Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Spokane Transit Authority

For the period January 1, 2019 through December 31, 2019

Published June 8, 2020

Report No. 1026301

Office of the Washington State Auditor
Pat McCarthy

June 8, 2020

Board of Directors
Spokane Transit Authority
Spokane, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (564) 999-0950 • Pat.McCarthy@sao.wa.gov

TABLE OF CONTENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Spokane Transit Authority
January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Spokane Transit Authority 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 Authority.

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 Authority'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
20.526	Federal Transit Cluster – Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs

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

The Authority 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*

Spokane Transit Authority
January 1, 2019 through December 31, 2019

Board of Directors
Spokane Transit Authority
Spokane, 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 Spokane Transit Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 15, 2020. The prior year comparative information has been derived from the Authority's 2018 basic financial statements, on which we issued our report dated May 8, 2019.

As discussed in Note 15 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Management's plans in response to this matter are also described in Note 15.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

May 15, 2020

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

Spokane Transit Authority
January 1, 2019 through December 31, 2019

Board of Directors
Spokane Transit Authority
Spokane, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Spokane Transit Authority, 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 Authority's major federal programs for the year ended December 31, 2019. The Authority'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 Authority'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 Authority'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 Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority 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, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority 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 Authority'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 Authority'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

May 15, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Spokane Transit Authority
January 1, 2019 through December 31, 2019

Board of Directors
Spokane Transit Authority
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Spokane Transit Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Authority'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 Authority'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 Spokane Transit Authority, as of December 31, 2019, 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.

Matters of Emphasis

As discussed in Note 15 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Authority. Management's plans in response to this matter are also described in Note 15. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2018, from which such partial information was derived. We have previously audited the Authority's 2018 financial statements and we expressed unmodified opinions on the respective financial statements in our report dated May 8, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 16 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 Authority's basic financial statements as a whole. 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 May 15, 2020 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

May 15, 2020

FINANCIAL SECTION

Spokane Transit Authority
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Spokane Transit Authority
For the Year Ended December 31, 2019

Management Discussion and Analysis

This section of Spokane Transit Authority's (STA) Annual Financial Report presents management's discussion and analysis (MD&A) of the financial performance for the year ended December 31, 2019. This section should be read in conjunction with the financial statements and accompanying notes to the financial statements.

STA is a Public Transportation Benefit Area (PTBA) providing public transportation services within its boundaries. Services include:

- Local fixed route bus services within Spokane County, City of Spokane, City of Spokane Valley, City of Liberty Lake, City of Millwood, City of Airway Heights, City of Medical Lake, and City of Cheney;
- Paratransit services for those who live within ¾ mile of a bus route and who, because of their disability, are unable to use the regular bus service;
- A vanpool and ride match program.

Financial Highlights

- The assets of STA exceeded its liabilities at December 31, 2019 by $203,872,619. Of this amount, $93,096,164 represents STA's net position not invested in capital assets or restricted by regulation (unrestricted). In the unrestricted amount, the STA Board has designated reserves of $22,738,226 for catastrophic self-insurance exposure protection, operating reserves, and cash designated for future right of way acquisitions.
- STA's Total Net Position increased by $41,070,558 (excluding prior period adjustments). The federal and state portions of capital grant revenue totaling $10,899,025 is not included in the $30,171,533 Net Gain Before Contributions.
- STA continues to operate on a "pay-as-you-go" basis and remained free of debt during the period. Cash balances, less designated reserves, are planned for future operating and capital expenses.

Overview of the Financial Statements

This discussion and analysis section is intended to serve as an introduction to STA's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements.

The financial statements of STA report information using accounting methods that are similar to those used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. These statements offer short- and long-term financial information about STA activities.

<u>The Statement of Net Position</u> presents information on STA's assets and deferred outflows compared to liabilities and deferred inflows of resources, with the difference reported as net position as of the end of the two most recently completed fiscal years. Over time, increases and decreases in net position may serve as a useful indicator of the financial health of STA and whether its financial position is improving or deteriorating.

<u>The Statement of Revenues, Expenses and Changes in Net Position</u> presents information showing how the net position changed during the current and prior fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to STA and earned but unused employee leave).

The Statement of Cash Flows presents information on STA's cash receipts, cash payments, and net changes in cash and cash equivalents for the most recent two fiscal years. Generally Accepted Accounting Principles (GAAP) require that cash flows be classified into one of four categories:

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

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

Financial Analysis

Overall, the financial position of STA improved in 2019. For the year ended December 31, 2019, assets exceeded liabilities by $203,872,619. STA is a capital-intensive enterprise and nearly half of its net position is invested in capital assets. The following is a comparative summary of STA's net position.

SUMMARY STATEMENT OF NET POSITION

	As of December 31,		
	2019	**2018**	**2017**
Assets:			
Current Assets	$125,144,416	$100,693,603	$92,735,536
Capital Assets (Net)	107,106,066	91,783,020	78,063,862
Total Assets	232,250,482	192,476,623	170,799,398
Deferred Outflows	4,333,363	4,260,928	3,617,389
Total Assets and Deferred Outflows	$236,583,845	$196,737,551	$174,416,787
Liabilities:			
Current Liabilities	$14,367,333	$12,930,253	$14,201,492
Long Term Liabilities	14,010,530	18,162,740	20,827,617
Total Liabilities	28,377,863	31,092,993	35,029,109
Deferred Inflows	7,646,752	7,131,420	4,675,258
Net Position:			
Invested in Capital Assets	107,106,066	91,783,020	78,063,862
Restricted Reserves	357,000	357,000	357,000
Unrestricted Reserves	93,096,164	66,373,118	56,291,558
Total Net Position	200,559,230	158,513,138	134,712,420
Total Liabilities, Deferred Inflows, and Net Position	$236,583,845	$196,737,551	$174,416,787

During 2019, STA's net position increased by $41,070,558 (excluding prior period adjustments). The following is a summary Statement of Revenues, Expenses and Changes in Net Position. Also shown are the comparatives for the years ended December 31, 2018 and 2017.

Summary Statement of Revenues, Expenses, and Change in Net Position

	For the Year ended December 31,		
	2019	**2018**	**2017**
Operating Revenue	$11,489,511	$11,024,637	$9,981,486
Non-operating Revenue			
Sales tax	86,666,638	73,305,787	65,491,245
Grants - non-capital	12,318,267	10,647,105	9,394,355
Other non-operating revenue	2,453,019	1,329,618	885,189
Total Revenue (before capital contributions)	112,927,435	96,307,147	85,752,275
Operating Expenses	70,908,009	67,781,409	63,930,589
Depreciation	11,002,893	10,522,378	10,360,730
Non-operating Expenses			
Other non-operating Expenses	845,000	1,481,724	193,906
Total Expenses	82,755,902	79,785,511	74,485,225
Gain before Contributions	30,171,533	16,521,636	11,267,050
Contributions			
Capital grants	10,899,025	8,414,845	8,119,709
Change in Net Position	41,070,558	24,936,481	19,386,759
Beginning Net Position	158,513,138	134,712,420	115,325,661
Prior period adjustments	(27,250)	(1,135,763)	-
Cumulative effect of change in accounting principle	1,002,784	-	-
Ending Net Position	$200,559,230	$158,513,138	$134,712,420

Revenues

Passenger fares are the major source of operating revenues. The STA Board approved the currently in effect Tariff Policy for Fixed Route and Paratransit at the July 2016 Board meeting. This policy provided for fare increases on July 1, 2017 and July 1, 2018. The following table shows the amount for selected classifications of fares effective during 2019:

Fare Examples:

	Two hour Fare 1/1-12/31/2019	**Monthly Pass 1/1-12/31/2019**
Adult	\$2.00	\$60.00
Student	\$2.00	\$52.00
Youth	\$2.00	\$40.00
Reduced	\$1.00	\$30.00
Paratransit	\$2.00	\$60.00

Additional fare information can be obtained on the STA website or by contacting STA.

Operating revenues also include other small miscellaneous items such as union release time reimbursement and vehicle damage reimbursement.

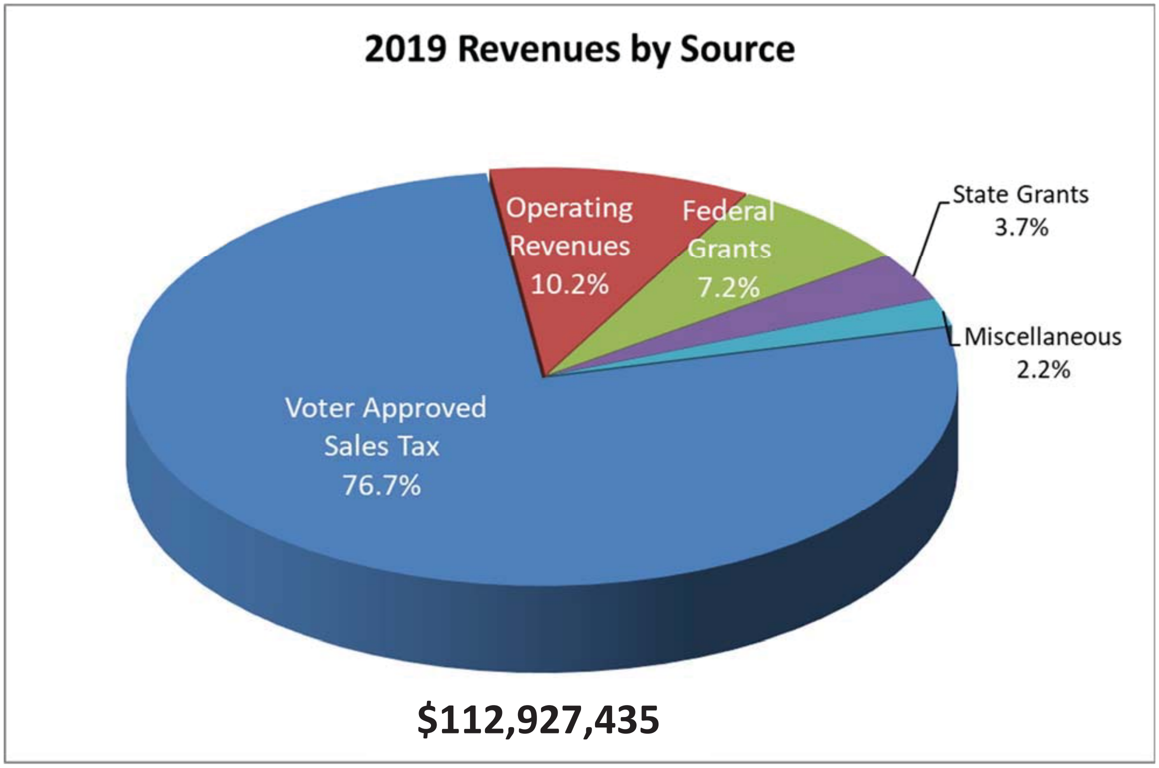
Funding for STA's services is largely provided by a local voter approved sales tax, 0.8 percent, levied within the PTBA. By state law, public funding for the majority of transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Since 1981, 0.3 percent of the sales tax authority has been in existence for STA. To replace the motor vehicle excise tax, an additional 0.3 percent was added with a five-year sunset clause in 2004. With voter approval, the additional 0.3 percent was made permanent in 2008. On November 8, 2016, voters approved STA Proposition 1, authorizing an increase in local sales and use tax of up to 0.2 percent to fund the STA Moving Forward Plan (STAMF) to maintain, improve and expand public transit in Spokane County's transit service area. Phase one of the new tax took effect with a 0.1 percent increase that was effective April 1, 2017. An additional 0.1 percent increase was effective April 1, 2019 with both tax increases expiring no later than December 31, 2028 unless renewed by voters.

STA uses Federal section 5307 formula grant funds for preventive maintenance. Use of these funds for maintenance is authorized by the FTA and amounted to \$8,112,144 in 2019, \$8,443,313 in 2018, and \$8,111,894 in 2017.

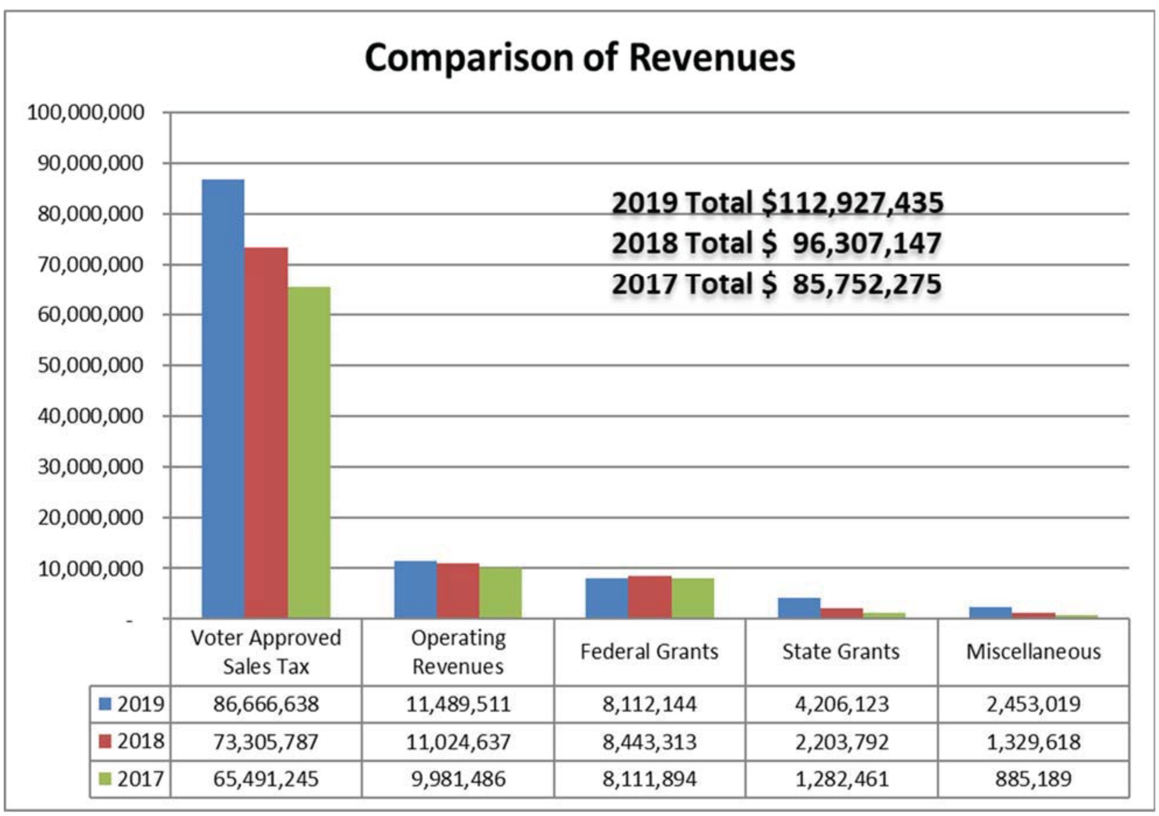
STA received state funding from the Washington State Department of Transportation in the amount of \$4,206,123 in 2019, \$2,203,792 in 2018, and \$1,282,461 in 2017. These grant funds were used for special needs related service as well as portions of projects categorized as operating.

Miscellaneous revenue, primarily investment earnings, increased by \$1,123,401. Interest income increased due to higher interest rates during the year which averaged 2.16 percent and higher average cash balances.

During 2019, STA Operating and Non-Operating revenues were $112,927,435. The following chart shows the major sources of revenue:



Operating and Non-Operating Revenues for the last three years were as follows:



	Voter Approved Sales Tax	Operating Revenues	Federal Grants	State Grants	Miscellaneous
2019	86,666,638	11,489,511	8,112,144	4,206,123	2,453,019
2018	73,305,787	11,024,637	8,443,313	2,203,792	1,329,618
2017	65,491,245	9,981,486	8,111,894	1,282,461	885,189

Service Delivery, Ridership and Operating Expenses

Operating expenses are most directly impacted by the number of revenue hours (a passenger vehicle in passenger carrying service for one hour) of service STA provides. Revenue miles also provide a valuable indicator of the level of service activity provided.

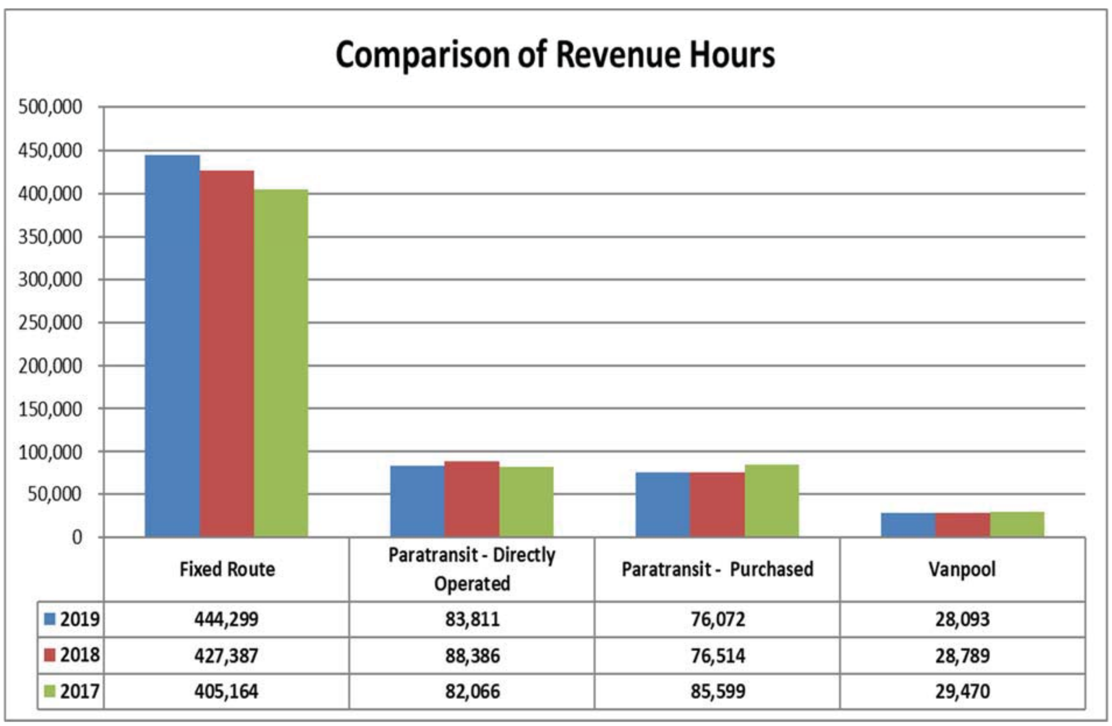
The mode describes the type of service that STA provides:

Fixed Route (Motor Bus) - Fixed Route refers to regularly scheduled buses operating on established routes. This service is directly operated by STA.

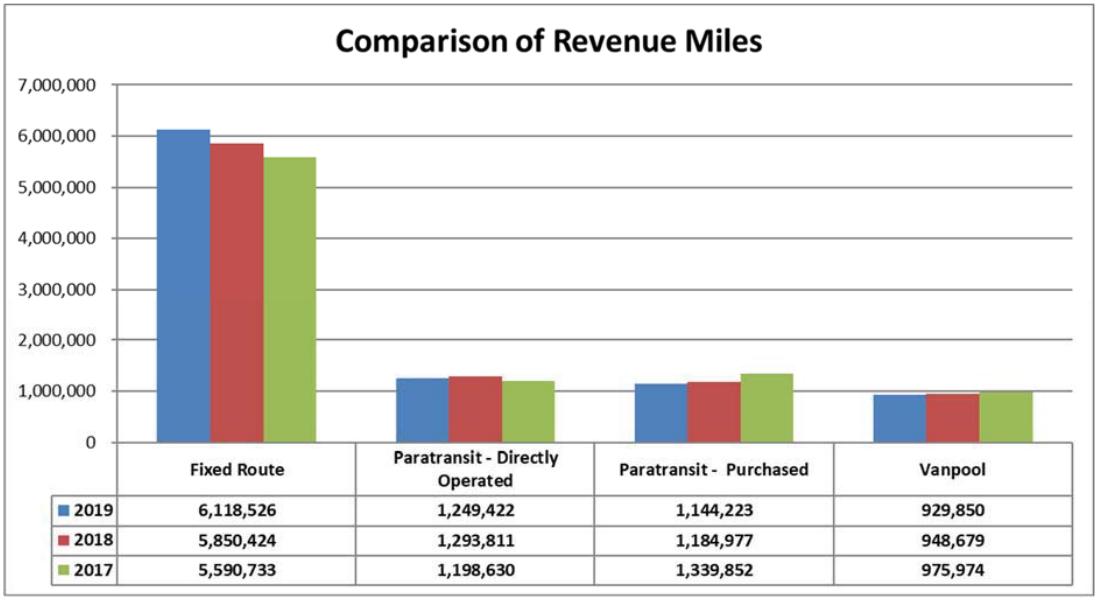
Paratransit (Demand Response) - Paratransit refers to the mode of service that provides a complementary service for those unable to use the regular bus because of the effects of their disability as provided under the Americans with Disabilities Act (ADA). Directly operated service is provided by STA personnel during the day on weekdays while purchased service is provided by a private contractor on nights and weekends.

Vanpool - Vanpool is a service for prearranged groups of passengers who commute to a common destination in a van owned and maintained by STA. One of the passengers is designated as the driver and the program may receive an employer subsidy as a part of its commute trip reduction (CTR) program. Carpool client-matching is also available in this mode.

The following chart shows the comparison of revenue hours by mode for the last three years:



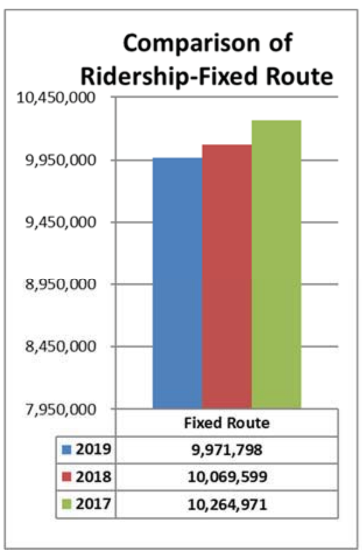
The following chart shows the comparison of revenue miles by mode for the last three years:



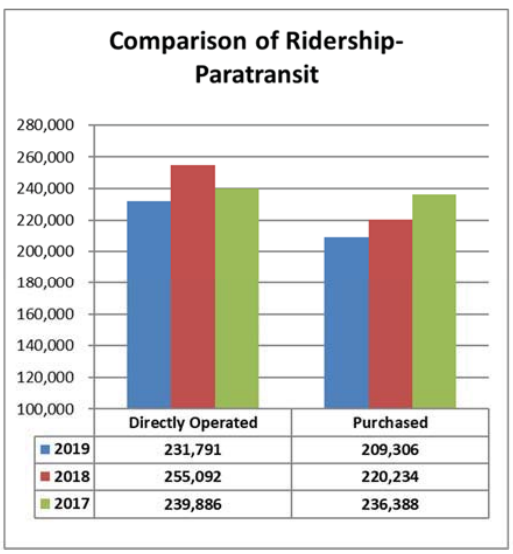
	Fixed Route	Paratransit - Directly Operated	Paratransit - Purchased	Vanpool
2019	6,118,526	1,249,422	1,144,223	929,850
2018	5,850,424	1,293,811	1,184,977	948,679
2017	5,590,733	1,198,630	1,339,852	975,974

In 2017, after the approval of Proposition 1, STA began executing on its STAMF initiative. Through its more than 25 projects, STAMF maintains the existing transit system, including paratransit and vanpool services, and also improves fixed-route bus service through high frequency, high performance transit service, including extended hours on all basic and frequent routes, as well as expands transit service to new areas, new routes, and expanded passenger services including new and enhanced park and ride lots. The increase in revenue hours and revenue miles as presented in the chart above is a direct result of the implementation of STAMF projects completed to date.

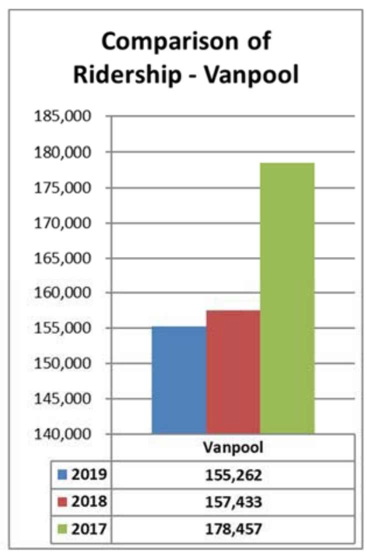
Most of the common operating efficiency and effectiveness measures in the transit industry have a ridership component. Results for the last three years appear below:



	Fixed Route
2019	9,971,798
2018	10,069,599
2017	10,264,971



	Directly Operated	Purchased
2019	231,791	209,306
2018	255,092	220,234
2017	239,886	236,388



	Vanpool
2019	155,262
2018	157,433
2017	178,457

- Fixed Route ridership declined by 1.0 percent in 2019.
- Paratransit ridership across the combined directly operated and purchased service declined by 7.2 percent in 2019.
- Vanpool ridership declined in 2019 by 1.4 percent.

Operating Expense by Function - The function describes the major operating areas of STA and includes:

Transportation - Responsible for all on-street passenger services, including operators, supervisors, dispatchers, security and schedulers. Fuel consumption is also classified as a transportation expense.

Maintenance - Responsible for keeping vehicles (including maintenance, repair, parts, and cleaning) and facilities in a state of good repair.

Administration - Responsible for all other functions including executive direction, planning and development, human resources, customer service, communications, information services, purchasing and finance. In addition, administration expenses include insurance and utilities costs.

As seen in the following tables:

- Transportation expense increased 2.9 percent due primarily to increases in labor, fringe, contracted maintenance and utilities offset by lower fuel expense as well as a decrease in pension expense related to GASB 68.
- Maintenance expense increased 7.8 percent primarily due to increases in labor, fringe, vehicle repair materials, contracted maintenance, and custodial supplies offset by a decrease in pension expense related to GASB 68.
- Administration expense increased 6.8 percent primarily due to increases in labor, fringe, software license/maintenance, utilities, and insurance offset by a decrease in pension expense due to GASB 68.

Expense By Mode & Function For Years Ended December 31, 2019, 2018 and 2017

	2019	2018	Increase (Decrease)	% Change	2017
Mode & Function					
Fixed Route:					
Transportation	$32,422,251	$31,202,832	$1,219,419	3.9%	$28,813,712
Maintenance	11,922,474	11,141,033	781,441	7.0%	10,244,285
Administration	11,198,902	10,769,912	428,990	4.0%	10,507,597
Fixed Route Total	$55,543,627	$53,113,777	$2,429,850	4.6%	$49,565,594
Paratransit:					
Transportation	$10,302,950	$10,294,144	$8,806	0.1%	$10,034,101
Maintenance	1,624,326	1,448,814	175,512	12.1%	1,405,728
Administration	2,793,268	2,324,039	469,229	20.2%	2,314,375
Paratransit Total	$14,720,544	$14,066,997	$653,547	4.6%	$13,754,204
Vanpool:					
Transportation	$144,473	$157,760	($13,287)	-8.4%	$149,880
Maintenance	79,914	47,122	32,792	69.6%	60,394
Administration	419,451	395,753	23,698	6.0%	400,517
Vanpool Total	$643,838	$600,635	$43,203	7.2%	$610,791
Modes Combined Expense:					
Transportation	$42,869,674	$41,654,736	$1,214,938	2.9%	$38,997,693
Maintenance	13,626,714	12,636,969	989,745	7.8%	11,710,407
Administration	14,411,621	13,489,704	921,917	6.8%	13,222,489
Modes Combined Expense Total	$70,908,009	$67,781,409	$3,126,600	4.6%	$63,930,589
Depreciation/Amortization	11,002,893	10,522,378	480,515	4.6%	10,360,730
Subtotal Operating Expense after Depreciation	$81,910,902	$78,303,787	$3,607,115	4.6%	$74,291,319
Other Cooperative Projects-Amenities	845,000	1,481,724	(636,724)	-43.0%	193,906
Total Expenses	$82,755,902	$79,785,511	$2,970,391	3.7%	$74,485,225

Operating Expense by Object – The object is the classification of expenses by type of cost. Below is a brief discussion of the events of the year in each object class.

Labor expense increased by 8.1 percent in 2019. This is primarily due to the impacts of the general wage increases summarized below and increases in staffing to support increased service levels.

	2017			2018			2019				
Effective Date	**1/1**	**2/1**	**7/1**	**1/1**	**4/1**	**7/1**	**1/1**	**2/1**	**2/24**	**4/1**	**7/1**
Amalgamated Transit Union Local 1015					3.00%					3.00%	
Amalgamated Transit Union Local 1598		1.50%				2.00%		3.00%			
The American Federation of State, County, and Municipal Employees Local 3939			1.50%						3.00%		2.50%
Management & Administrative employees	1.50%			2.00%			3.00%				

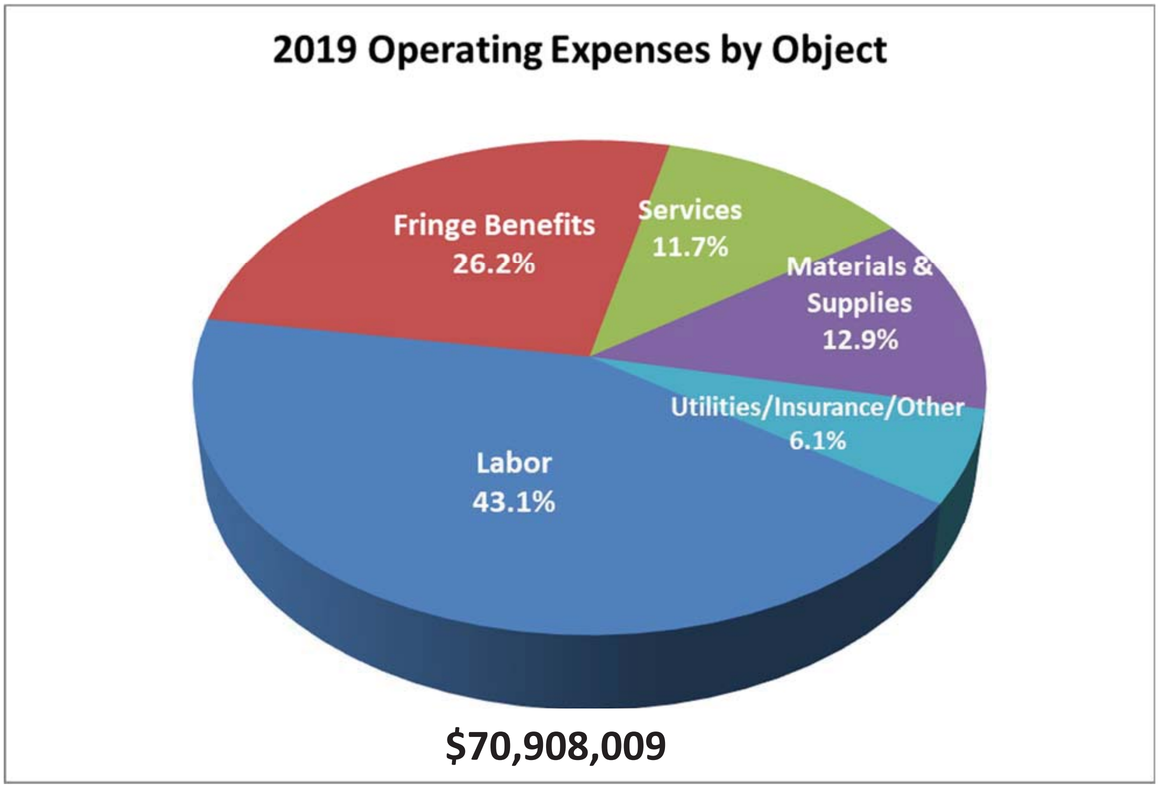
Fringe Benefits expense primarily includes health insurance premiums, retirement contributions, social security/Medicare taxes and paid time off costs. The 3.3 percent decrease in fringe benefits in 2019 was primarily due to a decrease in pension and other post-employment expense (OPEB) related to GASB 68 offset by increases in cost of benefits such as medical premiums, pension contributions and leave. There would have been a 6.0 percent increase excluding the GASB 68 Pension adjustment.

Services expense increased by 7.6 percent in 2019 due primarily increases in contracted maintenance, Plaza custodial services, temporary help, and some professional services.

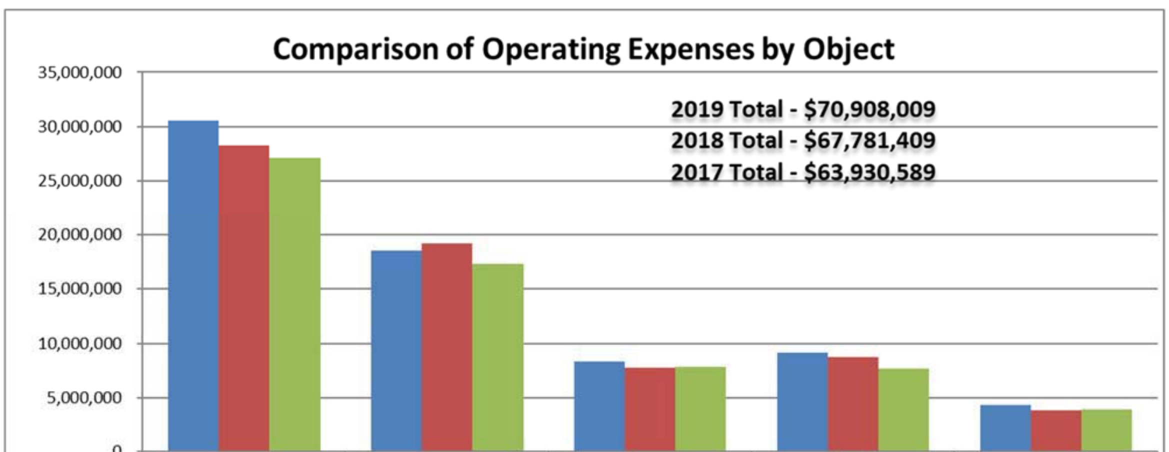
Materials and Supplies expense increased by 4.9 percent in 2019. This was primarily due an increase in software license/maintenance expense, plaza supplies and materials, and vehicle supplies offset by lower diesel fuel expense.

Utilities, Insurance and Other expense include costs related to utilities, liability and property insurance, taxes, leases and miscellaneous expenses. The 11.9 percent increase in 2019 is primarily attributed to higher utilities, insurance premiums, and increases in professional transit memberships.

During 2019, STA operating expenses, excluding depreciation, were $70,908,009. The following chart shows the operating expenses by object:



Operating expenses, excluding depreciation, for the last three years were as follows:



	Labor	Fringe Benefits	Services	Materials & Supplies	Utilities/ Insurance/ Other
2019	30,526,236	18,558,845	8,322,702	9,170,157	4,330,069
2018	28,249,219	19,189,304	7,734,661	8,738,523	3,869,702
2017	27,087,100	17,332,450	7,874,787	7,678,803	3,957,449

Capital Assets

STA's capital assets as of December 31, 2019 amounted to $227,633,600 less $120,527,534 in accumulated depreciation. This includes $18,746,931 in existing work in process. Capital assets consist of transit coaches, vans, and other vehicles, land, buildings and improvements, equipment and furnishings, transit benefiting improvements and intangible property. Net capital asset changes consisted of $26,352,608 of additions and adjustments and $2,300,489 of retirements and dispositions. Depreciation and amortization expense of $11,002,893 was recorded.

Major capital asset acquisitions, including work in process and accruals, during 2019 consisted of the following:

- Additions to Vehicles of six fixed route forty-foot coaches, forty paratransit vans, eleven vanpool vans, four road cars, and two maintenance service trucks for a cost of $6,301,452;
- Additions to Buildings and Improvements consisted of the Boone NW Garage which included the garage and surrounding land improvements as well as the bus washer, garage door access control and surrounding fence, improvement to exterior stairs at 1212 Sharp, renovations to the paint booth, Plaza building automated control updates, Plaza second floor restroom renovation, minor improvements to the West Plains Transit Center, leasehold improvements to the Spokane Falls and Spokane Community College Transit Stations, and transit benefiting improvements for a total cost of $14,177,510;
- Additions to Equipment and Furnishings include twenty-six bus shelters; computer hardware replacements; maintenance equipment replacements, eight solar trash cans and seven digital signs for displaying real time route information as well as video surveillance equipment for Spokane Falls and Spokane Community College Transit Stations. The combined amount of these equipment purchases was $2,407,304; and
- Additions to Intangibles of $2,293,797 include a property easement, software for signage at EWU, Executime time keeping software, Trapeze operating software, and project plan development for City Line, STA's new Bus Rapid Transit line.

STA assets that have reached their useful life are generally disposed of by auction. If the asset has no auction value or is damaged beyond repair it may be disposed of through recycling or garbage. All disposals are documented and authorized prior to actual disposal.

Additional information on STA's capital assets is contained in Note 3 to the financial statements.

Long-Term Financial Outlook

STA recognizes that its heavy reliance on sales tax revenues makes it more susceptible to economic fluctuations than most government agencies. In response, STA has adopted a fiscally prudent policy of remaining debt-free, along with establishing reserve policies to insulate it from short-term revenue downturns and unanticipated expenditures. STA's governing Board (Board) adopted a designated cash policy in October 2007. The policy designated $5,500,000 for catastrophic self-insurance exposure protection and 15.0 percent of the annual Adopted Operating Expense Budget for unforeseen emergency expenses. An additional cash designation of $4,950,000 was established by the Board in December 2011. This designated cash is for future right of way acquisition. The level of designated cash is reviewed and approved annually by the Board in conjunction with the budget adoption process.

These designated cash balances in combination with the Fleet Replacement Fund and excess revenue over expense will be used over the next six years to provide capital infrastructure that supports service plans, and expansion via STAMF.

The cornerstone project of STAMF, the City Line, a six-mile corridor-based Bus Rapid Transit (BRT) line, was awarded a $53.4 million grant from the Federal Transit Administration in January 2020 which, along with $18.6 million in previous federal and state funding and $20.2 million in local money, will fully fund the construction and procurement to its service launch date in May 2022. The City Line will be served by modern-style electric buses estimated to provide over 1 million rides per year. It will feature more frequent trips and convenient elements like pre-board ticketing, level boarding and improved stations with real-time signage, wayfinding and other amenities. Groundbreaking for the construction is expected to begin in May 2020.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China and has since spread to other countries, including the U.S. In response to the emerging public health risk posed by COVID-19, on February 29, 2020, the Governor of the State of Washington declared a state of emergency. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic and, on March 13, 2020, the President of the United States declared a state of emergency on a national level. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered in Washington State which covers the PTBA in which STA operates. These measures which started with school, college and university closings, cancellation of public events, and size limitations of gatherings, ultimately culminated into the "Stay Home, Stay Healthy" order currently in effect through May 4th, 2020.

It is anticipated that these measures may continue beyond this date. The future effect of these issues is unknown and their full impact and duration on operational and sales tax revenue is difficult to estimate. STA has made operational changes in response such as suspending fare collection and adjusting service levels along with increasing sanitization measures to prevent the spread of the virus. Future potential impacts may include further service reductions and other actions required to maintain the health and safety of STA employees and the public. Changes to the operating environment are expected to increase operating costs.

In response to the economic fallout expected from COVID-19, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was signed into law. The CARES Act provides emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic and provide emergency appropriations to support Executive Branch agency operations during the COVID-19 pandemic. The bill provides $25 billion in funding to the transit industry with an apportionment for STA of $23.4 million. Funding will be provided at a 100 percent federal share, with no local match required, and will be available to reimburse operating, and other expenses generally eligible under those programs to prevent, prepare for, and respond to COVID-19. STA plans to fully utilize the available funds to support its operations.

2019 Budgetary Analysis

STA's 2019 actual operating and non-operating revenues exceeded the budget by $13,076,997 or 13.1 percent. Sales tax revenue, STA's largest source of revenue, came in ahead of its budget by $9,395,289. Federal and State grant revenue was $2,627,179 favorable to budgets. This was primarily due to fully drawing down the 2019-2021 Washington State Consolidated Grant (Special Needs) in 2019, while only a quarter of it was budgeted to be received in 2019. STA's fare and other transit revenue was slightly under budget for 2019 coming in $317,564 or 2.7 percent under budget. Another significant variance in revenue was investment earnings, which came in above budget by $1,372,093.

Operating expenditures also ended the year favorably compared with the 2019 budget. STA expended 89.1 percent of its operating budget, or $8,633,495 under budgeted levels. This variance occurred primarily due to a pension expense credit of $3,889,349, lower fuel costs of $2,158,110, lower than anticipated paratransit expense of $1,347,091, and lower administration expenses of $784,967.

The following is a comparison of the 2019 budget to 2019 actuals.

Budgetary Comparison Schedule

	2019 Budget	2019 Actual	Budget Variance
Operating and Non-Operating Revenue			
Fares & Other Transit Revenue	$11,807,075	$11,489,511	($317,564)
Sales Tax	77,271,349	86,666,638	9,395,289
Federal & State Grants	9,691,088	12,318,267	2,627,179
Miscellaneous Revenue	1,080,926	2,453,019	1,372,093
Total Operating Revenue	$99,850,438	$112,927,435	$13,076,997
Operating and Non-Operating Expenses			
Fixed Route	$61,259,769	$55,543,627	($5,716,142)
Paratransit	17,454,954	14,720,544	(2,734,410)
Vanpool	826,781	643,838	(182,943)
Total Operating Expense	$79,541,504	$70,908,009	($8,633,495)
Net Gain before Contributions	$20,308,934	$42,019,426	$21,710,492

Economic Factors and Next Year's Budget

The 2020 budget includes the continued commitment to STAMF. Construction is planned to begin in May 2020 on the City Line with revenue service starting in May 2022.

This table provides a summary of the adopted 2020 budget.

Summary of 2020 Budget

	2020 Budget
Operating and Non-Operating Revenue	
Fares & Other Transit Revenue	$12,242,543
Sales Tax	87,312,896
Federal & State Grants	10,061,656
Miscellaneous Revenue	1,580,803
Total Operating Revenue	$111,197,898
Operating and Non-Operating Expenses	
Fixed Route	$63,363,618
Paratransit	19,950,166
Vanpool	807,504
Total Operating Expense	$84,121,288
Net Gain before Contributions	$27,076,610

More information about the 2020 Adopted Budget can be found at www.spokanetransit.com.

Request for Information

This management, discussion, analysis and financial report is designed to provide a general overview of STA's finances for all who have an interest. Questions on any of the information presented in this report or requests for additional financial information are always welcome and should be addressed to: Spokane Transit, Chief Finance Officer, 1230 W. Boone Avenue, Spokane, WA 99201. An interesting and informative companion piece is the Transit Development Plan, an annual publication with an abundance of information that can be obtained through the above contact. Information can also be found on the STA website at www.spokanetransit.com.

Spokane Transit Authority
Statement of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 99,267,885	$ 80,568,279
Accounts Receivable, Net Allowance for Doubtful Accounts	405,086	469,879
Sales Tax Receivable	15,390,140	12,769,582
Due from Other Governments	7,924,208	4,750,657
Total Receivables	23,719,434	17,990,118
Maintenance Parts Inventory	1,666,503	1,611,896
Prepaid Expenses	490,594	523,310
Total Current Assets	125,144,416	100,693,603
Noncurrent Assets:		
Vehicles	86,218,184	81,521,564
Buildings and Improvements	79,244,345	65,066,835
Equipment and Furnishings	21,382,520	19,479,177
Intangible Property	8,922,096	6,819,995
Land	13,119,524	13,272,961
Work in Process	18,746,931	17,420,949
Total Capital Assets	227,633,600	203,581,481
Less Accumulated Depreciation and Amortization	(120,527,534)	(111,798,461)
Capital Assets, Net of Accumulated Depreciation	107,106,066	91,783,020
Total Assets	232,250,482	192,476,623
Deferred Outflows of Resources:		
Deferred Outflows Related to Pensions	3,947,774	3,803,233
Deferred Outflows - Other Post Employment Benefits	385,589	457,695
Total Deferred Outflows of Resources	4,333,363	4,260,928
Total Assets and Deferred Outflows of Resources	**$ 236,583,845**	**$ 196,737,551**

Continued on the following page

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

Spokane Transit Authority
Statement of Net Position
December 31, 2019 and 2018
(Continued)

	2019	2018
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 3,888,386	$ 2,695,087
Accrued Wages, Benefits, and Other Liabilities	7,534,695	7,125,838
Contracts Payable (includes retainage)	1,391,956	1,640,804
Provision for Medical Premiums	127,165	127,165
Provision for Uninsured Claims	1,339,077	1,258,154
Current portion of Other Post Employment Benefits Liability*	86,054	83,205
Total Current Liabilities	14,367,333	12,930,253
Long-Term Liabilities:		
Net Pension Liability	12,202,892	16,459,872
Other Post Employment Benefits Liability*	1,807,638	1,702,868
Total Long-Term Liabilities	14,010,530	18,162,740
Total Liabilities	28,377,863	31,092,993
Deferred Inflows of Resources:		
Advance Payment of Fares	35,120	31,960
Deferred Inflows Related to Pensions	7,611,632	7,099,460
Total Deferred Inflows of Resources	7,646,752	7,131,420
Net Position		
Net Investment in Capital Assets	107,106,066	91,783,020
Restricted for Workers' Compensation	357,000	357,000
Unrestricted	93,096,164	66,373,118
Total Net Position	200,559,230	158,513,138
Total Liabilities, Deferred Inflows, and Net Position	**$ 236,583,845**	**$ 196,737,551**

* Reclassifications made in prior year to conform to current year's presentation.

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

Spokane Transit Authority
Statement of Revenue, Expenses, and Change in Net Position
For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues:		
Passenger Fares	$ 11,170,370	$ 10,658,762
Other Transit Revenue	319,141	365,875
Total Operating Revenues	11,489,511	11,024,637
Operating Expenses:		
Transportation	42,869,674	41,654,736
Maintenance	13,626,714	12,636,969
Administration	14,411,621	13,489,704
Depreciation	11,002,893	10,522,378
Total Operating Expenses	81,910,902	78,303,787
Operating Loss	(70,421,391)	(67,279,150)
Nonoperating Revenues (Expenses):		
Sales Tax	86,666,638	73,305,787
Interest Income	1,930,615	1,157,624
Other Nonoperating Revenues	463,303	174,294
Other Nonoperating Expenses	(845,000)	(1,481,724)
State and Local Grants	4,206,123	2,203,792
Federal Preventive Maintenance and Other Operating Grants	8,112,144	8,443,313
Gain (Loss) on Sale of Capital Assets	59,101	(2,300)
Total Nonoperating Revenues (Expenses)	100,592,924	83,800,786
Net Gain Before Contributions	30,171,533	16,521,636
Capital Grants and Contributions:		
FTA formula and discretionary capital grants	2,424,390	2,684,029
State capital grants	8,474,635	5,730,816
Total Capital Grants and Contributions	10,899,025	8,414,845
Change in Net Position	41,070,558	24,936,481
Net Position - Beginning of Year, as previously reported	158,513,138	134,712,420
Prior Period Adjustment (OPEB-GASB 75 Implementation)	-	(1,052,054)
Prior Period Adjustment (Work in Process Adjustment)	(27,250)	(83,709)
Cumulative effect of change in accounting principle	1,002,784	-
Net Position - Beginning of Year, as restated	159,488,672	133,576,657
Net Position - End of Year	**$ 200,559,230**	**$ 158,513,138**

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

Spokane Transit Authority
Statement of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Cash Received from Operating and Other Revenues	$ 11,557,463	$ 11,202,691
Cash Payments to Suppliers for Goods and Services	(21,525,125)	(20,941,470)
Cash payments to Employees for Services	(52,237,004)	(48,840,268)
Net Cash Used in Operating Activities	(62,204,666)	(58,579,047)
Cash Flows from Noncapital Financing Activities:		
Tax Receipts Collected by Other Governmental Entities	84,046,080	72,079,561
Noncapital Grants and Other Revenue	11,636,380	16,996,999
Other Expense	(1,733,930)	(1,049,914)
Net Cash Provided by Noncapital Financing Activities	93,948,530	88,026,646
Cash Flows from Capital and Related Financing Activities:		
Purchase of Property, Plant, and Equipment	(23,931,308)	(26,119,915)
Proceeds from Disposition of Property, Plant, and Equipment	85,771	54,483
Federal Capital Grants	2,325,425	3,695,272
Other Capital Grants	6,545,239	5,887,009
Net Cash Used in Capital and Related Financing Activities	(14,974,873)	(16,483,151)
Cash Flows from Investing Activities:		
Interest Income	1,930,615	1,157,624
Net Cash Provided by Investing Activities	1,930,615	1,157,624
Net Increase (Decrease) in Cash and Cash Equivalents	18,699,606	14,122,072
Cash and Cash Equivalents - Beginning of Year	80,568,279	66,446,207
Cash and Cash Equivalents - End of Year	**$ 99,267,885**	**$ 80,568,279**

Continued on the following page

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

Spokane Transit Authority
Statement of Cash Flows
For the Years Ended December 31, 2019 and 2018
(Continued)

	2019	2018
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	$ (70,421,391)	$ (67,279,150)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operations:		
Non-Cash Adjustments:		
Depreciation and Amortization	11,002,893	10,522,378
Pension Expense - GASB 68	(3,889,349)	(2,101,717)
Other Post Employment Benefits - GASB 75	179,725	276,324
Changes in Assets - Decrease (Increase):		
Accounts Receivable	64,793	173,764
Maintenance Parts Inventory	(54,608)	(142,207)
Prepaid Expenses	32,716	15,638
Changes in Liabilities and Deferred Inflows - Increase (Decrease):		
Accounts Payable and Accrued Expenses	387,052	(1,046,079)
Accrued Wages, Benefits and Other Liabilities	409,420	837,267
Advance Payment of Fares	3,160	4,290
Provision for Uninsured Claims	80,923	201,469
Contracts Payable	-	(41,024)
Net Cash Used in Operating Activities	**$ (62,204,666)**	**$ (58,579,047)**

NON-CASH TRANSACTIONS:

Non-cash investing, capital or financing activities includes capital accruals of $1,331,059.

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

Spokane Transit Authority
Notes to the Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

The financial statements of Spokane Transit Authority (STA) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

STA is a Public Transportation Benefit Area (PTBA) organized and operating under the Revised Code of Washington (RCW) Chapter 36.57A, as a municipal corporation in the State of Washington. On April 1, 1981, STA assumed the assets, liabilities, and operations of the City of Spokane System.

STA is a special purpose government engaged only in business-type activities and provides transportation services to the general public. STA is supported primarily through voter-approved local sales tax, user fares, and federal and state grants.

STA is governed by a nine-member board of elected city and county officials who are appointed to the Board by their respective governing bodies. In 2010, a non-voting board member was added by state law to represent labor unions at STA. Two other local elected officials serve on the STA board in a non-voting capacity. As required by GAAP, management has considered all potential component units in defining the reporting entity. STA has no component units.

Per an established Interlocal Agreement, STA is a voting member of the Spokane Regional Transportation Council board and, by Federal and State law, is a partner in the metropolitan transportation planning process. This organization is not part of STA and is excluded from the accompanying financial statements.

B. Basis of Accounting and Reporting

The accounting records of STA are maintained in accordance with methods prescribed by the Federal Transit Administration (FTA) and the Washington State Auditor under authority of Chapter 53, United States Code (USC) 49 and RCW Chapter 43.09, respectively. STA is considered an Enterprise Fund Activity. Its prescribed and regulatory accounting rules are found in the FTA's National Transit Database (NTD); Uniform System of Accounts (USOA); and the Washington State Auditor's Budgeting, Accounting, and Reporting System (BARS).

These regulations are designed to reflect the regulatory and governing body's intent that the cost of providing services to the public on a continuing basis should be financed and operated in a manner more consistent with the practices of private business enterprises. These regulations differ from other general government financial accounting practices.

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

STA uses the prescribed full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Capital asset purchases are capitalized. STA has classified its revenues and expenses as either operating or non-operating according to the following criteria:

1. Operating revenues have the characteristics of exchange transactions, as defined in GASB Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*. Examples include passenger fares and other auxiliary transit revenue.

   Operating revenues include passenger fares on all fixed route, paratransit, and vanpool programs. STA increased its fixed route basic cash fare from $1.75 to $2.00, effective July 1, 2018. The fixed route basic cash fare had been at $1.75 since July 1, 2017. Paratransit basic cash fare increased from $1.75 to $2.00 effective July 1, 2018. The Paratransit basic cash fare had been at $1.75 since July 1, 2017.

   STA sells 31-day and monthly passes as well. Adult, Youth, and Reduced Fare 31-day passes sell for $60, $40, and $30, respectively. These prices went into effect on July 1, 2018. These passes sold for $50 for Adult, $35 for Youth, and $25 for Reduced Fare prior to July 1, 2018. Paratransit monthly passes sell for $60 and were $50 prior to July 1, 2018.

2. Nonoperating revenues have the characteristics of nonexchange transactions, as defined by GASB 33. Examples include sales tax, investment income, and federal preventive maintenance grants.

   STA receives two main sources of non-operating revenues in the form of voter-approved sales tax and Federal Preventive Maintenance funding which account for 76.7% and 7.2% of total revenues, respectively.

   Funding for STA's services is largely provided by a local voter-approved sales tax levied within the PTBA only. By state law, public funding for STA is through local sales and use tax of no more than 0.9 percent. Voter approval is required for all sales tax.

   From 1981 to 2004, STA was authorized by voters to levy a local 0.3 percent sales tax within its PTBA for the purpose of supporting the public transportation system. On May 18, 2004, the voters approved up to an additional 0.3 percent sales tax levy effective October 1, 2004 to replace funding eliminated by the State in 2000 from Motor Vehicle Excise Tax. This 2004 sales tax approval included a sunset clause on June 30, 2009. The Board took action on February 21, 2008 to have voters consider a reauthorization of the 0.3 percent sales tax on the May 20, 2008 ballot. This request was approved by the voters making the additional 0.3 percent sales tax permanent. On November 8, 2016, voters approved STA Proposition 1, authorizing an increase in local sales and use tax rate of up to 0.2 percent to fund the STA Moving Forward Plan to maintain, improve and expand public transit in Spokane County's transit service area. Phase one of the new tax took effect with a 0.1 percent increase that was effective April 1, 2017. An additional 0.1 percent increase was effective April 1, 2019 with both tax increases expiring no later than December 31, 2028 unless renewed by voters. STA now receives a local 0.8 percent sales tax levy within its PTBA.

   Capital and preventive maintenance formula and discretionary grants are available from the FTA based on maintenance expenses and available federal formula funding coordinated with a federally approved local and state Transportation Improvement Plan.

3. Operating expenses for STA include the costs of providing transit service, maintenance, administration, and depreciation on capital assets. All expenses not meeting this definition are reported as non-operating expenses.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Cash and Cash Equivalents

It is STA's policy to invest all available cash balances. Cash and cash equivalents are comprised of deposits at year-end pooled in the Spokane County Investment Pool (SCIP) as managed by the Spokane County Treasurer. The cash and cash equivalents balance for the years ended December 31, 2019 and 2018 was $99,267,885 and $80,568,279, respectively. The SCIP functions essentially as a demand deposit account where participants receive an allocation of their proportionate share of pooled earnings. STA's internal portion of the SCIP's net position is reported on as Cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. Investments are purchased and administered through the Spokane County Treasurer and the Washington State Treasurer and are covered by either federal depository insurance or specific qualifying collateral pledged by the financial institutions in accordance with state public deposit protection regulations. All cash equivalents are stated at cost, which approximates market. For purposes of the statement of cash flows, STA considers all investments (including restricted investments) to be cash equivalents (See Note 12).

2. Investments

See Note 2 (Deposits and Investments)

3. Receivables

Customer and third-party accounts receivable in 2019 consist of $405,086 (net of allowance for doubtful accounts) owed from private individuals or organizations for goods and services or damages. Accounts are charged to expense, if they are deemed uncollectible, based upon a periodic review of the accounts. These receivables were higher in 2018 at $469,879.

The sales tax receivable amount is $15,390,140 and represents sales tax for November and December 2019 which will be received in January and February 2020. Sales tax receivable was $12,769,582 at the end of 2018.

Due from other governments receivable is the amount due from federal and state governments for grants. The balance at year-end 2019 and 2018 was $7,924,208 and $4,750,657, respectively.

4. Inventories and Prepaid Expenses

Materials and supplies inventories, consisting principally of expendable items held for business consumption, are stated at average cost. The cost is reported as expenditure at the time individual inventory items are consumed. The value of inventory at year-end was $1,666,503 for 2019 and $1,611,896 for 2018.

Prepaid expenses are services that are acquired or purchased during an accounting period but are not used during that accounting period. The portion of services used during the accounting period are expensed and the remaining balance is reported as an asset until used. These accounts in 2019 consist of $490,594 related to a communication system warranty and maintenance agreement of $290,753, prepaid rent/lease of $180,000 and $19,841 of prepaid excess workers' compensation insurance. At December 31, 2018 the prepaid expense balance was $523,310.

5. Restricted Assets and Liabilities

STA has no restricted liabilities. The restricted asset of $357,000 is a Department of L&I requirement due to being self-insured for workers' compensation benefits. This asset remained the same for 2018 and 2019.

6. Capital Assets and Depreciation

Major expenses for capital assets, including capital leases and major repairs that have a useful life of over 3 years and a cost over $5,000, are capitalized. Obligations under capital leases are disclosed in Note 9 (Leases). Capital assets are valued at historical cost or estimated historical cost where historical cost is not known or estimated market value for donated assets. Donations are recorded at the donor cost or appraised value. Major additions and betterments are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

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

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation over its estimated useful life. However, in the case of the sale of a significant operating unit or system, the original cost is removed from STA asset accounts, as is the accumulated depreciation related to the asset, and the net gain or loss on disposition is recorded as a gain or loss on the sale of the asset.

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

Vehicles	3 - 12 years
Buildings and Improvements (includes Transit Benefiting Improvements)	3 - 40 years
Equipment and Furnishings	3 - 12 years
Intangible Property	3 - 15 years

At the time of acquisition, STA determines the estimated useful life and salvage value, if any, based upon current market and economic circumstances.

The statement of revenues, expenses, and changes in net position includes depreciation of all depreciable capital assets and total gains or losses upon disposition. However, depreciation and gains or losses upon disposition of assets associated with assets acquired with federal capital grants are allocated specifically to retirement of federal contributed capital.

7. Compensated Absences and Other Accrued Liabilities

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 hourly employees are covered in three plans: vacation, STA sick leave, and Washington paid sick leave (WPSL). Salaried employees are covered in two plans: vacation and STA sick leave.

Employees accrue vacation annually at rates ranging from 5 to 30 days per year. Most hourly employees are not allowed to carry vacation allowances beyond the year-end following the year made available. Salaried and Paratransit employees may carry over limited amounts of unused vacation allowances to be used subsequent to the year-end. Vacation pay, which is earned, is payable upon resignation, retirement, or death. The accrued vacation balance at December 31, 2019 and 2018 was $2,265,977 and $2,097,116, respectively.

Full-time employees accumulate sick leave at the combined rate of 8 hours per month, between STA sick leave and WPSL, with a maximum accumulation of 40 to 180 days. Part-time employees accumulate prorated sick leave with a maximum accumulation of 120 days. Sick leave is recorded as an expense at the time it is earned. At retirement, most hourly employees receive the full value of unused accumulated sick leave up to a maximum of 60 to 80 days. The accrued sick leave balance at December 31, 2019 and 2018 was $2,768,679 and $2,690,365, respectively.

Total accrued Wages, Benefits, and Other Liabilities, which include accrued sick and vacation, were $7,534,695 and $7,125,838 for 2019 and 2018, respectively.

8.   Long-Term Liabilities

Net pension liability of $12,202,892 for 2019 and $16,459,872 for 2018 is further described below in Item 10 and in Note 6: Retirement Plans. Net Other Post-Employment Benefits Liability, including the current portion, of $1,893,692 for 2019 and $1,786,073 for 2018 is further described in Item 11 and Note 5: Defined Benefit Plans - Other Post-Employment Benefits (OPEB).

9. Deferred Inflows and Outflows of Resources

Advance Payment of Fares – The advance payment of fares is a deferred inflow and represents pre-payments of vanpool fares and January 2020 calendar month passes out on consignment. The balance represents payments received, but not yet due, from some January monthly passes distributed in December but not finalized until January. The advance payment for 2019 and 2018 was $35,120 and $31,960, respectively.

Pension – See Item 10 and Note 6 for detail on deferred inflows and outflows related to pensions.

Other Post-Employment Benefits (OPEB) – See Item 11 and Note 5 for detail on deferred outflows related to OPEB.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state-sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. 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.

11. Other Post-Employment Benefits

GASB Statement 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (GASB 75), requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially-determined expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment benefit liability is recognized on the Statement of Net Position over time. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

E. Budgetary Information

STA adopts its annual budget in November of the preceding fiscal year following analysis by staff and the STA Board. In addition, STA seeks input from the public by providing a video presentation available on STA's website and offering a Public Hearing at the October Board Meeting. The budget is based on STA's strategic priorities and objectives as well as revenue and service growth assumptions outlined in the Board adopted Transit Development Plan (TDP). Most operating revenues and expenditures are budgeted on the accrual basis. Some differences include sales tax revenue, depreciation and amortization, postemployment benefits, and other revenues.

A six-year Capital Improvement Plan (CIP) is developed each year in conjunction with the TDP. The annual capital budget is the applicable year from this plan. The CIP is reviewed and modified each year.

STA encumbers expenditures for management information. Operating budgets lapse at year-end. The STA Board must approve amendments to the adopted annual operating or capital budget.

Note 2: Deposits and Investments

STA is a participant in the SCIP, an external investment pool (Pool). It is the policy of the SCIP to permit participants to withdraw their investments on a daily basis; therefore, the investment balance in the pool is equal to its fair value. The responsibility for managing the Pool resides with the County Treasurer. The Pool is established from the RCW Chapter 36.29 which authorizes the Spokane County Treasurer to invest the funds of participants. Spokane County's investment policy is established by the Spokane County Finance Committee consisting of the Chair of the Board of County Commissioners, County Auditor, and the County Treasurer.

Investments by SCIP are limited by state statute. SCIP deposits and certificates of deposit are covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC (Washington Public Deposit Protection Commission). The SCIP investment policy in its entirety is available at www.spokanecounty.org. As of December 31, 2019, STA's cash and cash equivalents in the SCIP were $99,267,885. This was increase over the amount reported at December 31, 2018 of $80,568,279.

Note 3: Capital Assets and Depreciation

Capital assets activity for the years ended December 31, 2019 and 2018 was as follows:

	Beginning Balance 1/1/19	Additions/ Adjustments	Retirements	Ending Balance 12/31/19
Capital Assets, Not Being Depreciated:				
Land	$13,272,961	(153,437)	$-	$13,119,524
Work in Process	17,420,949	1,325,982	-	18,746,931
Subtotal	30,693,910	1,172,545	-	31,866,455
Capital Assets Being Depreciated:				
Vehicles	81,521,564	6,301,452	(1,604,832)	86,218,184
Buildings and Improvements	65,066,835	14,177,510	-	79,244,345
Equipment and Furnishings	19,479,177	2,407,304	(503,961)	21,382,520
Intangible Property	6,819,995	2,293,797	(191,696)	8,922,096
Subtotal	172,887,571	25,180,063	(2,300,489)	195,767,145
Less Accumulated Depreciation For:				
Vehicles	56,536,275	5,478,519	(1,593,251)	60,421,543
Buildings and Improvements	38,724,948	2,539,398	(5,843)	41,258,503
Equipment and Furnishings	12,445,240	1,519,703	(488,030)	13,476,913
Intangible Property	4,091,998	1,465,273	(186,696)	5,370,575
Subtotal	111,798,461	11,002,893	(2,273,820)	120,527,534
Total Capital Assets, Net of Accumulated Depreciation	**$91,783,020**	**$15,349,715**	**($26,669)**	**$107,106,066**

	Beginning Balance 1/1/18	Additions/ Adjustments	Retirements	Ending Balance 12/31/18
Capital Assets, Not Being Depreciated:				
Land	$10,612,778	$2,660,183	$-	$13,272,961
Work in Process	16,060,380	1,360,569	-	17,420,949
Subtotal	26,673,158	4,020,752	-	30,693,910
Capital Assets Being Depreciated:				
Vehicles	75,853,782	6,200,045	(532,263)	81,521,564
Buildings and Improvements	51,967,085	13,123,964	(24,214)	65,066,835
Equipment and Furnishings	19,118,509	902,761	(542,093)	19,479,177
Intangible Property	6,769,198	50,797	-	6,819,995
Subtotal	153,708,574	20,277,567	(1,098,570)	172,887,571
Less Accumulated Depreciation For:				
Vehicles	51,121,069	5,928,175	(512,969)	56,536,275
Buildings and Improvements	36,608,877	2,132,618	(16,547)	38,724,948
Equipment and Furnishings	11,691,739	1,265,772	(512,271)	12,445,240
Intangible Property	2,896,185	1,195,813	-	4,091,998
Subtotal	102,317,870	10,522,378	(1,041,787)	111,798,461
Total Capital Assets, Net of Accumulated Depreciation	**$78,063,862**	**$13,775,941**	**($56,783)**	**$91,783,020**

Construction and Other Commitments

STA has active construction projects as of December 31, 2019. The projects and commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Moran Station Park and Ride	$2,073,024	$1,934,939
Fleck Service Center Energy Savings Project	444,780	1,378,837
Spokane Community College Transit Center	2,937,650	671,688
North Boone Energy Savings Project	12,975	465,880
Spokane Falls Community College Transit Station	1,876,285	517,283
Division Stop Improvements – Phase 2	-	302,893
Plaza Restroom Remodel - second floor	229,043	15,309
Total	**$7,573,757**	**$5,286,829**

The projects and commitments with contractors as of year-end 2018 were:

Project	Spent to Date	Remaining Commitment
Northwest Boone Garage and related projects	$6,514,817	$3,152,954
Energy Savings-Paint Booth & Plaza Controls	1,314,990	535,010
West Plains Transit Center	4,258,421	356,368
Division Stop Improvements	601,665	347,170
2018 Transit Enhancements	28,762	99,774
Indiana Sidewalk Extension	36,583	4,062
Total	**$12,755,238**	**$4,495,338**

Note 4: Stewardship, Compliance, and Accountability

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

Note 5: Defined Benefit Plans - Other Postemployment Benefits (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year 2019 and 2018:

Aggregate OPEB Amounts		
	2019	**2018**
OPEB liability	$ 1,893,692	$ 1,786,073
OPEB assets	$ -	$ -
Deferred outflows of resources	$ 385,589	$ 457,695
Deferred inflows of resources	$ -	$ -
OPEB expenses/expenditures	$ 265,210	$ 276,324

OPEB Plan Description

STA provides access to post-employment healthcare benefits for eligible retirees and their dependents. In addition, employees that are members of Amalgamated Transit Union Local 1015 separating with 25 years of service are provided a $2,000 life insurance policy with the premium paid by STA. The current cost of this benefit is $7.10 per person annually. This is a single-employer plan administered by STA.Eligibility: Employees are eligible for retiree healthcare when they retire according to the applicable PERS rules outlined below:

- Plan 1 (members of PERS joining before October 1, 1977):
    - (1) Age 60 regardless with 5 years of service;
    - (2) Service of 30 or more years.
- Plan 2 (members of PERS joining after October 1, 1977):
    - (1) Age 65 regardless with 5 years of service;
    - (2) Age 55 regardless with 20 years of service.
- Plan 3 (members of PERS on or after March 2, 2002):
    - (1) Age 65 regardless with 5 years of service;
    - (2) Age 55 regardless with 10 years of service.

Note: Employees are permitted to choose between PERS Plan 2 or 3.

Retirees are required to pay 100 percent of the cost of the premium. Benefits end after the death of the eligible retired employee. With the exception of the life insurance, this valuation does not account for the cost of benefits to retirees or their spouses after age 65.

Employees covered by benefit terms: At December 31, 2019 and 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to but not yet receiving benefits	-
Active employees	589
Total	655

STA's total OPEB liability of $1,786,073 was measured as of December 31, 2018 and rolled forward for 2019 to determine the actuarial value of $1,893,692 as of December 31, 2019.

Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	2.74%
Healthcare Cost Trend Rates:	
Current Year Trend	9.50%
Second Year Trend	9.00%
Decrement	0.50%
Ultimate Trend	5.00%
Year Ultimate Trend is Reached	2028
Salary Increases	2.00%

The discount rate was based on the index provided by Bond Buyer 20-Bond General Obligation Index based on the 20 year AA municipal bond rate as of December 31, 2019.

Mortality rates were based on the Society of Actuaries RP-2014 Total Dataset Mortality with Scale MP-2017 (Base Year 2006).

The following presents the total OPEB liability of STA calculated using the current healthcare cost trend rate of 9.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (8.5 percent) or 1-percentage point higher (10.5 percent) than the current rate.

	1% Decrease (8.5%)	Current Healthcare Cost Trend Rate (9.5%)	1% Increase (10.5%)
Total OPEB Liability	$1,703,986	$1,893,692	$2,199,563

The following presents the total OPEB liability of STA calculated using the discount rate of 2.74 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.74 percent) or 1-percentage point higher (3.74 percent) than the current rate.

	1% Decrease (1.74%)	Current Discount Rate (2.74%)	1% Increase (3.74%)
Total OPEB Liability	$2,081,749	$1,893,692	$1,788,971

Changes in the Total OPEB Liability

Spokane Transit	
Total OPEB Liability at 01/01/2019	$1,786,073
Service cost	171,746
Interest	47,063
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(25,705)
Benefit payments	(85,485)
Change in Actuarial Cost Method	-
Total OPEB Liability at 12/31/2019	$1,893,692

Spokane Transit	
Total OPEB Liability at 01/01/2018	$1,327,804
Service cost	91,402
Interest	58,224
Changes of benefit terms	-
Differences between expected and actual experience	321,393
Changes of assumptions	185,464
Benefit payments	(67,875)
Change in Actuarial Cost Method	(130,339)
Total OPEB Liability at 12/31/2018	$1,786,073

At December 31, 2019 and 2018, STA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

December 31, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$259,047	$-
Changes of assumptions	126,542	-
Payments subsequent to the measurement date	-	-
TOTAL	$385,589	$-

December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$290,220	$-
Changes of assumptions	167,475	-
Payments subsequent to the measurement date	-	-
TOTAL	$457,695	$-

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	Deferred Outflows of Resources
2020	$ 46,401
2021	$ 46,401
2022	$ 46,401
2023	$ 46,401
2024	$ 46,401
Thereafter	$153,584

Note 6: Retirement Plans

Public Employees' Retirement System – Defined Benefit Plan

The following table represents the aggregate pension amounts for all plans for the year 2019 and 2018:

Aggregate Pension Amounts – All Plans		
	2019	**2018**
Pension liability	$ 12,202,892	$ 16,459,872
Deferred outflows of resources	$ 3,947,774	$ 3,803,233
Deferred inflows of resources	$ 7,611,632	$ 7,099,460
Pension expense/expenditures	$ 531,816	$ 1,945,858

State Sponsored Pension Plans

Substantially all STA's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit 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 DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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 is comprised of three separate pension 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 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. 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. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL*	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**
*UAAL – Unfunded Actuarial Accrued Liability		

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. 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.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.83%**	**7.41%**
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.86%**	**7.90%**

STA's actual PERS plan contributions were $11,301 to PERS Plan 1 and $4,472,705 to PERS Plan 2/3 for the year ended December 31, 2019. Contributions were $12,173 to PERS Plan 1 and $4,093,415 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan 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 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) 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). The 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, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability

The table below presents STA's proportionate share of the 2019 net pension liability calculated using the discount rate of 7.4 percent, as well as what STA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 11,543,400	$ 9,217,624	$ 7,199,706
PERS 2/3	$ 22,895,818	$ 2,985,268	$(13,352,655)

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.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, STA reported a total pension liability of $12,202,892 for its proportionate share of the net pension liabilities. The proportionate share for 2018 was $16,459,872. The breakdown of this liability is as follows:

Liability		
	2019	**2018**
PERS 1	$ 9,217,624	$ 11,086,974
PERS 2/3	$ 2,985,268	$ 5,372,898
TOTAL LIABILITY	$ 12,202,892	$ 16,459,872

At June 30, STA's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share June 30, 2019	Proportionate Share June 30, 2018	Change in Proportion
PERS 1	0.239708%	0.248251%	(0.008543)%
PERS 2/3	0.307335%	0.314681%	(0.007346)%

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 the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1 (Law Enforcement Officers' and Fire Fighters').

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the years ended December 31, 2019 and 2018, the STA's recognized pension expense is as follows:

	Pension Expense (Credit)	
	2019	2018
PERS 1	$ 24,677	$ 2,002,826
PERS 2/3	507,139	(56,968)
TOTAL	$ 531,816	$ 1,945,858

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019 and 2018, STA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2019 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	-	615,815
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	854,881	-
TOTAL	$ 854,881	$ 615,815

2019 PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 855,286	$ 641,816
Net difference between projected and actual investment earnings on pension plan investments	-	4,345,334
Changes of assumptions	76,443	1,252,519
Changes in proportion and differences between contributions and proportionate share of contributions	761,432	756,148
Contributions subsequent to the measurement date	1,399,732	-
TOTAL	$ 3,092,893	$ 6,995,817

2019 TOTAL PERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 855,286	$ 641,816
Net difference between projected and actual investment earnings on pension plan investments	-	4,961,149
Changes of assumptions	76,443	1,252,519
Changes in proportion and differences between contributions and proportionate share of contributions	761,432	756,148
Contributions subsequent to the measurement date	2,254,613	-
TOTAL	$ 3,947,774	$ 7,611,632

2018 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	-	440,590
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	836,705	-
TOTAL	$ 836,705	$ 440,590

2018 PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 658,576	$ 940,696
Net difference between projected and actual investment earnings on pension plan investments	-	3,297,059
Changes of assumptions	62,854	1,529,083
Changes in proportion and differences between contributions and proportionate share of contributions	1,019,439	892,033
Contributions subsequent to the measurement date	1,225,659	-
TOTAL	$ 2,966,528	$ 6,658,871

2018 TOTAL PERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 658,576	$ 940,696
Net difference between projected and actual investment earnings on pension plan investments	-	3,737,649
Changes of assumptions	62,854	1,529,083
Changes in proportion and differences between contributions and proportionate share of contributions	1,019,439	892,033
Contributions subsequent to the measurement date	2,062,364	-
TOTAL	$ 3,803,233	$ 7,099,461

Deferred outflows of resources related to pensions resulting from STA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	TOTAL
2020	$ 135,945	$ 1,383,061	$ 1,519,006
2021	322,013	2,234,864	2,556,877
2022	114,913	993,744	1,108,657
2023	42,944	534,023	576,967
2024		168,296	168,296
Thereafter		(11,732)	(11,732)

Defined Contribution Plan

Prior to becoming a member of PERS, STA's primary retirement plans were defined contribution plans. The plans are established pursuant to Internal Revenue Code Section 401(a), in a money purchase format. ICMA Retirement Corporation (RC) serves as plan administrator, trustee, and record keeper under the plans.

STA had five defined contribution retirement plans for its employees prior to becoming a member of PERS. The STA CEO Plan 106806 is the only plan still active. The other plans have been frozen and no longer receive contributions. The CEO Plan vesting is 100 percent immediately upon receipt of contributions. Forfeitures would not be applicable for this plan.

Employer and employee contributions are established by the individual plan adoption agreements and, where applicable, the related collective bargaining agreement or contract. Employer and employee contributions were determined based upon a percentage of base pay, subject to certain defined wage limits. The employee contributions through October 2, 2010 ranged from 0 percent to 6.5 percent and the employer contribution ranged from 9 percent to 25 percent. The Chief Executive Officer's (CEO) contract provided for an employer contribution of 16 percent from October 3, 2010 to December 31, 2010, 18 percent for 2011 and 22 percent for 2012 through 2019. There are no employee contributions for this plan. While STA has no liability for investment losses under the plan, it performs the fiduciary duty of continual evaluation of investment options for plan participants.

Annual gross payroll, most of which is subject to plan contributions, was $182,192 in 2019 and $178,270 in 2018. During the years ended December 31, 2019 and 2018, STA contributed a total of $39,892 and $39,037 respectively, to the Section 401(a) defined contribution plans. These amounts were recognized as pension expense by STA in 2019. There was no outstanding liability as of December 31, 2019.

Note 7: Deferred Compensation Plan

STA offers its employees a tax-deferred compensation plan created in accordance with Internal Revenue Code Section 457. ICMA Retirement Corporation (RC) serves as plan administrator, trustee, and record keeper under the plan. The plan permits employees to defer a portion of their wages until future years. In addition, STA contributes 3 percent into the account of employees hired before January 1, 2007 in the following groups: ATU 1598, non-represented employees, and the CEO. This deferred compensation is not available to employees until separation, retirement, death, or unforeseeable emergency, with the exception of the employees' Section 457 Loan Program. The compensation deferred under the plan and all income attributable to the plan is held in trust for the exclusive benefit of the participants and their beneficiaries and are therefore not subject to claims by the employer's creditors. While STA has no liability for investment losses under the plan, it performs the fiduciary duty of continual evaluation of investment options for plan participants. Total assets, which equal the total trustees' liability under this plan at December 31, 2019 and 2018, were $14,296,014 and $12,960,092, respectively.

Note 8: Insurance

A. Liability Insurance

STA joined the Washington State Transit Insurance Pool (WSTIP) in June 2004, for coverage effective July 1, 2004. WSTIP is a 25-member self-insurance program located in Olympia, Washington. WSTIP supplies STA 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. STA assumes the liability for claims up to the deductible amounts listed below for each type of risk. Risk of claims in excess of the deductible amount have been transferred to the Washington State Transit Insurance Pool.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months.

Members may withdraw after that time by giving six-month's 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.

WSTIP utilizes a combination of self-insurance, reinsurance and excess insurance to provide the limits noted in the summary below. Carriers include Government Entities Mutual, Munich Reinsurance America, Lloyds of London, and Hallmark Specialty Insurance Company for the liability lines; Evanston for auto physical damage; American International Group Inc (AIG)/National Union Fire Insurance for the crime policy; and Beazley Cyber Services 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.

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

WSTIP provided the following coverage for 2019 which was generally consistent with 2018 coverage.

General/ Auto Liability	$25,000,000 per occurrence with $0 deductible
Public Official Liability	$25,000,000 per claim/aggregate with $5,000 deductible
Property Insurance	$500,000,000 blanket limit with $25,000 deductible
Auto Physical Damage:	
Vehicles with value less than $250,000	Fair Market Value with $25,000 deductible
Vehicles 2008 or later and value over $250,000	Replacement Cost with $25,000 deductible
Public Honesty Bond/Faithful Performance	$1,000,000 per claim with $10,000 deductible
Monies & Securities	$1,000,000 per claim with $10,000 deductible
Depositors Forgery	$1,000,000 per claim with $10,000 deductible
Pollution Liability	$5,000,000 per claim/aggregate with $100,000 deductible
Cyber Liability	$2,000,000 aggregate with $100,000 deductible

Claim settlements in the past three years did not exceed coverage limits or self-insured funding reserve for uninsured claims.

B. Workers' Compensation Insurance

On December 31, 2019 and 2018, cash and investments set aside for workers' compensation self-insurance totaled $1,667,327 and $1,586,404, respectively. STA reported a liability on December 31, 2019 and 2018, of $1,310,327 and $1,229,404, respectively, which represents the estimated liability for open workers' compensation claims for which STA may ultimately be liable, including a provision for claims incurred but not yet reported. No outstanding liabilities have been removed from the balance sheet due to the purchase of annuity contracts from third parties in the name of the claimants. In addition to the self-insurance reserve of $357,000, STA purchased an excess commercial workers' compensation policy with a statutory limit per accident of $500,000.

Note 9: Leases

Operating Leases

As lessee, during 2019 and 2018, STA leased property, equipment, and tires under operating leases. Total lease expense for the years ended December 31, 2019 and 2018 was approximately $798,165 and $657,812, respectively. The portion of these leases that is noncancelable was about $53,500 and $73,500 for 2019 and 2018, respectively. The future noncancelable approximate lease payments are as follows:

2020	$ 102,075
2021	91,988
2022	68,243
2023	33,087
2024	27,588
2025 and beyond	334,366

As lessor, in 1995 STA began entering into operating lease agreements for retail space in its Downtown Plaza. Total lease income for the years ended December 31, 2019 and 2018 was approximately $163,997 and $129,104, respectively. The retail lease agreements at the STA Plaza include percentage rental rates ranging from 4 percent to 7 percent of gross sales less minimum rent payments. Future minimum lease payments, excluding the percentage rental rates, are due under these leases as follows (allowing for potential non-renewals):

2020	$ 154,136
2021	158,229
2022	64,113
2023	16,320
2024	0

Note 10: Restricted Net Position

STA's statement of net position reports $357,000 of restricted net position, which is restricted by self-insurance regulations of the State of Washington.

Note 11: Contingencies and Litigations

A. Legal Proceedings

There are pending claims in which STA is involved and disputes liability. In the opinion of management, STA's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims in the event STA is deemed liable.

B. Federal Grants

STA has received several federal grants for specific purposes that are subject to review and audit by the grantors or their representatives. Such audits could lead to requests for reimbursement of expenditures disallowed under the terms of the grant. Management does not believe there will be any disallowances. Additionally, management believes that should any disallowances occur, they would be immaterial.

C. Environmental Liability

As a public transit operator, STA has certain environmental risks related to its operation involving the storage 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 STA.

Note 12: Designated Cash and Cash Equivalents

The Board adopted a designated cash reserve policy in October 2007. The policy designated $5,500,000 for catastrophic self-insurance exposure protection and 15 percent of the annual Adopted Operating Expense Budget designated for unforeseen emergency appropriations. An additional cash designation of $4,950,000 was established by the Board in December 2011. This designated cash is for future High Performance Transit Right of Way acquisition. The level of designated cash is reviewed and approved annually by the Board, in conjunction with the budget adoption process. In 2019, the Board adopted cash reserves were a total of $22,738,226. This included $4,950,000 Right of Way acquisition, $5,500,000 for catastrophic self-insurance exposure protection, $11,931,226 for operating expense reserves, and $357,000 for self-insurance reserves for workers' compensation (Note 10). The reserve was $21,830,743 in 2018. The only difference from 2018 to 2019 is in the operating reserve which was $11,023,743 in 2018 .

Note 13: Cooperative Funding of Transit Related Street and Road Projects

With concurrence of the Washington State Attorney General, STA initiated a special effort to assist in cooperative funding of street and road projects where its services are operated. Since inception of this program through 2012, STA has provided eligible jurisdictions approximately $17.1 million for transit-related street and road projects in its service area. The 2018 and 2019 budgets did not provide additional funding as all remaining commitments of this program have been met. No further awards are contemplated by the Board at this time.

Note 14: Other Disclosures

Accounting and Reporting Changes

In 2019, STA implemented a change to the capitalization procedure. A new asset category called Transit-Benefiting Asset was added effective January 1, 2019. These assets include depreciable improvements to land which is not owned by STA yet which provide benefit to STA's service delivery. This may include items such as retaining walls, sidewalks, parking lots, ponds, landscaping, berms, fencing, outdoor lighting, and so on. As a part of this change, an assessment was done of 2018 and 2019 projects to determine which projects fell into this new category. The cumulative effect of this change in prior years was a benefit of $1,002,784.

In 2019, during STA's review of work in process it was determined that $27,250 in project expenses did not meet the capitalization requirements and were reclassified to expense as prior period adjustments. In 2018, STA reviewed the work in process items and determined that one of the projects was cancelled and did not meet the capitalization requirements and should be reclassified to expense and prepaid expense for a portion converted to an ongoing service agreement. These project expenses of $132,710 were from a prior period and therefore are being reported as a prior period adjustment and a reclassification in the current period from work in process to prepaid expense ($49,267). In addition, there was a minor correction of $266 for 2017. The cumulative effect of this change in prior years was $83,709.

In 2018, STA implemented GASB 75 which requires governments to account for OPEB on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Revenue, Expenses, and Change in Net Position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment liability is recognized on the Statement of Net Position over time. The 2018 cumulative effect of implementing GASB 75 in prior years was $1,052,054.

Note 15: Subsequent Events

A. COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China and has since spread to other countries, including the U.S. In response to the emerging public health risk posted by COVID-19, on February 29, 2020, the Governor of the State of Washington declared a state of emergency. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic and, on March 13, 2020, the President of the United States declared a state of emergency on a national level. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered in Washington State which covers the PTBA in which STA operates. These measures which started with school, college and university closings, cancellation of public events, and size limitations of gatherings, ultimately culminated into the "Stay Home, Stay Healthy" order currently in effect through May 4, 2020.

It is anticipated that these measures will continue beyond this date. The future effect of these issues is unknown and their full impact and duration on operational and sales tax revenue is difficult to estimate. STA has made operational changes in response such as suspending fare collection and adjusting service levels along with increasing sanitization measures to prevent the spread of the virus. Future potential impacts may include further service reductions and other actions required to maintain the health and safety of STA employees and the community. Changes to the operating environment are expected to increase operating costs.

In response to the economic fallout expected from COVID-19, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was signed into law. The CARES Act provides emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic and provide emergency appropriations to support Executive Branch agency operations during the COVID-19 pandemic. The bill provides $25 billion in funding to the transit industry with an apportionment for STA of $23.4 million. Funding will be provided at a 100 percent federal share, with no local match required, and will be available to support capital, operating, and other expenses generally eligible under those programs to prevent, prepare for, and respond to COVID-19. STA plans to fully utilize the available funds to support its operations.

B. Small Starts Grant

STA was awarded a $53.4 million grant from the Federal Transit Administration in January 2020 which, along with $18.6 million in previous federal and state funding, and $20.2 million in local money, will fully fund the construction and procurement of the City Line, a six-mile corridor-base Bus Rapid Transit (BRT) line. Groundbreaking for the construction is expected to begin in May 2020 with service launch in May 2022.

Spokane Transit Authority
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
As of and for the twelve months ended June 30,

		2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.239708%	0.248251%	0.227220%	0.245403%	0.262319%
Employer's proportionate share of the net pension liability	$	9,217,624	11,086,974	10,781,766	13,179,297	13,721,723
Employer's covered employee payroll	$	33,500,368	32,922,486	28,479,976	29,012,360	29,742,762
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	27.51%	33.68%	37.86%	45.43%	46.13%
Plan fiduciary net position as a percentage of the total pension liability	%	67.12%	63.22%	61.24%	57.03%	59.10%

*** This schedule is to be built prospectively until it contains ten years of data.**

Spokane Transit Authority
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
As of and for the twelve months ended June 30,

		2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.307335%	0.314681%	0.289129%	0.309094%	0.332237%
Employer's proportionate share of the net pension liability	$	2,985,268	5,372,898	10,045,851	15,562,639	11,871,017
Employer's covered employee payroll	$	33,406,559	32,797,084	28,346,328	28,791,796	29,483,107
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	8.94%	16.38%	35.44%	54.05%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	%	97.77%	95.77%	90.97%	85.82%	89.20%

*** This schedule is to be built prospectively until it contains ten years of data.**

Spokane Transit Authority
Schedule of Employer Contributions
Public Employees' Retirement System (PERS) Plan 1
As of and for the year ended December 31,

		2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	1,737,138	1,638,060	1,523,163	1,410,525	1,291,520
Contributions in relation to the statutorily or contractually required contributions	$	(1,737,138)	(1,638,060)	(1,523,163)	(1,410,525)	(1,291,520)
Contribution deficiency (excess)	$	-	-	-	-	-
Covered employer payroll	$	34,910,848	32,229,818	30,917,140	29,360,021	29,093,216
Contributions as a percentage of covered employee payroll	%	4.98%	5.08%	4.93%	4.80%	4.44%

*** This schedule is to be built prospectively until it contains ten years of data.**

Spokane Transit Authority
Schedule of Employer Contributions
Public Employees' Retirement System (PERS) Plan 2/3
As of and for the year ended December 31,

		2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	2,746,869	2,467,528	2,158,355	1,871,920	1,676,773
Contributions in relation to the statutorily or contractually required contributions	$	(2,746,869)	(2,467,528)	(2,158,355)	(1,871,920)	(1,676,773)
Contribution deficiency (excess)	$	-	-	-	-	-
Covered employer payroll	$	34,822,854	32,134,263	30,775,241	29,202,895	28,837,971
Contributions as a percentage of covered employee payroll	%	7.89%	7.68%	7.01%	6.41%	5.81%

*** This schedule is to be built prospectively until it contains ten years of data.**

Spokane Transit Authority
Schedule of Changes in Total OPEB Liability and Related Ratios
As of and for the year ended December 31,

	2019	2018
Total OPEB liability - beginning	$ 1,786,073	$ 1,327,804
Changes for the Year		
Service cost	171,746	91,402
Interest	47,063	58,224
Changes in benefit terms	0	0
Differences between expected and actual experience	0	321,393
Changes of assumptions	(25,705)	185,464
Benefit payments	(85,485)	(67,875)
Change in Actuarial Cost Method	0	(130,339)
Total OPEB liability - ending	$ 1,893,692	$ 1,786,073
Covered-employee payroll	$ 35,421,230	$ 32,680,465
Total OPEB liability as a % of covered payroll	5.35%	5.47%

Notes to Schedule:
Until a full 10-year trend is compiled, only information for those years available is presented.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

SPOKANE TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

1	2	3	4	5				6
Federal Agency / Pass-Through Agency	**Federal Program**	**CFDA Number**	**Other Award Number**	**Expenditures**				**Note**
				From Pass-Through Awards	**From Direct Awards**	**Total**	**Passed through to Subrecipients**	
Federal Transit Cluster								
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2018-069-00		$3,349	$3,349		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2018-005-00		$8,000	$8,000		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0064		$14,371	$14,371		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X068		$28,070	$28,070		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X092		$36,468	$36,468		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2017-015-00		$54,748	$54,748		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2016-005-02		$129,211	$129,211		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2017-013-00		$287,805	$287,805		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2018-056-00		$320,880	$320,880	$103,962	1,2,4

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

SPOKANE TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

1	2	3	4	5			6	7
Federal Agency (Pass-Through Agency)	**Federal Program**	**CFDA Number**	**Other Award Number**	**Expenditures**			**Passed through to Subrecipients**	**Note**
				From Pass-Through Awards	**From Direct Awards**	**Total**		
Federal Transit Administration, U.S. Department of Transportation	Bus and Bus Facilities Formula Program	20.526	WA-2019-013-00		$1,090,223	$1,090,223		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2019-084-00		$8,102,828	$8,102,828		1,2, 3,4
Total Federal Transit Cluster:				**$0**	**$10,075,953**	**$10,075,953**	**$103,962**	
Transit Services Programs Cluster								
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-2017-020-00		$79,688	$79,688	$41,899	1,2,4
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-16-X048		$173,902	$173,902	$ 0	1,2
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-2018-067-00		$469,863	$469,863	$117,010	1,2,4
Total Transit Services Programs Cluster:				**$0**	**$723,453**	**$ 723,453**	**$158,909**	
TOTAL FEDERAL AWARDS EXPENDED:				**$0**	**$10,799,406**	**$10,799,406**	**$262,871**	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the STA financial statements. STA uses the full accrual basis of accounting.

Note 2 - Program Costs

The amounts shown as current year federal expenditures represent only the federal portion of the current year program costs. Entire program costs, including the local 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 the reimbursement.

Note 3 - Preventive Maintenance

The amount reported for this award includes eligible expenditures made in 2019. For this program, it is acceptable to include the current year's costs on the Schedule of Expenditures of Federal Awards because the FTA approves these costs on a retroactive basis. STA was given "pre-award authority" for its preventive maintenance expenses. The official grant award was made by the FTA for the 2019 apportionment on September 20, 2019.

Note 4 – Indirect Cost Rate

STA has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov