15 – 1/31/20	2 Option Years until 2022	\$91,352.35

Operating Leases:

As of December 31, 2016, Skagit Transit leases some office equipment. Total 2016 cost for lease expense was \$22,373. The future lease payments are as follows:

<u>Year</u>	<u>Annual Cost</u>
2017	20,830
2018	9,940
2019	6,850
2020	4,822
2021	4,558

Note 10 – Reserve Accounts

The Skagit Transit Board of Directors by Resolution No. 50 established a reserve account. In subsequent action, the Board separated the account into three distinct categories. All action within these accounts, not including usual interest receipts, is required to be Board approved. As of December 31, 2016, the account balances were:

Capital Reserve:	
Facilities	400,000
Capital Replacement	3,879,348
Undesignated Reserve	2,176,390
Operating Reserve	<u>2,104,535</u>
Total:	\$ 8,560,273

**Skagit County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

Expenditures								
Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
Federal Transit Cluster								
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-2016-008	-	12,019	12,019	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X023	-	74,092	74,092	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-90-X555	-	84,149	84,149	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-95-X085	-	54,656	54,656	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation	Federal Transit_Formula Grants	20.507	WA-2016-006	-	1,669,493	1,669,493	-	1,2,3
Total Federal Transit Cluster:				-	1,894,409	1,894,409	-	
Transit Services Programs Cluster								
Federal Transit Administration (fta), Department Of Transportation (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB 2110A	269,178	-	269,178	-	1,2,3
Federal Transit Administration (fta), Department Of Transportation (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB 2111A	49,755	-	49,755	-	1,2,3
Total Transit Services Programs Cluster:				318,933	-	318,933	-	
Total Federal Awards Expended:				318,933	1,894,409	2,213,342	-	

The accompanying notes are an integral part of this schedule.

Skagit Transit, Washington

Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Skagit Transit's financial statements. The Skagit Transit uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs, after program income has been removed. Entire program costs, including the Skagit Transit's portion, are more than shown.

NOTE 3 - INDIRECT COST RATE

The Skagit Transportation Benefit District has not elected to use the 10-percent de minimis indirect cost rate allowed under the All amounts expended for both capital and operating projects are direct costs only.

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

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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.

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