Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Snohomish County Public Transportation Benefit Area (Community Transit)

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

Published September 20, 2018

Report No. 1022177

Office of the Washington State Auditor
Pat McCarthy

September 20, 2018

Board of Directors
Community Transit
Everett, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Community 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

Community Transit
January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Community 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 each of its major federal programs.

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 programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
20.500	Federal Transit Cluster – Federal Transit Capital Investment Grants
20.507	Federal Transit Cluster – Federal Transit Formula Grants
20.525	Federal Transit Cluster – State of Good Repair Grants Program
20.526	Federal Transit Cluster – Bus and Bus Facilities Formula Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $766,012.

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*

Community Transit
January 1, 2017 through December 31, 2017

Board of Directors
Community Transit
Everett, 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 Community Transit, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated June 19, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2018

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

Community Transit
January 1, 2017 through December 31, 2017

Board of Directors
Community Transit
Everett, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Community Transit, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Transit's major federal programs for the year ended December 31, 2017. The Transit's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Transit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

Pat McCarthy

State Auditor

Olympia, WA

September 13, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Community Transit
January 1, 2017 through December 31, 2017

Board of Directors
Community Transit
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Community Transit, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Transit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Transit, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2018 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2018

FINANCIAL SECTION

Community Transit
January 1, 2017 through December 31, 2017

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Statement of Net Position – 2017
Statement of Revenues, Expenses and Changes in Net Position – 2017
Statement of Cash Flows – 2017
Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

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Information on Postemployment Benefits Other Than Pensions – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017
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Management's Discussion and Analysis

This section of Community Transit's Comprehensive Annual Financial Report (CAFR) represents management's overview and analysis of Community Transit's financial performance for the fiscal year ended December 31, 2017. This section should be read in conjunction with the financial statements that follow.

Introduction

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

- Local and intercounty bus services.
- Paratransit services for the elderly and disabled.
- A vanpool program and Ridematch services.
- Regional express bus services funded through Sound Transit.

Financial Summary

- As of December 31, 2017, Community Transit's net position totaled $381.3 million. Of this amount, $168.5 million is available to meet our primary goal of providing service to the public and to be invested in future capital improvements as discussed in Community Transit's six-year plan.
- Community Transit's total net position increased by $59.7 million.
- Capital grants and contributions amounted to $27.6 million.
- Community Transit's primary source of funding is from local sales taxes. In 2017, sales tax revenue increased by $15.5 million.

Overview of the Financial Statements

This discussion and analysis section serves as an introduction to Community Transit's basic financial statements. Community Transit is a stand-alone enterprise fund, and our financial statements report information using the accrual basis of accounting, a method similar to those used by private-sector businesses. Under this method, revenues are recorded when earned, and expenses are recorded as soon as they result in liabilities for benefits received.

The Statement of Net Position presents information about all of Community Transit's assets, liabilities, deferred inflows of resources, and deferred outflows of resources. The difference is reported as net position. When net position is compared for several years, increases and decreases may serve as useful indicators of whether Community Transit's financial position is improving or deteriorating.

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

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

The basic financial statements can be found following this Management Discussion and Analysis. The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. *Notes to the Financial Statements* can be found following the basic financial statements.

Community Transit's Financial Position

Community Transit's overall financial position improved in 2017. Net investment in capital assets increased by $27.6 million, restricted net position decreased by $0.2 million, and unrestricted net position increased by $32.4 million. This resulted in an increase in total net position of $59.7 million.

Current assets net of current liabilities amounted to $167.9 million for the year ended December 31, 2017, as compared to $172.2 million for 2016.

Sales tax revenues increased by 13.4 percent for 2017 as compared to 2016. In 2016, the voters approved a ballot measure which increased the amount of local sales tax Community Transit can collect effective April 2016. Sales tax revenues in 2017 reflect the full-year impact of the sales tax increase as well as increased sales due to a favorable economy.

Cash reserves available to meet current and future obligations decreased to $132.0 million in 2017 from $153.8 million in 2016. Of these reserves, $1.6 million was restricted for workers' compensation claims. As of December 31, 2017, Community Transit had $12.9 million in long-term public financing debt, of which $1.2 million was due within one year.

Financial Analysis

For the year ended December 31, 2017, Community Transit's net position totaled $381.3 million. A summary of Community Transit's net position follows.

Summary Statement of Net Position

	2017	*2016*
Assets:		
Current and Other Noncurrent Assets	$ 230,578,951	$ 197,339,577
Capital Assets	223,911,595	183,536,663
Total Assets	**454,490,546**	**380,876,240**
Deferred Outflows of Resources:	**6,570,122**	**9,443,475**
Liabilities:		
Current and Other Liabilities	18,636,501	15,330,241
Noncurrent Liabilities	55,509,114	52,689,802
Total Liabilities	**74,145,615**	**68,020,043**
Deferred Inflows of Resources:	**5,664,497**	**792,472**
Net Position:		
Net investment in capital assets	211,092,762	183,536,663
Restricted	1,630,000	1,820,000
Unrestricted	168,527,794	136,150,537
Total Net Position	**$ 381,250,556**	**$ 321,507,200**

Public transportation is a capital-intensive enterprise. Consequently, 55.4 percent of Community Transit’s net position was invested in capital assets in 2017, as compared to 57.1 percent in 2016. Because these capital assets are used to provide services to citizens, they are not available for future spending.

External restrictions on assets affected 0.4 percent of net position in 2017, 0.6 percent for 2016. Additional information regarding net position can be obtained from Note 7 in the *Notes to the Financial Statements* section. Community Transit’s Board of Directors designated 31.5 percent of total net position for vehicle replacements and other capital improvements in 2017 compared to 28.4 percent in 2016. An additional $3.4 million was designated for workers’ compensation in 2017; correspondingly, $3.6 million was designated in 2016. The remaining $44.9 million in 2017 is available to support our public obligation for future transit operations as compared to $41.1 million in 2016.

Deferred outflows of resources decreased by $2.9 million from 2016 to 2017, while deferred inflows of resources increased by $4.9 million. This was predominately due to pension plan investment returns that were higher than projected in 2017 and lower than projected in 2016.

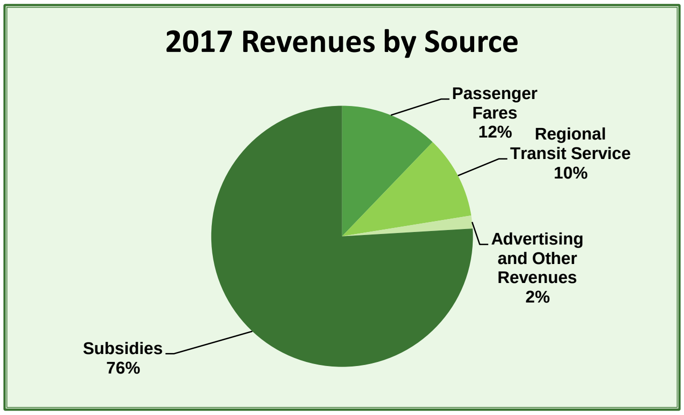
Community Transit's net position increased by $59.7 million during the current fiscal year. Key elements of this increase follow.

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

	2017	2016
Operating Revenues:		
Passenger Fares	$ 21,844,659	$ 21,892,470
Regional Transit Service	18,463,732	17,805,248
Advertising	720,837	691,667
Nonoperating Revenues:		
Subsidies	136,363,753	121,089,966
Other Revenues	1,792,030	852,184
Total Revenues	**179,185,011**	**162,331,535**
Expenses:		
Operations and Maintenance	73,192,882	69,176,799
General and Administrative	26,556,609	25,027,437
Contracted Transportation	26,385,830	25,065,500
Depreciation and Amortization	20,793,554	21,570,394
Nonoperating Expenses	102,180	20,643
Total Expenses	**147,031,055**	**140,860,773**
Net Income (Loss) Before Contributions	**32,153,956**	**21,470,762**
Capital Grants and Contributions	27,589,400	10,118,236
Total Change in Net Position	**59,743,356**	**31,588,998**
Net Position—Beginning of Year	**321,507,200**	**289,918,202**
Net Position—End of Year	**$ 381,250,556**	**$ 321,507,200**

Revenues

During 2017, revenues increased by $16.9 million, or 10.4 percent.



Revenues from major sources are illustrated in this chart:

The major component of the overall increase in revenues was sales tax. Sales tax revenues increased by 13.4 percent in 2017, resulting in an additional $15.5 million in sales tax revenue.

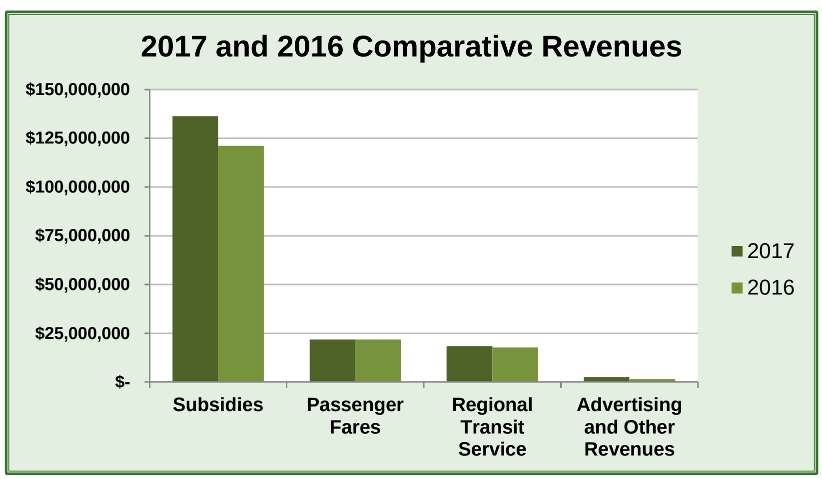
Subsidies also include federal and state operating grants and other local contributions. Total subsidies increased by $15.3 million, or 12.6 percent, over the preceding year. In 2017, grants and contributions decreased by $0.3 million.

Regional transit service revenues increased $0.7 million, or 3.7 percent, in 2017. The 2017 increase reflected current service levels and contract rates.

Passenger fares for 2017 decreased by $0.05 million, or 0.2 percent, over the preceding year.

Advertising and other revenues increased in 2017 by $1.0 million, or 62.8 percent. The 2017 increase was primarily due to an increase of $0.8 million in investment income.

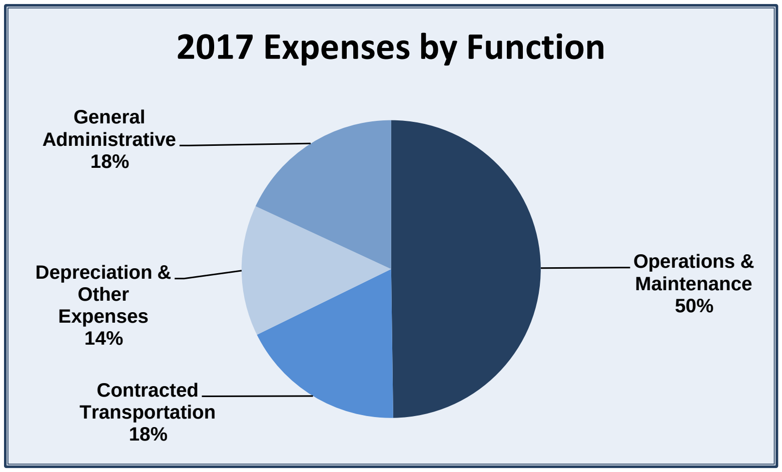
This chart compares revenues by major source for 2017 and 2016.



Expenses

During 2017, total expenses increased by $6.2 million, or 4.3 percent. The increase is due primarily to an increase in service hours, salaries and benefits, and staffing levels. Fuel prices increased in 2017, as did the number of gallons consumed because of the increase in service.

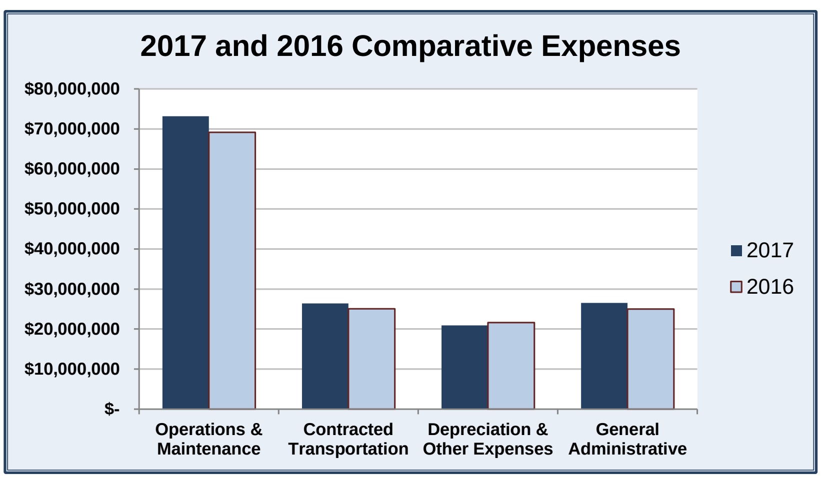
This chart summarizes expenses by major function.



Operations and maintenance expenses in 2017 increased by $4.0 million, or 5.8 percent. General and administrative expenses increased by $1.5 million, or 6.1 percent in 2017.

Contracted transportation expenses increased by $1.3 million, or 5.3 percent. This increase reflects an increase in service hours.

Depreciation and other nonoperating expenses decreased $0.7 million, or 3.2 percent. The decrease was primarily due to partial retirements in 2016 for various roof replacements.



This chart compares expenses by function for 2017 and 2016.

2017 Budgetary Analysis

<u>Original budget compared to amended budget:</u> Community Transit's Board of Directors amended the 2017 sales tax revenue budget by $4.0 million to reflect higher than expected sales tax collections. This reflected a strong economy, which resulted in higher consumer spending, construction projects, building materials, and sales of other goods and services from which sales tax is collected. Adjustments were also made to increase the anticipated amount of a federal Small Starts grant by $3.2 million and to add a state Regional Mobility grant of $7.4 million, both of which were not precisely known at the time the 2017 budget was developed. These grants help fund the *Swift* Green Line bus rapid transit project.

The 2017 expenditure budget was amended for a variety of reasons, including $0.3 million for a coach operator hiring campaign, *Swift* Green Line property acquisition costs of $0.1 million, funding for an additional *Swift* bus rapid transit coach in the amount of $1.0 million, farebox equipment amounting to $0.3 million, various information technology projects for $1.5 million, and other miscellaneous capital expenditures totaling $0.4 million.

<u>Actual results compared to amended budget:</u> Community Transit's operating revenues exceeded the budget for 2017. One such category of revenue was sales tax, Community Transit's largest source of revenue, which came in ahead of the amended budget by almost $2.4 million dollars. Another significant variance was investment earnings, due to increased returns in the Local Government Investment Pool as well as a full year of Community Transit's new investment program. At year end, Community Transit's total operating revenues slightly exceeded the amended budget by $2.2 million or just over 1.2 percent.

Operating expenditures also came in favorably compared with the amended budget during 2017. By year end, Community Transit had expended 94.5 percent of its operating budget, which equates to total underexpenditures of about $10.5 million. This variance occurred primarily in salaries and benefits, fuel, and other services. The variance in salaries and benefits was predominately due to employee turnover and unfilled positions, while fuel underexpenditures reflect fuel prices that were lower than the rate that was budgeted.

Capital Assets

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

As of December 31, 2017, Community Transit's investment in capital assets amounted to $223.9 million, net of accumulated depreciation. Capital assets increased by 22.0 percent during 2017.

Major acquisitions during 2017 included:

- 16 Double Tall coaches in the amount of $15.5 million.
- 26 forty-foot coaches in the amount of $13.8 million.
- 14 sixty-foot coaches in the amount of $11.6 million.
- *Swift* Green Line Seaway Transit Center in the amount of $6.8 million.

For additional information on Community Transit's capital assets, please see Note 4 in the *Notes to the Financial Statements* section.

Debt Administration

Limited sales tax general-obligation (LSTGO) bonds were issued on June 20, 2017 for the purchase of capital assets. The bonds par value was $10,990,000 with an additional $2,130,072 in original issue premium, less $39,267 underwriting discount. The resulting funds were used to purchase buses.

The bond interest is payable on February 1 and August 1 of each year commencing February 1, 2018, and ending August 1, 2027. The bonds are not subject to redemption prior to their maturity. The bonds have a coupon rate of 4 percent in 2018 and 5 percent from 2019 to 2027. These bonds are subject to federal arbitrage rules. For additional information on Community Transit's bonds payable, please see Note 6(A) in the *Notes to the Financial Statements* section.

Under Washington State law, bonds secured by and payable from sale tax revenues are general obligations of the issuer and are subject to this debt limitation: the bonds may not exceed 0.375 percent of the value of taxable property within the agency's boundaries. Larger amounts may be approved with a public vote.

Assessed valuation in 2017 for collection of taxes in 2018	$ 80,388,165,260
Maximum nonvoted debt capacity at 0.375 percent of valuation	301,455,620
Less outstanding bond issues - net	12,935,115
Nonvoted debt capacity remaining	$ 288,520,505

Economic Factors and Next Year's Budget

In November 2015 Snohomish County voters approved Proposition 1 which authorized Community Transit to begin collecting an additional three-tenths of 1 percent sales and use tax effective April 1, 2016. The increase in retail sales tax revenue has allowed Community Transit to plan substantial service increases in 2017, 2018, and 2019 with more modest increases planned for 2020 and 2021. Community Transit added close to 45,000 service hours in 2017 which amounts to 68 new trips (37 of which increased frequency for Sunday service on rural routes), two new routes; extended service on three existing routes, and numerous service enhancements. In March 2018, service adjustments added new trips to the end of the service day for seven local routes, including Sundays. Between fall 2018 and early 2019 when the new *Swift* Green Line bus rapid transit line will be operational, Community Transit anticipates adding about 49,000 (12%) more annualized hours of service.

No fare increases were implemented in 2017; however a fare increase is planned for implementation in the fourth quarter of 2018. If you would like more information about the 2018 original budget, please use this link. https://www.communitytransit.org/about/budget-financial-info

This table provides a summary of the original 2018 budget.

2018 Budget	**$ in millions**	
Operating Fund Revenues	$	184.0
Capital Grants and Contributions		75.3
Other Revenues		0.1
Total Budgeted Revenues	**$**	**259.4**
Operating Fund Expenditures	$	141.9
Capital Projects		132.8
Workers' Compensation Fund		2.6
Debt Service		1.4
Total Budgeted Expenditures	**$**	**278.7**

Requests for Information

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

Lori Fox, Controller
Community Transit
7100 Hardeson Road
Everett, WA 98203

Community Transit
Statement of Net Position
December 31, 2017

Assets	***2017***
Current Assets:	
Cash and Cash Equivalents	$ 130,395,798
Restricted Assets:	
Cash and Cash Equivalents	1,630,000
Accounts Receivable and Accrued Interest	250,909
Due from Other Governments	52,530,612
Maintenance Parts Inventory	1,583,599
Prepaid Expenses	125,080
Total Current Assets	*186,515,998*
Noncurrent Assets:	
Capital Assets Not Being Depreciated:	
Land	14,330,617
Intangible Property	1,790,479
Work in Progress	22,118,942
Capital Assets (Net of Accumulated Depreciation):	
Buildings	32,014,816
Site Improvements	20,926,911
Vehicles, Machinery, and Equipment	129,047,429
Intangible Property	3,682,401
Capital Assets (Net of Accumulated Depreciation)	*223,911,595*
Other Noncurrent Assets:	
Investments	44,062,953
Total Noncurrent Assets	*267,974,548*
Total Assets	***454,490,546***
Deferred Outflows of Resources	
Pensions	6,570,122
Total Deferred Outflows of Resources	***6,570,122***
Total Assets and Deferred Outflows of Resources	***$ 461,060,668***

Continued on the following page.
The accompanying notes are an integral part of this statement.

Community Transit
Statement of Net Position
December 31, 2017
(Continued)

Liabilities		2017
Current Liabilities:		
Accounts Payable and Accrued Expenses	$	6,358,177
Accrued Payroll Liabilities		4,105,588
Compensated Absences Payable		3,960,100
Unearned Revenue		2,049,800
Current Liabilities Payable from Restricted Assets:		
Interest Payable		287,137
Bonds Payable - Current Portion		1,169,699
Provision for Workers' Compensation Claims		706,000
Total Current Liabilities		*18,636,501*
Noncurrent Liabilities:		
Compensated Absences Payable		1,226,593
Provision for Workers' Compensation Claims		1,261,000
Net Pension Liability		34,515,785
Other Postemployment Benefits		6,740,320
Bonds Payable - Net		11,765,416
Total Noncurrent Liabilities		*55,509,114*
Total Liabilities		**74,145,615**
Deferred Inflows of Resources		
Pensions		5,664,497
Total Deferred Inflows of Resources		**5,664,497**
Net Position		
Net Investment in Capital Assets		211,092,762
Restricted For:		
Workers' Compensation		1,630,000
Unrestricted		168,527,794
Total Net Position		**381,250,556**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$**	**461,060,668**

The accompanying notes are an integral part of this statement.

Community Transit

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2017

		2017
Operating Revenues:		
Passenger Fares	$	21,844,659
Regional Transit Service		18,463,732
Advertising		720,837
Total Operating Revenues		*41,029,228*
Operating Expenses:		
Operations		52,007,733
Maintenance		21,185,149
General and Administrative		26,556,609
Contracted Transportation		26,385,830
Depreciation and Amortization		20,793,554
Total Operating Expenses		*146,928,875*
Operating Loss		*(105,899,647)*
Nonoperating Revenues (Expenses):		
Subsidies		136,363,753
Investment Income		1,342,087
Miscellaneous		158,266
Interest Expense		(102,180)
Gain on Sale of Capital Assets		291,677
Total Nonoperating Revenues (Expenses)		*138,053,603*
Net Income Before Contributions		32,153,956
Capital Grants and Contributions		27,589,400
Change in Net Position		***59,743,356***
Net Position - Beginning of Year		*321,507,200*
Net Position - End of Year	***$***	***381,250,556***

The accompanying notes are an integral part of this statement.

Community Transit
Statement of Cash Flows
For the Year Ended December 31, 2017

		2017
Cash Flows from Operating Activities:		
Cash Received for Operating Revenues	$	41,601,726
Cash Received for Miscellaneous Revenue		192,331
Cash Paid to Vendors for Goods and Services		(55,194,617)
Cash Paid for Employee Services and Benefits		(71,595,315)
Net Cash Used for Operating Activities		*(84,995,875)*
Cash Flows from Noncapital Financing Activities:		
Operating Subsidies		134,618,147
Net Cash Provided by Noncapital Financing Activities		*134,618,147*
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets		(60,233,943)
Capital Grants and Contributions		8,555,813
Bond Proceeds		13,120,072
Proceeds From the Sale of Capital Assets		292,378
Net Cash Used for Capital and Related Financing Activities		*(38,265,680)*
Cash Flows from Investing Activities:		
Investment Income		1,563,294
Purchase of Investments		(34,656,943)
Net Cash Used for Investing Activities		*(33,093,649)*
Net Increase (Decrease) in Cash and Cash Equivalents		*(21,737,057)*
Cash and Cash Equivalents - Beginning of Year		*153,762,855*
Cash and Cash Equivalents - End of Year	***$***	***132,025,798***

Continued on the following page.

The accompanying notes are an integral part of this statement.

Community Transit
Statement of Cash Flows
For the Year Ended December 31, 2017
(Continued)

		2017
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:		
Operating Loss	$	(105,899,647)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:		
Depreciation and Amortization		20,793,554
Miscellaneous Revenue		158,266
Pensions		(1,874,124)
Change in Assets - Decrease (Increase):		
Accounts Receivable		(1,341)
Due from Other Governments		371,603
Maintenance Parts Inventory		(162,396)
Prepaid Expenses		30,632
Change in Liabilities - Increase (Decrease):		
Accounts Payable and Accrued Expenses		(206,723)
Accrued Payroll Liabilities		737,306
Compensated Absences Payable		314,454
Unearned Revenue		236,301
Provision for Workers' Compensation Claims		(155,000)
Other Postemployment Benefits		661,240
Net Cash Used for Operating Activities	***$***	***(84,995,875)***

Schedule of Noncash Investing, Capital, and Financing Activities

The change in fair value for investments that are not cash equivalents was an increase of $369,311 in 2017.

There was no activity in noncash capital and financing activities.

Capital Grants and Contributions contain no noncash capital contributions.

The accompanying notes are an integral part of this statement.

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Snohomish County Public Transportation Benefit Area Corporation, dba Community Transit, was authorized to begin operation of a public transportation system in 1976. The agency was incorporated under the provisions of Washington State law pertaining to public transportation benefit area corporations (RCW 36.57A) and operates under the control of a Board of Directors.

Community Transit has an undivided interest in a nonequity joint venture, jointly governed with six other agencies for the provision of regional smart card fare (ORCA) collection services. Community Transit's undivided interests in the assets, liabilities and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis.

In fiscal year 2017, Community Transit implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures.*

GASB Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues.

Previously in 2016, Community Transit implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.*

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

B. Basis of Accounting

The accounting policies of Community Transit conform to generally accepted accounting principles applicable to governmental units. Community Transit applies all applicable GASB pronouncements. Community Transit uses an enterprise fund to account for its operations and prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded as soon as the benefits are received.

Operating revenues and expenses generally result from providing transportation services. Community Transit's primary operating revenues include: passenger fares (charges to customer for transportation services), reimbursements from Sound Transit for providing regional express bus service, and revenues earned from advertisements posted on buses. Operating expenses consist of service directly operated and service provided under contract, vehicle and facility maintenance, administrative expenses, depreciation and amortization of capital assets.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses and include subsidies such as tax revenues and operating grants, investment income, miscellaneous revenues, interest expense, and gains or losses on the sale of capital assets and maintenance parts inventory.

Community Transit's accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law. Preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. Budget

Community Transit adopts its annual budget in December of the preceding fiscal year. The budget is based on corporatewide goals and departmental programs and objectives as well as revenue and service growth assumptions outlined in the Board adopted six year transit development plan. After these programs and objectives are developed, revenue for the coming year is estimated. The estimated revenue is used to determine the level of service to be provided the following year.

Most operating revenues and expenditures are budgeted on the accrual basis. Significant differences include depreciation and amortization, compensated absences payable, sales tax revenue, actuarial accrual of future workers' compensation losses, postemployment benefits, and miscellaneous revenues. Debt service is budgeted on a cash basis.

Capital projects are budgeted on a project basis. Projects are budgeted in their entirety when approved, regardless of anticipated expenditure dates. Each year thereafter, the remaining unexpended portion of each project, as well as related grant reimbursements, is rebudgeted.

Community Transit encumbers expenditures for management information. Encumbrances do not constitute a legal reduction of appropriations and are not reported on the financial statements.

The schedules that follow show budgeted versus actual revenues and expenditures for the period ended December 31, 2017.

Revenues: Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2017

	2017 Budget	2017 Actuals	Variance Over (Under) Budget
Passenger Fares	$ 23,000,000	$ 21,844,659	$ (1,155,341)
Regional Transit Service	18,360,000	18,463,732	103,732
Advertising	725,000	720,837	(4,163)
Sales Tax	126,871,000	129,246,225	2,375,225
State and Local Grants	17,524,980	7,116,151	(10,408,829)
Federal Grants - Operating	2,170,000	2,361,047	191,047
Federal Grants - Capital	66,475,669	23,172,670	(43,302,999)
Investment Income	258,500	1,342,087	1,083,587
Miscellaneous	162,000	158,266	(3,734)
Sale of Capital Assets and Inventory	15,000	292,378	277,378
Bond Proceeds	13,000,000	13,120,072	120,072
Total Revenues	**$ 268,562,149**	**$ 217,838,124**	**$ (50,724,025)**

Expenditures: Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2017

	2017 Budget	2017 Actuals	Variance Under (Over) Budget
Salaries and Benefits	$ 79,036,889	$ 72,838,114	$ 6,198,775
Supplies and Materials	15,919,164	13,076,808	2,842,356
Services and Other Charges	54,719,909	43,296,383	11,423,526
Intergovernmental	2,983,835	6,583,749	(3,599,914)
Capital Acquisitions	134,309,317	52,570,555	81,738,762
Debt Service - Interest	156,000	-	156,000
Total Expenditures	**$ 287,125,114**	**$ 188,365,609**	**$ 98,759,505**

The following schedule reconciles the accrual to budgetary differences for 2017.

	2017
Revenues and Capital Contributions Reported on the Accrual Basis	**$ 206,774,411**
Accruals for Sales Tax	(2,057,060)
Net Book Value of Retired Equipment	701
Bond Proceeds	13,120,072
Revenues Reported on the Budgetary Basis	**$ 217,838,124**

	2017
Expenses Reported on the Accrual Basis	**$ 147,031,055**
Capital Projects	61,176,858
Accrued Interest Expense	(102,180)
Change in Actuarial Accrual for Workers' Compensation	155,000
Change in Compensated Absences Payable	(314,454)
Change in Actuarial Accrual for Other Postemployment Benefits	(661,240)
Pension Expense	1,874,124
Depreciation and Amortization	(20,793,554)
Expenses Reported on the Budgetary Basis	**$ 188,365,609**

D. Cash and Short-Term Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments purchased with a remaining maturity of three months or less. Community Transit's investment policies are governed by regulations established for public funds by Washington State law.

Investments are reported at fair value except for the position in the Washington State Local Government Investment Pool (LGIP) which is reported at amortized cost. Changes in fair value are included as revenue in the financial statements.

E. Restricted Assets

Funds are classified as restricted assets when their use is limited by bond covenants, state requirements for workers' compensation, or other legally binding conditions. As of December 31, 2017, the state-required workers' compensation reserve amounted to $1,630,000. There was no bond reserve and interest according to the bond covenant as of December 31, 2017.

F. Maintenance Parts Inventory

Vehicle maintenance parts are held for consumption and valued at cost using the weighted-average method. The costs of maintenance parts are recorded as an expense when consumed rather than when purchased.

G. Capital Assets and Depreciation

Assets with a useful life in excess of one year are capitalized if the individual cost is at least $5,000. Capital assets are recorded at historical cost. Donated assets are measured at acquisition value. Replacements which improve or extend the lives of property are capitalized. Repairs and maintenance are expensed as incurred.

Community Transit participates with the Washington State Department of Transportation in the construction of passenger park-and-ride facilities within the transit service area. Community Transit contributes funds to provide the local match required under the terms of federal construction grants. The State of Washington retains park-and-ride facility ownership, but Community Transit's contribution allows us to use these facilities. The rights are valued at the amount of the contribution made and are reported under capital assets as site improvements.

Depreciation is computed using the straight-line method (without salvage values) over the estimated useful life of the asset. When used assets are acquired, they are assigned a useful life of one-half the new life.

Newly acquired assets are assigned useful lives as follows:

Asset Category	***Years***
Land	Not Depreciated
Work in Progress	Not Depreciated
Intangible Property—Easements	Not Depreciated
Buildings	5 to 30
Site Improvements	5 to 30
Buses	12 to 15
Other Vehicles	5
Machinery and Equipment	3 to 10
Computer Equipment	3 to 7
Intangible Property	3 to 10

H. Compensated Absences

Policies for the accrual and use of compensated absences vary depending on whether an employee is represented by a labor contract or subject to the personnel policy. All employees are covered in the same two plans: paid time off and major sick leave. Paid time off is payable upon an employee's termination. Major sick leave is payable at 25 percent of the hours accrued with the exception of some union employees, who are paid out at 50 percent if retiring. The portion of major sick leave payable at termination represents the vested portion of major sick leave earned and is subject to accrual.

I. Unearned Revenue

Revenues received in advance are recorded as unearned revenue on the Comparative Statements of Net Position. At December 31, 2017, unearned revenue amounted to $2,049,800. The 2017 amount of $2,049,800 consisted of a $100,000 advertising insurance security deposit and $1,949,800 in ORCA fare revenue.

J. Pensions

Information about the fiduciary net position of all state-sponsored pension plans and additions to or deductions from the fiduciary net position of those plans has been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. This information was used to measure net liability, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2: Cash and Investments

As of December 31, 2017, Community Transit had the following cash, cash equivalents, and investments:

Investment Type		*2017*
Demand Deposits	$	14,562,702
Local Government Investment Pool		117,463,096
U.S Treasury Obligations		1,977,344
U.S. Federal Agency Obligations		42,085,609
Total Cash, Cash Equivalents, and Investments	**$**	**176,088,751**

A. Deposits

There is no custodial credit risk for demand deposits because they are entirely covered either by the Federal Deposit Insurance Corporation (FDIC) or the Public Deposit Protection Commission (PDPC) of the state of Washington.

B. Local Government Investment Pool

The LGIP is an investment trust fund of the state of Washington operated by the Office of the State Treasurer. The State Finance Committee provides statutory administrative oversight. The LGIP Advisory Committee provides advice on the operation of the pool.

Eligible investments are limited only to those investments authorized by state law. The pool is subject to an annual audit by the Washington State Auditor's Office. On an annual basis, the State Treasurer is required to provide a report which summarizes the activities of the investment pool to the Governor, the State Auditor, and the Joint Legislative Audit and Review Committee.

The LGIP is an unrated, 2a7-like pool, as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools.* Accordingly, participant balances in the LGIP are not subject to interest risk, as the weighted average maturity of the portfolio will not exceed 90 days.

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosure—an amendment of GASB Statement No. 3*, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited, as investments are limited by policy to obligations of the U.S. Government or its agencies, bankers' acceptances, commercial paper, certificates of deposit, obligations of the state of Washington, and repurchase agreements which must be rated AAA and be at least 102 percent of the value of the agreement. Investments or deposits held by the LGIP are all classified as category 1 risk-level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

C. Investments

Community Transit measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles as follows:

- Level 1: Quoted prices in active markets for identical assets.
- Level 2: Quoted market prices for similar assets or other observable inputs.
- Level 3: Unobservable inputs for an asset.

As of December 31, 2017, Community Transit held $1,977,344 in U.S. Treasury obligations and $42,085,609 in U.S. Federal agency bonds that were valued by a pricing service that uses a matrix pricing model (Level 2 inputs).

Community Transit's investment policy clearly states that safety and liquidity takes precedence over return on investment. Allowable investments are limited to:

- U.S. Treasury obligations.
- U.S. Government agency obligations and U.S. Government sponsored enterprises.
- Banker's acceptances.
- Commercial paper.
- Certificates of deposit.
- Repurchase agreements.
- Bonds of Washington State and any local government in Washington State.
- General obligation bonds of a state other than Washington State.
- Washington State Local Government Investment Pool (LGIP).

Throughout 2017, Community Transit's portfolio complied with conditions set forth in the investment policy.

Interest Rate Risk: Community Transit's investment guidelines and policies state that safety of funds is the number one priority in all investment decisions. Maturities are generally limited to five years and the weighted average maturity of the portfolio may not exceed three years. Thus, all investments held are considered to have a low interest rate risk.

Credit Risk: Community Transit's credit risk is indirectly controlled via the kind of investment instruments allowed by the investment policy which includes only one direct, credit-risk requirement. The requirement applies to bonds of any state and any local government in Washington State in which the rating must be one of the three highest credit ratings of a nationally organized rating agency. The risk ranges from minimal to none, based on the investment instruments Community Transit holds.

Custodial Credit Risk: According to Community Transit's investment policy, all security transactions are settled on a delivery versus payment basis. This means that payment is made simultaneously with the receipt of the securities to the safekeeping bank. Therefore, custodial credit risk for Community Transit's investments is minimal.

Note 3: Receivables

As of December 31, 2017, the following amounts were due to Community Transit:

Accounts Receivable		***2017***
Fares and Miscellaneous	$	68,364
Interest		173,857
ORCA Fiscal Agent Receivables		8,688
Total Accounts Receivable	**$**	**250,909**

Due from Other Governments		***2017***
Sales Tax Received in January and February	$	24,751,396
Operating Grants and Contributions		1,419,832
Capital Grants and Contributions		21,589,562
Sound Transit Regional Service		2,939,927
Fares and Miscellaneous		288,781
ORCA Fiscal Agent Receivables		1,541,114
Total Due from Other Governments	**$**	**52,530,612**

Note 4: Capital Assets

The table that follows summarizes changes in capital assets for the year ending December 31, 2017.

	Beginning Balance 12/31/2016	***Additions/ Adjustments***	***Retirements***	***Ending Balance 12/31/2017***
Capital Assets Not Being Depreciated:				
Land	$ 14,330,617	$ -	$ -	$ 14,330,617
Work in Progress	7,436,507	14,682,435	-	22,118,942
Intangible Property	1,872,949	14,574	(97,044)	1,790,479
Subtotal	**23,640,073**	**14,697,009**	**(97,044)**	**38,240,038**
Capital Assets Being Depreciated:				
Buildings	57,605,595	50,773	-	57,656,368
Site Improvements	38,135,152	177,671	(196,332)	38,116,491
Vehicles/Machinery/Equipment	211,816,039	45,447,337	(13,360,726)	243,902,650
Intangible Property	7,907,671	825,368	-	8,733,039
Subtotal	**315,464,457**	**46,501,149**	**(13,557,058)**	**348,408,548**
Less Accumulated Depreciation For:				
Buildings	(23,640,301)	(2,001,251)	-	(25,641,552)
Site Improvements	(15,353,257)	(2,032,655)	196,332	(17,189,580)
Vehicles/Machinery/Equipment	(112,401,016)	(15,785,259)	13,331,054	(114,855,221)
Intangible Property	(4,173,293)	(974,389)	97,044	(5,050,638)
Subtotal	**(155,567,867)**	**(20,793,554)**	**13,624,430**	**(162,736,991)**
Total Capital Assets (Net of Accumulated Depreciation)	**$ 183,536,663**	**$ 40,404,604**	**$ (29,672)**	**$ 223,911,595**

Note 5: Risk Pool and Insurance

Community 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 Community Transit with auto liability, general liability, public officials' liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

WSTIP was formed by interlocal agreement in December 1988 by seven Washington State public transit systems, pursuant to Chapters 48.61 and 39.34 RCW. The interlocal agreement provided for the joint purchase of liability insurance, joint self-insurance, and joint contracting for hiring of personnel to provide risk management, claims handling, and related administrative services. The pool enables stabilization of present insurance costs and reduction of long-term future costs. Community Transit's coverage in the pool became effective as of January 1, 1989.

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.

A. Risk Pool

The pool is governed by a Board of Directors consisting of a representative of each member system. Participating transit systems as of December 31, 2017, include:

- Asotin County PTBA
- Ben Franklin Transit
- Clallam Transit System
- Columbia Area Transit
- Community Transit
- C-Tran
- Everett Transit
- Grant County Transit
- Grays Harbor Transportation Authority
- Intercity Transit
- Island Transit
- Jefferson Transit Authority
- Kitsap Transit
- Link Transit
- Mason Transit Authority
- Pacific Transit System
- Pierce Transit
- Pullman Transit
- River Cities Transit
- Skagit Transit
- Spokane Transit
- Twin Transit
- Valley Transit
- Whatcom Transit Authority
- Yakima Transit

Washington State law prohibits the distribution of profits from insurance pools to member agencies. Accordingly, the financial statements do not reflect any equity in the Washington State Transit Insurance Pool.

The next table summarizes audited financial information for the pool as of December 31, 2016. A complete annual report including financial statements is available at http://www.wstip.org.

	2016
Assets	***$ 40,474,139***
Liabilities	1,073,798
Reserve for Claims	16,971,074
Net Position	22,413,128
Total Liabilities & Net Position	***40,458,000***
Operating Revenues	13,110,978
Operating Expenses	11,139,647
Operating Income (Loss)	***1,971,331***
Nonoperating Revenues (Expenses)	425,210
Change in Net Position	***2,396,541***
Net Position - Beginning of Year	***20,016,587***
Net Position - End of Year	***$ 22,413,128***

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Governmental Entities Mutual, Munich Re, and Arch for the liability lines; Alterra and Evanston for auto physical damage; American International Group Inc. (AIG)/National Union Fire Insurance for the crime policy; and Beazley for the cyber liability policy. The property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

B. Liability Insurance

Community Transit assumes the liability for claims up to the deductible amounts listed in the following table for each type of risk. Risk of claims in excess of the deductible amount has been transferred to WSTIP.

Risk/Exposure	*Coverage*		*Deductible*
General Liability:			
Bodily injury and property damage Personal injury and advertising injury Contractual liability	$20 million	Per occurrence	$0
Personal injury and advertising injury	$20 million	Per offense	$0
Contractual liability			$0

Risk/Exposure	*Coverage*		*Deductible*
Vanpool driver medical expense protection	$35,000	Per occurrence	$0
Underinsured motorist coverage (by mode)	$60,000	Per occurrence	$0*
Public Officials Liability	$20 million	Per occurrence and aggregate	$5,000
Property Coverage All perils subject to the following sublimits:	$500 million	Per occurrence, all perils and insureds/ members combined	$5,000
Flood zones A and V – annual aggregate	$10 million	Per occurrence, annual aggregate	$500,000
All flood zones except A and 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 $500,000 min per occurrence/ unit
Auto Physical Damage			
Auto Physical Damage (below $250,000 in value)	Fair market value	Limited to $1,250,000 any one vehicle	$5,000
Auto physical damage for all vehicles with a model year of 2005 or later and valued over $250,000	Replacement Cost	Limited to $1,250,000 any one vehicle	$5,000
Boiler And Machinery	$100 million		$250,000 or $350,000 depending on boiler size
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

Risk/Exposure	***Coverage***		***Deductible***
Cyber Liability			
Third party liability	$25 million	Annual policy and program aggregate of liability for all insured's combined	$100,000*
Information security and privacy liability	$2 million	Limit of Liability and annual aggregate	$100,000*
Privacy Notification Costs	$500,000	Annual aggregate – limit increases to $1 million if carrier's vendors utilized	$100,000*
Penalties for regulatory defense and penalties Including a sub-limit for	$2 million	Limit of Liability and annual aggregate	$100,000*
PCI Fines and Penalties	$100,000	(Sub-limit)	
Website media content liability	$2 million	Limit of Liability and annual aggregate	$100,000*
First party computer security			
Cyber extortion loss	$2 million	Limit of Liability and annual aggregate	$100,000*
Data protection loss and business interruption loss including a sub-limit for	$2 million	Limit of Liability and annual aggregate	$100,000*
Forensic expense and	$100,000		
Dependent business interruption	$500,000		
Fraudulent instruction	$50,000		
Telecommunications fraud	$50,000		
Consequential reputational loss	$50,000		

*However, if covered loss exists, WSTIP general liability policy also includes a $50,000 limit of coverage with no deductible.

Claim settlements in the past three years did not exceed insurance coverage.

C. Self-Insured Workers' Compensation and Unemployment Compensation

Community Transit continues to be self-insured for unemployment compensation and workers' compensation (industrial insurance), with excess workers' compensation retained consistent with statutory requirements.

On December 31, 2017, cash and investments set aside for self-insurance totaled $7,007,585. Community Transit reported a liability on December 31, 2017, of $1,967,000 which represents the estimated liability for workers' compensation claims for which Community Transit may ultimately be liable, including a provision for claims incurred but not yet reported. Of the

$1,967,000 estimated liability, Community Transit expects to pay out $706,000 within the coming year, and the remaining $1,261,000 is expected to be paid out later than one year.

No outstanding liabilities have been removed from the Statement of Net Position due to the purchase of annuity contracts from third parties in the name of the claimants. In addition to the reserve, Community Transit purchased a commercial workers' compensation policy with a $1,000,000 limit per occurrence and a $550,000 self-insured retention per occurrence.

In 2017, Community Transit paid out $50,410 in unemployment compensation claims. There is no accrued liability for future unemployment claims. The following table shows the claims liabilities for Workers' Compensation:

	2017	***2016***
Total Claims Liability: Beginning of Year	***$ 2,122,000***	***$ 2,409,000***
Incurred Claims:		
Provision for Incurred Claims	1,331,000	1,316,000
Change in Provision for Incurred Claims, Prior Year	(681,625)	(859,044)
Total Provision for Incurred Claims	649,375	456,956
Total Incurred	**2,771,375**	**2,865,956**
Payments:		
Payment Made for Current-Year Claims	387,521	176,078
Payment Made for Prior-Year Claims	416,854	567,878
Total Payments	**804,375**	**743,956**
Total Claims Liability: End of Year	***$ 1,967,000***	***$ 2,122,000***

Note 6: Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

Note	*Description*	*Beginning Balance 1/1/2017*	*Additions*	*Reductions*	*Ending Balance 12/31/2017*	*Due Within One Year*
6 A.	General Obligation Bonds	$ -	$ 10,990,000	$ -	$ 10,990,000	$ 830,000
	Premiums	-	2,130,072	(184,957)	1,945,115	339,699
	Total Bonds Payable	**-**	**13,120,072**	**(184,957)**	**12,935,115**	**1,169,699**
6 B.	Compensated Absences	4,872,239	6,707,086	(6,392,632)	5,186,693	3,960,100
6 C.	Workers' Compensation (See Note 5C)	2,122,000	649,375	(804,375)	1,967,000	706,000
6 D.	Pension Obligations	44,135,287	-	(9,619,502)	34,515,785	-
6 E.	OPEB Obligations	6,079,080	801,197	(139,957)	6,740,320	-
	Total Long-Term Liabilities	***$ 57,208,606***	***$ 21,277,730***	***$ (17,141,423)***	***$ 61,344,913***	***$ 5,835,799***

A. Bonds Payable

Limited sales tax general-obligation (LSTGO) bonds were issued on June 20, 2017, for the purchase of capital assets. The bonds par value was $10,990,000 with an additional premium of $2,130,072 for total proceeds of $13,120,072. Of these proceeds, $116,282 was used to pay for bond issue costs and the underwriting discount.

The bond interest is payable on February 1 and August 1 of each year commencing February 1, 2018, and ending August 1, 2027. The bonds are not subject to redemption prior to their maturity. The bonds have a coupon rate of 4 percent in 2018 and 5 percent from 2019 to 2027. These bonds are subject to federal arbitrage rules.

	As of 12/31/2017
Current Portion of Bonds Payable	$ 1,169,699
Long-Term Portion of Bonds Payable	11,765,416
Total Bonds Payable	**$ 12,935,115**

The following table presents the annual debt service amounts for principal and interest:

Annual Debt Service

Year	*Principal*	*Interest*	*Total Debt Service*
2018	$ 830,000	$ 602,837	$ 1,432,837
2019	920,000	508,000	1,428,000
2020	970,000	462,000	1,432,000
2021	1,015,000	413,500	1,428,500
2022	1,070,000	362,750	1,432,750
2023-2027	6,185,000	957,750	7,142,750
Total	***$10,990,000***	***$3,306,837***	***$14,296,837***

B. Compensated Absences

The two categories of compensated absences are paid time off (PTO) and major sick leave (MSL). As of December 31, 2017, PTO payable was $3,703,310. The 2017 current portion amounted to $3,584,804, which was an increase of $206,495 compared to 2016. The amount classified as long term was $118,506, which was an increase of $10,428 over 2016.

As of December 31, 2017, the vested portion of MSL payable was $1,483,383. The 2017 current portion amounted to $375,296, which was a decrease of $7,199 compared to 2016. The amount classified as long term was $1,108,087, which was an increase of $104,730 over 2016. Schedules for all categories of compensated absences follow.

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

Paid Time Off (PTO)	***2017***
Beginning Balance - Current Liability	**$ 3,378,309**
PTO Earned	5,721,583
PTO Paid	(5,515,088)
Ending Balance - Current Liability	***3,584,804***
Beginning Balance - Long-Term Liability	**108,078**
PTO Earned	180,998
PTO Paid	(170,570)
Ending Balance - Long-Term Liability	***$ 118,506***

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

Major Sick Leave (MSL)	***2017***
Beginning Balance - Current Liability	**$ 382,495**
MSL Earned	169,544
MSL Paid	(176,743)
Ending Balance - Current Liability	***375,296***
Beginning Balance - Long-Term Liability	**1,003,357**
MSL Earned	634,961
MSL Paid	(530,231)
Ending Balance - Long-Term Liability	***$ 1,108,087***

C. Workers' Compensation

Please refer to Note 5C, Self-Insured Workers' Compensation and Unemployment Compensation

D. Pensions

The table below represents the aggregate pension amounts for all Community Transit plans for the year 2017, subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No 27.*

Aggregate Pension Amounts:
PERS Plans 1, 2, and 3

		2017
Pension Liability	$	34,515,785
Deferred Outflows of Resources	$	6,570,122
Deferred Inflows of Resources	$	5,664,497
Pension Expense	$	3,870,962

Substantially all of Community Transit's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS). This statewide retirement system is administered by the Washington State Department of Retirement Systems as cost-sharing, multiple-employer, public-employee, defined-benefit, and defined-contribution retirement plans. The state Legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The Department of Retirement Systems' CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98540-8380, or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Descriptions

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

PERS members include elected officials; state employees; employees of the supreme, appeals and superior courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS Plan 1 was closed to new entrants on September 30, 1977. Those joining thereafter are enrolled in PERS Plan 2 or PERS Plan 3 by election.

Vesting

PERS Plan 1 and Plan 2 members are vested after completing five years of eligible service. 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 12 months of that service are earned after age 44. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Benefits Provided

All PERS plans provide retirement, disability, and death benefits. Retirement benefits are actuarially reduced if a survivor benefit is chosen. Additional benefits include duty and nonduty disability payments and a one-time, duty-related death benefit, if found eligible by the Department of Labor and Industries.

PERS Plan 1 retirement benefits are determined as 2 percent of the member's average final compensation times the member's years of service, capped at 30 years. The average final compensation is the average of the member's 24 highest consecutive service months. Upon retirement, members can choose an optional cost-of-living adjustment.

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 at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits.

PERS Plan 2/3 retirement benefits are determined as a percentage of the member's average final compensation times the member's years of service. Plan 2 is calculated at 2 percent, and Plan 3 is calculated at 1 percent. The average final compensation is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. A cost-of-living allowance is applied based on the Consumer Price Index and capped at 3 percent annually.

PERS Plan 2/3 members are eligible for retirement with a full benefit at age 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. Members may be eligible for early retirement at 55 years of age or older based on various factors including plan choice, service credit, and hire date. The benefit is reduced by a factor that varies according to certain provisions and age at retirement.

PERS Plan 3 defined contribution benefits are entirely dependent on employee contributions and investment earnings on those contributions. Employers do not contribute to the defined contribution benefits.

Contributions

Employer contribution rates for all of the PERS plans are developed by the Office of the State Actuary and include a component to address the PERS Plan 1 unfunded actuarial accrued liability. The Office of the State Actuary also develops PERS Plan 2 employee contribution rates. Each biennium, the state Pension Funding Council adopts the defined-benefit employer contribution rates for PERS Plans 1, 2, and 3 and the PERS Plan 2 employee rates. The PERS Plan 1 employee contribution rate was established by state statute at 6 percent. PERS Plan 3 members choose their contribution rate upon joining and can change rates only upon changing employers. Six options are available ranging from 5 percent to 15 percent, as established by state statute.

The employer rates include an administrative expense component that is currently set at 0.18 percent. The required contribution rates (expressed as a percentage of covered payroll) for 2017 are shown in the following table:

Actual Contribution Rates	Employer Plans 1, 2, 3	Employee Plan 1	Employee Plan 2	Employee Plan 3
January 2017 through June 2017:				
Base Plan Contribution	6.23%	6.00%	6.12%	varies
PERS Plan 1 UAAL	4.77%			
Administrative Fee	0.18%			
Total	**11.18%**	**6.00%**	**6.12%**	**varies**
July 2017 through December 2017:				
Base Plan Contribution	7.49%	6.00%	7.38%	varies
PERS Plan 1 UAAL	5.03%			
Administrative Fee	0.18%			
Total	**12.70%**	**6.00%**	**7.38%**	**varies**

Community Transit's actual employer contributions to the plans, excluding administrative fees, were $2,390,019 to PERS Plan 1 and $3,331,932 to PERS Plan 2/3 for the fiscal year ended December 31, 2017.

Actuarial Assumptions

The total pension liability for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's *2007-2012 Demographic Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The total pension liability was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 3 percent total economic inflation; 3.75 percent salary inflation.
- Salary increases: In addition to the base 3.75 percent salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5 percent.

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB[1]. Mortality rates are applied on a generational basis; this means each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Changes in methods and assumptions since the last valuation that affected PERS plans included:

- Correcting the method for valuing terminated and vested member benefits.
- Improving the method for valuing basic minimum cost-of-living adjustment in PERS 1 for legal order payees.
- Revising the calculation for average expected remaining service lives.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term

[1] The Society of Actuaries uses Scale BB to determine pension valuations. Scale BB is based on more recent data and newly developed techniques and can be used immediately without any changes to existing valuation software. (Society of Actuaries, Mortality Improvement Scale BB Report, September 2012, http://www.soa.org)

discount rate to determine funding liabilities for calculating future contribution rate requirements.

Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates, including PERS Plan 2/3 whose rate includes a component for PERS Plan 1 liabilities. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return of 7.5 percent on DRS pension plan investments was determined using a building-block method. In selecting this assumption, the Office of the State Actuary reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table. The inflation component used to create the table is 2.2 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	***2017 Target Allocation***	***2017 % Long-Term Expected Real Rate of Return Arithmetic***
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability

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

	1% Decrease (6.5%)	***Current Discount Rate (7.5%)***	***1% Increase (8.5%)***
PERS 1	$ 21,709,493	$ 17,821,089	$ 14,452,899
PERS 2/3	$ 44,977,259	$ 16,694,696	$ (6,478,669)

Pension Plan Fiduciary Net Position

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

Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, Community Transit reported total pension liabilities of $34,515,785 for its proportionate share of the net pension liabilities as shown:

	2017 Liability
PERS 1	$ 17,821,089
PERS 2/3	$ 16,694,696

Community Transit's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2016	***Proportionate Share 6/30/2017***	***Change in Proportion***
PERS 1	0.374817%	0.375570%	0.000753%
PERS 2/3	0.476787%	0.480489%	0.003702%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in their *Schedules of Employer and Nonemployer Allocations*.

The collective net pension liability was measured as of June 30, 2017, based on the actuarial valuation for the total pension liability as of June 30, 2016. Update procedures were used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, Community Transit recognized pension expense as shown:

	2017 Pension Expense
PERS 1	$ 1,047,560
PERS 2/3	$ 2,823,402

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	2017	
PERS 1	***Deferred Outflows of Resources***	***Deferred Inflows of Resources***
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	665,033
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	1,335,022	-
Total	**$ 1,335,022**	**$ 665,033**

	2017	
PERS 2/3	***Deferred Outflows of Resources***	***Deferred Inflows of Resources***
Differences between expected and actual experience	$ 1,691,566	$ 549,060
Net difference between projected and actual investment earnings on pension plan investments	-	4,450,404
Changes of assumptions	177,329	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,405,012	-
Contributions subsequent to the measurement date	1,961,193	-
Total	**$ 5,235,100**	**$ 4,999,464**

Deferred outflows of resources related to pensions resulting from Community Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as shown:

Year Ended December 31	PERS 1
2018	$ (449,519)
2019	141,920
2020	(32,953)
2021	(324,481)
2022	-
Thereafter	-
Total	**$ (665,033)**

Year Ended December 31	PERS 2/3
2018	$ (1,113,284)
2019	1,031,888
2020	(271,508)
2021	(1,768,338)
2022	172,035
Thereafter	223,650
Total	**$ (1,725,557)**

E. Other Postemployment Benefits (OPEB)

In 2009, Community Transit implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes accounting and financial reporting standards for benefits that are earned during an employee's active service but will not be paid until after the employee retires.

Plan Description: During the working careers of active employees, Community Transit contributes to the state Public Employees Benefits Board (PEBB), a cost-sharing, multiple-employer, defined-benefit, healthcare program administered by the Washington State Health Care Authority (HCA), an agent.

The program provides medical, prescription drug, and vision coverage. HCA issues a publicly available financial report that includes financial statements and required supplementary information for the program. That report may be obtained by writing to HCA, P.O. Box 42682, Olympia, WA 98504-2682. No stand-alone financial statements are available for the program.

Under state law, active Community Transit employees who are covered by the state public employee retirement system are eligible upon retirement to obtain medical, prescription drug, and vision coverage through the state PEBB program at the retiree rate associated with the elected plan.

Because the rate is based on a pool of both active employees and retirees, the rate paid by pre-Medicare retirees is less than the full cost of the benefits, based on their age and other demographic factors. This creates an implicit subsidy where the "underpayment" of retiree premiums is funded through the premiums paid by Community Transit for active employees.

Additionally, an explicit subsidy exists for Medicare-eligible retirees enrolled in Medicare Parts A and B. For 2017, the explicit subsidy is the lessor of 50 percent of the monthly premium or

$150.00 per month. The rate was $150.00 for 2016. This explicit subsidy is also funded through premiums paid by Community Transit for active employees.

Funding Policy: The HCA calculates the premium amounts each year that are sufficient to fund the program on a pay-as-you-go basis. These costs are passed through to all participating agencies based on active employee headcount. Annual OPEB costs and the net OPEB obligation for 2017 and 2016 follow.

Annual OPEB Cost	***2017***	***2016***
Annual Required Contribution (ARC)	$ 900,840	$ 908,174
Interest on Net OPEB Obligation	273,559	243,473
Adjustment to ARC	(373,202)	(332,158)
Annual OPEB Cost	***$ 801,197***	***$ 819,489***

Net OPEB Obligation	***2017***	***2016***
Net OPEB Obligation—Beginning of Year	**$ 6,079,080**	**$ 5,410,522**
Annual OPEB Cost	801,197	819,489
Employer Contribution Made	(139,957)	(150,931)
Net OPEB Obligation—End of Year	**$ 6,740,320**	**$ 6,079,080**
Increase/Decrease in Net OPEB	***$ 661,240***	***$ 668,558***
Employer Percentage Contribution	***17%***	***18%***

Funded Status and Funding Progress: Actuarial valuation date of December 31, 2017 with actuary value of assets of $0, both actuary accrued liability (AAL) and unfunded AAL (UAAL) of $7,543,449, a funded ratio of 0 percent, covered payroll in the amount of $46,369,456, and UAAL as a percent of covered payroll at 16 percent. The disclosures are based on a biannual basis. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment rate of return, payroll growth rate, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. In addition, funded status and funding progress are presented immediately after the Notes to the Financial Statements in the required supplementary information section

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the program as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and program members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Community Transit performed an actuarial study as of December 31, 2017, in accordance with the parameters of GASB Statement No. 45. The actuary calculated the OPEB obligation based on individual Community Transit employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

Community Transit will use a third-party vendor to complete the actuarial report every two years. In the interim years between valuations, the actuary will update the annual OPEB cost and the net OPEB obligation. All other assumptions and data will remain the same. The actuarial report is available upon request from Community Transit. The next table summarizes actuarial assumptions used:

Description	***Actuarial Assumption***
Valuation Date	December 31, 2017
Actuarial Cost Method	Entry age actuarial
Investment Rate of Return	4.5% per year
Inflation Rate	3% per year
Projected Salary Increases	2% for 2017 adjustment of covered payroll
Health Care Cost Trend Rates	All years: 5%
Post-Retirement Benefit Increases	No increases are projected.
Amortization Method	Level dollar amount on an open basis over a period of 30 years.

Note 7: Net Position

Portions of Community Transit's net position are restricted for the following purposes:

- Debt Service: Funds restricted by bond covenant for payment of principal and interest.
- Workers' Compensation: Funds legally restricted by Washington State Department of Labor and Industries for payment of self-insured workers' compensation claims.

In addition, Community Transit's Board of Directors has designated portions of Community Transit's net position under the following categories:

- Vehicle Replacement: Funds set aside for future replacement of buses, paratransit vehicles, and vanpools.
- Future Capital Improvements: Amounts designated to fund capital projects.

- Workers' Compensation: Additional funds set aside in excess of the state-required restrictions for the payment of workers' compensation claims.

The next table shows net position as reported on the Statement of Net Position, including the breakdown of designated and undesignated net position, as of December 31, 2017.

	2017
Net Investment in Capital Assets	***$ 211,092,762***
Restricted Net Position	
Workers' Compensation	1,630,000
Total Restricted Net Position	**1,630,000**
Unrestricted Net Position	
Designated - Vehicle Replacement	34,287,107
Designated - Future Capital Improvements	85,957,040
Designated - Workers Compensation	3,403,642
Undesignated	44,880,005
Total Unrestricted Net Position	**168,527,794**
Net Position	***$ 381,250,556***

Note 8: Commitments

A. Paratransit Service (DART)

On September 9, 2011, Community Transit entered into a five-year contract with Senior Services of Snohomish County for the provision of paratransit service. (In 2017, Senior Services of Snohomish County changed their name to Homage Senior Services.) The contract terms cover the period October 1, 2011, through September 30, 2016, with renewal options for five additional one-year terms. The next table shows the annual cost for the remainder of the contract.

Contract Period	*Approximate Annual Revenue Service Hours*	*Annual Cost*
Oct 1, 2016 to Dec 31, 2017	108,750	$ 8,156,250
Jan 1, 2018 to Dec 31, 2018	87,000	$ 6,688,560
Jan 1, 2019 to Dec 31, 2019	87,000	$ 6,855,600
Jan 1, 2020 to Dec 31, 2020	87,000	$ 7,026,990
Jan 1, 2021 to Dec 31, 2021	87,000	$ 7,202,730

The annual cost of paratransit service is within the annual budget. Contracted services with Homage Senior Services amounted to $7,142,658 during 2017. Actual annual vehicle hours amounted to 81,228 for 2017.

B. Commuter Service

On May 9, 2012, Community Transit entered into a ten year contract with First Transit. Under the terms of the contract, First Transit will operate Community Transit's express commuter bus service for a five-year, seven-month period with renewal options for five additional one-year term extensions beginning January 1, 2018.

Contract Period	*Revenue Service Hours*	*Annual Cost*
Jan 1, 2017 to Dec 31, 2017	124,040	$ 17,868,360
Jan 1, 2018 to Dec 31, 2018	145,500	$ 19,986,980
Jan 1, 2019 to Dec 31, 2019	145,500	
Jan 1, 2020 to Dec 31, 2020	145,500	
Jan 1, 2021 to Dec 31, 2021	145,500	
Jan 1, 2022 to Dec 31, 2022	145,500	

At the time this report was prepared, costs for the years 2019 to 2022 were under negotiation.

First Transit operates the service from Community Transit's Kasch Park Base under the terms of the facility lease provisions of the commuter service agreement. The table above shows the annual cost of the service (which includes 92,560 service hours of Sound Transit express commuter service) for the remainder of the contract.

The annual cost is within the annual budget. Contract service with First Transit for Community Transit service amounted to $5,384,697 in 2017. Actual annual revenue hours amounted to 43,994 in 2017.

Contract service with First Transit for Sound Transit service amounted to $13,858,475 in 2017. Actual revenue hours amounted to 101,391 in 2017.

C. Central Puget Sound Regional Fare Coordination System

Community Transit has an undivided interest in a nonequity joint venture jointly governed with six other Puget Sound-area public transit agencies for the provision of regional ORCA card fare collection services.

On April 14, 2009, Community Transit entered into an amended interlocal agreement with King County Metro Transit, Pierce Transit, Sound Transit, Everett Transit, Kitsap Transit, and the Washington State Ferries to provide for joint operation of the Central Puget Sound Regional Fare Coordination System.

The regional fare coordination system began a phased implementation on April 1, 2009, with substantial deployment in 2010. The system is governed by a joint board consisting of one representative from each participating agency. The participating agencies have committed to use the system for a minimum of ten years and fund a proportional share of regional shared costs.

Under the terms of the interlocal agreement, Sound Transit acts as the fiscal agent. Participating agencies remit all funds collected through the sale of ORCA fare media to Sound Transit. When customers use ORCA cards to pay transit fares, statistical information is collected which determines how Sound Transit remits fare revenue back to participating agencies.

Community Transit's undivided interests in the assets, liabilities, and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis. Expenses associated with the regional fare coordination system are shared proportionally by each participating agency. The joint venture does not publish public financial statements. Please direct requests for information about the joint venture's financial statements to Lori Fox at the address shown in the Management's Discussion and Analysis section of this report.

This table represents the amount included in Community Transit's financial statements that is an undivided interest:

		2017
Current Assets		
Cash and Cash Equivalents	$	2,519,972
Accounts Receivable		2,662,440
Total Assets	**$**	**5,182,412**
Current Liabilities		
Accounts Payable and Accrued Liabilities	$	3,291,044
Deferred Receipts		1,891,368
Total Liabilities	**$**	**5,182,412**
Total Operating Revenues	**$**	**16,409,144**
Total Expenses	**$**	**507,427**

D. Transit Police Contract with Snohomish County

On December 7, 2017, Community Transit's Board of Directors approved a new interlocal agreement with Snohomish County to continue the police services which the Snohomish County Sheriff's Office has provided since April 2003.

Under the terms of the new agreement, the county will be adding additional staff throughout 2018 and the first quarter of 2019. Final staffing levels after April 1, 2019, will include one half-time lieutenant, two full-time sergeants, two full-time master patrol deputies, one full-time administrative staff person, and fourteen full-time deputy sheriffs who will patrol Community Transit's services and facilities on a regular basis and perform other related services.

The contract term is January 1, 2018, to December 31, 2020. The annual cost of these services over the life of the contract is summarized in the table at the right. The cost of police services provided to Community Transit amounted to $1,749,332 in 2017. Costs exceeded the contractual amount by $93,694 because of additional transit safety services and the addition of a half-time lieutenant.

Year	*Annual Cost*
2017	$ 1,655,638
2018	2,540,826
2019	3,159,015
2020	3,115,079

E. Double-Decker Coach Contract

On September 6, 2016, Community Transit entered into a five-year contract with Alexander Dennis for the purchase of up to 57 double-decker coaches over the term of the contract. These purchases provide for both normal fleet replacement and fleet expansion. The options will be exercised during the five-year contract depending on future funding and expansion/ replacement plans. The Board approved an initial order of 17 coaches at a cost of $18,579,000; these coaches were delivered in 2017. On April 5, 2018, the Board approved an option order of eight coaches at a cost of $8,565,000 to be delivered in the summer of 2019.

F. *Swift* Green Line

Community Transit entered into several large contracts for the *Swift* Green Line. The new service will begin operations in early 2019. The contracts include: C.A. Carey in the amount of $4,194,640; Interwest Construction in the amount of $8,260,600; Future Systems in the amount of $5,371,664; Granite Construction in the amount of $16,834,248; Perteet. Inc., in the amount of $857,434; KPFF in the amount of $474,916; and Otak, in the amount of $235,912. Total expenditures for the *Swift* Green Line in 2017 were $12,844,320.

G. Express Bus Operating Agreement with Sound Transit

Community Transit has operated Sound Transit’s express bus service since September 1999. On June 4, 2015, Community Transit’s Board of Directors approved a new agreement with Sound Transit to continue operating Sound Transit express bus service. The agreement covers various aspects of providing the service including operations, vehicle maintenance, fare collection, and security. The first year of this agreement ended on December 31, 2015; all subsequent years of this agreement begin on January 1 and end on December 31. The agreement expires on December 31, 2017, but includes an option to extend for two additional one-year periods. In 2017, Community Transit received $18,463,732 from Sound Transit.

H. Five-Year Bus Purchase Contracts

Community Transit entered into five-year contracts with New Flyer of America on June 27, 2016, and with GILLIG LLC—USA on July 8, 2016, for a total of 175 diesel buses in a mix of 40-foot, standard 60-foot, and bus rapid transit 60-foot coaches over the term of the contracts. These purchases provide for both normal fleet replacement and fleet expansion. Future price changes are limited to the change in the Producer Price Index for similar equipment.

Fourteen New Flyer 60-foot coaches were delivered in 2017 at a cost of $11,598,538. Twenty-six GILLIG LLC—USA 40-foot coaches were also delivered in 2017 and cost $13,790,297. In addition, eighteen bus rapid transit coaches were ordered from New Flyer of America in the amount of $16,634,000 to be delivered by the end of 2018.

I. Lease Obligation

As of December 31, 2017, Community Transit had no capital leases and various operating leases. Total operating lease expense for 2017 was $359,335. The leases consist of the park-and-pool lot program, communication sites, Pitney Bowes, and copiers. Both the park-and-pool lot program and the communication site leases are cancelable by either party with a 30- to 90-day notice depending on the contract. The Pitney Bowes and copier leases are more than one year and are noncancelable. Future minimum lease commitments for noncancelable leases of more than one year are included in the table.

Year	*Annual Cost*
2018	$ 45,478
2019	32,624
2020	4,673
2021	3,001

Note 9: Contingencies

A. Legal Proceedings

There are several pending lawsuits in which Community Transit is involved. Community Transit's attorney estimates that the potential claim against Community Transit not covered by insurance resulting from such litigation would not materially affect the financial statements.

B. Federal Grants

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

C. Environmental Liability

As a public transit operation, Community Transit has certain environmental risks related to its operation involving the storage, liability, and disposal of certain petroleum products. In the opinion of management, any potential claim not covered by insurance would not materially affect the financial statements of Community Transit.

Note 10: Subsequent Events

Fall 2018 and Spring 2019 Service Proposals: At the March 2018 Board of Directors' meeting, the Strategic Planning Unit Manager announced significant service expansion proposals. Service increases outlined in a memo presented at the meeting represent the addition of about 49,000 revenue hours, which calculates out at about a 12 percent increase in Community Transit's service.

Federal Transit Administration (FTA) Small Starts Capital Investment Grant: The *Swift* Green Line is Snohomish County's second bus rapid transit route and will provide 10-minute bus service between Bothell/Canyon Park and Boeing/Paine Field when it opens in 2019. On April 9, 2018, Community Transit was notified by the FTA that it had been formally approved for a $43.2 million dollar grant to complete funding for the *Swift* Green Line. Community Transit executed the grant on the same date.

With FTA pre-award authority, Community Transit began construction of 34 *Swift* Green Line stations along Airport Road, widening of the 128th Street approach, and ordering thirteen 60-foot *Swift* buses. The overall project also includes construction of the Seaway Transit Center near the Boeing Everett plant, new bus lanes approaching the I-5 overpass on 128th in south Everett, and infrastructure improvements along Airport Road and the Bothell-Everett Highway.

Note 11: Tax Abatement

Community Transit is subject to tax abatements granted by the State of Washington under RCW 82.63, Tax Deferrals for High-Technology Businesses. This RCW establishes a program of business and occupational tax credits for qualified research and development expenditures, high-technology research and development, and pilot scale manufacturing facilities.

For the fiscal year ending December 31, 2017, Community Transit has high-technology sales and use tax deferral amounting to $136,886.

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years* (as of June 30)

PERS Plan 1

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.375570%	0.374817%	0.336190%	0.323760%
Employer's proportionate share of the net pension liability	$ 17,821,089	$ 20,129,438	$ 17,585,864	$ 16,309,562
Covered payroll	$ 47,217,768	$ 44,826,960	$ 38,290,475	$ 35,459,496
Employer's proportionate share of the net pension liability as a percentage of covered payroll	37.74%	44.90%	45.93%	45.99%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%

PERS Plans 2/3

	2017	2016	2015	2014
Employer's proportion of the net pension liability	0.480489%	0.476787%	0.429238%	0.411328%
Employer's proportionate share of the net pension liability	$ 16,694,696	$ 24,005,849	$ 15,336,918	$ 8,314,424
Covered payroll	$ 47,107,467	$ 44,696,052	$ 38,087,086	$ 35,246,857
Employer's proportionate share of the net pension liability as a percentage of covered payroll	35.44%	53.71%	40.27%	23.59%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.92%	89.20%	93.29%

* Until a full ten-year trend is completed, information is presented only for the years available.

Required Supplementary Information

Schedule of Employer Contributions

Last 10 Fiscal Years* (as of December 31)

PERS Plan 1

	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 2,390,019	$ 2,186,830	$ 1,831,790	$ 1,489,527
Contributions in relation to the statutorily or contractually required contributions	(2,390,019)	(2,186,830)	(1,831,790)	(1,489,527)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 48,599,566	$ 45,704,111	$ 41,422,068	$ 36,567,727
Contributions as a percentage of covered payroll	4.92%	4.78%	4.42%	4.07%

PERS Plans 2/3

	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 3,331,932	$ 2,840,622	$ 2,334,035	$ 1,820,562
Contributions in relation to the statutorily or contractually required contributions	(3,331,932)	(2,840,622)	(2,334,035)	(1,820,562)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 48,490,161	$ 45,595,885	$ 41,266,619	$ 36,342,265
Contributions as a percentage of covered payroll	6.87%	6.23%	5.66%	5.01%

* Until a full ten-year trend is completed, information is presented only for the years available.

Required Supplementary Information

Other Postemployment Benefits Plan (OPEB)

Schedule of Funding Progress

Actuarial Valuation Date	Actuary Value of Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2011	$0	$ 6,107,919	$ 6,107,919	0.0%	$ 36,554,787	17%
12/31/2013	$0	$ 6,179,625	$ 6,179,625	0.0%	$ 32,900,679	19%
12/31/2015	$0	$ 7,407,700	$ 7,407,700	0.0%	$ 39,542,354	19%
12/31/2017	$0	$ 7,543,449	$ 7,543,449	0.0%	$ 46,369,456	16%

GASB Statements No. 25 and 27 now require only biennial valuations with no updates between valuations.

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2012	$ 779,780	$ 131,595	17%	$ 3,714,858
12/31/2013	$ 619,760	$ 108,680	18%	$ 4,225,937
12/31/2014	$ 611,383	$ 128,751	21%	$ 4,708,569
12/31/2015	$ 830,995	$ 129,042	16%	$ 5,410,522
12/31/2016	$ 819,489	$ 150,931	18%	$ 6,079,080
12/31/2017	$ 801,197	$ 139,957	17%	$ 6,740,320

* Until a full ten-year trend is completed, information is presented only for the years available.

The 2017 actuarial valuation reflects a change to the entry age actuarial cost method with level percentage of payroll normal costs in anticipation of future implementation of GASB Statement 75. In addition, there was one change in assumptions from the prior actuarial valuation. Mortality tables were updated from the RP-2014 mortality tables with scale MP-2014 to using scale MP-2016.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures From Pass-Through Awards	Expenditures From Direct Awards	Expenditures Total	Passed through to Subrecipients	Note
Highway Planning and Construction Cluster								
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Departemnt of Transportation)	Highway Planning and Construction	20.205	GCB-2036	180,633	-	180,633	-	1,2,3
Federal Highway Administration (fhwa), Department Of Transportation (via Washington State Departemnt of Transportation)	Highway Planning and Construction	20.205	GCB-2520	140,050	-	140,050	-	1,2,3
	Total Highway Planning and Construction Cluster:			**320,683**	**-**	**320,683**	-	
Federal Transit Cluster								
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Capital Investment Grants	20.500	WA-2017-092	-	5,054,167	5,054,167	-	1,2,3,5
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Formula Grants	20.507	WA-2016-015	-	7,512,533	7,512,533	-	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Formula Grants	20.507	WA-2017-081	-	6,967,888	6,967,888	-	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Formula Grants	20.507	WA-90-X527	-	147,292	147,292	-	1,2,3,4, 6
			Total CFDA 20.507:	**-**	**14,627,713**	**14,627,713**	-	
Federal Transit Administration (fta), Department Of Transportation	State of Good Repair Grants Program	20.525	WA-2016-016	-	1,356,751	1,356,751	-	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	State of Good Repair Grants Program	20.525	WA-2017-080	-	1,936,680	1,936,680	-	1,2,3,4
			Total CFDA 20.525:	**-**	**3,293,431**	**3,293,431**	-	
Federal Transit Administration (fta), Department Of Transportation	Bus and Bus Facilities Formula Program	20.526	WA-2016-017	-	1,310,776	1,310,776	-	1,2,3,4
Federal Transit Administration (fta), Department Of Transportation	Bus and Bus Facilities Formula Program	20.526	WA-2017-079	-	926,947	926,947	-	1,2,3,4
			Total CFDA 20.526:	**-**	**2,237,723**	**2,237,723**	-	
			Total Federal Transit Cluster:	**-**	**25,213,034**	**25,213,034**	-	
			Total Federal Awards Expended:	**320,683**	**25,213,034**	**25,533,717**	**-**	

The accompanying notes are an integral part of this schedule.

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 Community Transit's financial statements. Community Transit uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - INDIRECT COST RATE

The amount expended does not include any amount claimed as indirect cost recovery. Community Transit has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. All amounts expended for both capital and operating projects are direct costs only.

NOTE 4 - PROGRAM INCOME

Program Income generated by grant supported activity in 2017 was retained and used for allowable capital or operating expenses as permitted by FTA's Grant Management Guidelines in Circular 5010.1E Chapter 7. Advertising is the only Program Income (besides Farebox Revenue) that Community Transit generates. During 2017, advertising revenue was generated on federally funded buses within the grant period of performance (from the date the bus was placed into service until the grant is closed).

Total amount of advertising revenue generated was $114,676 between the following grants:

Reported under CFDA 20.507 $90,014 grant #WA-2016-015 and $7,967 grant #WA-2017-081;

Reported under CFDA 20.526 $5,368 grant #WA-2016-017 and $2,211 grant #WA-2017-079;

Reported under CFDA 20.525 $2,670 grant #WA-2016-016 and $6,446 grant #WA-2017-080.

Farebox Revenue was generated for operating projects and is always subtracted from the gross project cost to arrive at net eligible grant expense. During 2017, Farebox revenue of $437,679.14 was generated under CFDA 20.507 grant #s WA-90-x527 and WA-2016-015.

NOTE 5 - SMALL STARTS

Capital Investment Grant (CIG) funding under CFDA 20.500 in grant # WA-2017-092 was obligated on 4/9/18. Expenditures were made and reported on the 2016 and this 2017 SEFA, but funds have not yet been drawndown. Funds should be drawndown by mid-2018.

NOTE 6 - CIRCULAR 5010.1D OLD RULE

The following grants were awarded prior to the 12/24/2014 issuance of the new circular and are subject to the older rules in Circular 5010.1D:
WA-90-x527 under CFDA 20.507.

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.

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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.

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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.

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