



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

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

For the period January 1, 2022 through December 31, 2023

Published September 26, 2024

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**Office of the Washington State Auditor
Pat McCarthy**

September 26, 2024

Board of Commissioners
Kitsap Transit
Bremerton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kitsap Transit **January 1, 2023 through December 31, 2023**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

<u>ALN</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit Cluster - Federal Transit Formula Grants
20.525	Federal Transit Cluster - State of Good Repair Grants Program
20.526	Federal Transit Cluster - 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 Transportation 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

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Kitsap Transit January 1, 2022 through December 31, 2023

Board of Commissioners
Kitsap Transit
Bremerton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kitsap Transit, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Transportation Authority's basic financial statements, and have issued our report thereon dated September 18, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Transportation Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Transportation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transportation 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 Transportation 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or

significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.


REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Transportation Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Transportation 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 Transportation 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

September 18, 2024

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Kitsap Transit January 1, 2023 through December 31, 2023

Board of Commissioners
Kitsap Transit
Bremerton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Kitsap Transit, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Transportation Authority's major federal programs for the year ended December 31, 2023. The Transportation Authority's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Transportation 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Transportation Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal

determination on the Transportation Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Transportation Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Transportation Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Transportation Authority's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Transportation Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Transportation Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Transportation Authority's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also

serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

September 18, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Kitsap Transit January 1, 2022 through December 31, 2023

Board of Commissioners
Kitsap Transit
Bremerton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of Kitsap Transit, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Transportation Authority's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Kitsap Transit, as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Transportation Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transportation Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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 Transportation Authority's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transportation Authority's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Transportation Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2024 on our consideration of the Transportation 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 the effectiveness of the Transportation Authority's 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 Transportation Authority's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

September 18, 2024

FINANCIAL SECTION

Kitsap Transit January 1, 2022 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2023 and 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023 and 2022

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2023 and 2022

Comparative Statement of Cash Flows – 2023 and 2022

Notes to Financial Statements – 2023 and 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2023 and 2022

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2023 and 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2023

Notes to the Schedule of Expenditures of Federal Awards – 2023

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

January 1, 2022 through December 31, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The attached Financial Statements consist of three individual statements; the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position and the Comparative Statement of Cash Flows for 2023 and 2022. Immediately following the Financial Statements are the Notes to the Financial Statements, which further explain the information presented and should be read and reviewed in conjunction with the Financial Statements.

In November 2016, Kitsap County voters approved three-tenths of a percent sales and use tax within Kitsap County to fund and implement passenger ferry service from Kitsap County to Seattle. Kitsap Transit has restricted the cash, investments, and receivables related to the three-tenths of a percent sales and use tax collected for passenger ferry service.

The Condensed Comparative Statement of Net Position summarizes the assets, the liabilities, and the net value of the assets of Kitsap Transit for the years ended 2021 through 2023. This Statement is presented on an accrual basis of accounting, where the assets and liabilities are recognized as earned or incurred rather than the payment or receipt of funds.

Summary of Statement of Net Position

(In millions)

	December 31,		
	2022		
	2023	(Restated)	2021
Assets:			
Current Assets - Unrestricted	\$ 165.03	\$ 142.35	\$ 124.33
Current Assets - Restricted	13.34	17.36	18.32
Capital Assets, Net	196.89	178.42	170.69
Other Assets and Deferred Outflows	<u>18.09</u>	<u>18.89</u>	<u>26.73</u>
Total Assets and Deferred Outflows	<u>393.35</u>	<u>357.02</u>	<u>340.07</u>
Liabilities:			
Current Liabilities	13.49	12.07	8.84
Noncurrent Liabilities and Deferred Inflows	<u>40.36</u>	<u>48.03</u>	<u>61.73</u>
Total Liabilities and Deferred Inflows	53.85	60.10	70.57
Net Position:			
Net Investment in Capital Assets	167.51	145.93	135.17
Restricted Assets	12.34	9.41	5.03
Unrestricted Assets	<u>159.65</u>	<u>141.58</u>	<u>129.30</u>
Total Net Position	<u>\$ 339.50</u>	<u>\$ 296.92</u>	<u>\$ 269.50</u>

Current Assets - Unrestricted

Unrestricted current assets increased \$22.68 million in 2023, or approximately 16%, as compared to 2022. The increase in unrestricted current assets in 2023 is largely due to an increase in cash and cash equivalent balances and receivables due from other governments. Unrestricted current assets increased \$18.02 million in 2022, or approximately 14%, as compared to 2021. The increase in unrestricted current assets in 2022 is largely due to an increase in cash and cash equivalent balances and receivables due from other governments.

Restricted Assets

Restricted assets decreased \$4.02 million in 2023, or approximately 23%, as compared to 2022. The decrease in restricted assets in 2023 is due primarily to a decrease in cash and cash equivalents restricted for ferry services. Restricted assets decreased \$960 thousand in 2022, or approximately 5%, as compared to 2021. The decrease in restricted assets in 2022 is due primarily to a decrease in cash and cash equivalents restricted for ferry services.

Capital Assets

Net capital assets increased \$18.47 million in 2023, or approximately 10%, as compared to 2022. The increase in net capital assets in 2023 is largely due to the construction of the Silverdale Transfer Center. Net capital assets increased \$7.73 million in 2022, or approximately 5%, as compared to 2021. The increase in net capital assets in 2022 is largely due to the continued expansion of the passenger ferry fleet.

Other Assets and Deferred Outflows

Other assets and deferred outflows decreased \$800 thousand dollars in 2023, or approximately 4%. The decrease in other assets and deferred outflows is largely due to decrease in long term lease receivable. Other assets and deferred outflows decreased \$7.84 million dollars in 2022, or approximately 29%. The decrease in other assets and deferred outflows is largely due to the decrease in the net pension asset.

Current Liabilities

Current liabilities increased \$1.42 million in 2023, or approximately 12% as compared to 2022. The increase in current liabilities in 2023 is due primarily to the increase in accounts payable. Current liabilities increased \$3.23 million in 2022, or approximately 37% as compared to 2021. The increase in current liabilities in 2022 is due primarily to the increase in deferred revenue.

Noncurrent Liabilities and Deferred Inflows

Noncurrent liabilities decreased \$7.67 million in 2023, or approximately 16%, as compared to 2022. The decrease in noncurrent liabilities in 2023 is due primarily to the decrease in the deferred inflows related to pensions and decrease in general obligation bonds. Noncurrent liabilities decreased \$13.7 million in 2022, or approximately 22%, as compared to 2021. The decrease in noncurrent liabilities in 2022 is due primarily to the decrease in the deferred inflows related to pensions

Net Position

Net position increased \$42.58 million in 2023, or approximately 14%, as compared to 2022. The increase in net position in 2023 is due primarily to receipt of capital grants, operating grants, and an increase in sales tax revenue in 2023. Net investment in capital assets increased \$21.58 million in 2023, or approximately 15%, due primarily to the acquisition of rolling stock, fare collection system, and facilities. Restricted net assets increased \$2.93 million, or approximately 31%, due to an increase in the net pension asset in 2023. Net position increased \$27.42 million in 2022, or approximately 10%, as compared to 2021. The increase in net position in 2022 is due primarily to receipt of capital grants, operating grants, and an increase in sales tax revenue in 2022. Net investment in capital assets increased \$10.76 million in 2022, or approximately 8%, due primarily to the acquisition of rolling stock, passenger ferry vessels, and facilities. Restricted net assets increased \$4.38 million, or approximately 87%, due an increase in the net pension asset in 2022.

The Condensed Comparative Statement of Revenues, Expenses and Changes in Fund Net Position reports the results of operations for the years ended 2021 through 2023. This Statement is presented on an accrual basis of accounting, where the revenues and expenses are recognized as earned or incurred rather than the payment or receipt of funds.

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

(In millions)

	Years Ended December 31,		
	2022		
	2023	(Restated)	2021
Revenues:			
Operating Revenues			
Passenger Fares – Buses	\$ 2.53	\$ 2.37	\$ 2.18
Passenger Fares - Ferries	4.05	2.95	2.11
Other Operating Revenue	0.69	0.67	0.64
NonOperating Revenues			
Sales Tax Revenue	78.12	77.56	72.15
State and Other Operating Grants	13.94	5.99	32.26
Interest Revenue	3.62	1.32	0.37
Other Nonoperating Revenue	<u>(0.05)</u>	<u>0.06</u>	<u>0.35</u>
Total Revenues	102.90	90.92	110.06
Expenses:			
Operating Expenses	75.68	70.92	58.76
Nonoperating Expenses	<u>1.60</u>	<u>1.72</u>	<u>1.74</u>
Total Expenses	<u>77.28</u>	<u>72.64</u>	<u>60.50</u>
Net Income (Loss) Before Contributions	<u>25.62</u>	<u>18.28</u>	<u>49.56</u>
Capital Contributions	<u>16.96</u>	<u>9.14</u>	<u>8.91</u>
Increase (decrease) to Net Position	<u>42.58</u>	<u>27.42</u>	<u>58.47</u>
Net Position – Beginning of Period	<u>296.92</u>	<u>269.50</u>	<u>211.03</u>
Net Position – End of Period	<u>\$ 339.50</u>	<u>\$ 296.92</u>	<u>\$ 269.50</u>

Operating Revenues

Operating revenues consist primarily of transit and transit related services such as passenger fares, parking lot fees, advertising revenue and tenant lease income. Operating revenue increased \$1.28 million in 2023, or approximately 21%, due primarily to a continued rebound in ridership in 2023. Operating revenue increased \$1.06 million in 2022, or approximately 22%, due primarily to a rebound in ridership in 2022.

Nonoperating Revenues

Nonoperating revenues consist primarily of sales tax revenue, operating grants, and interest income. Kitsap Transit receives eight-tenths of a percent of Kitsap County sales and use tax for its bus services. Kitsap Transit receives an additional three-tenths of a percent of Kitsap County sales and use tax for its passenger ferry services. Sales tax

revenue increased 560 thousand, or approximately 1%, in 2023 and \$5.41 million, or approximately 7%, in 2022. State and other operating grants increased \$7.95 million in 2023 as compared to a decrease of \$26.27 million in 2022. The fluctuation in state and other grants is due primarily to the receipt of state transit support grant in 2023 and discontinued federal COVID related grants in 2022.

Operating Expenses

Operating expenses consist of expenditures related to transit operations, maintenance, administration, customer service, marketing, depreciation and amortization. In 2023, total operating expenses increased \$4.76 million, or approximately 7%. The increase in operating expense was primarily due to an increase in fuel, general operations, and maintenance expense. In 2022, total operating expenses increased \$12.16 million, or approximately 21%. The increase in operating expense was primarily due to an increase in fuel, general operations, and maintenance expense.

Change in Net Position

Net position increased \$42.58 million in 2023, or approximately 14%, as compared to 2022. The increase in net position in 2023 is due primarily to receipt of capital grants and operating grants in 2023. Net position increased \$27.42 million in 2022, or approximately 10%, as compared to 2021. The increase in net position in 2022 is due primarily to receipt of capital grants, operating grants, and an increase in sales tax revenue in 2022.

Capital Assets

As of December 31, 2023, Kitsap Transit's investment in capital assets, net of depreciation and amortization, is approximately \$196.89 million, as reflected in the following schedule (in millions).

	1/1/2023	Additions	Retirements	12/31/2023
Construction in Progress	\$ 31.72	\$ 28.76	\$ (19.46)	\$ 41.02
Land	22.13	-	-	22.13
Office Equipment	2.85	0.83	-	3.68
Shop and Other Equipment	5.39	0.16	-	5.55
Regional Fare Equipment	3.98	5.65	-	9.63
Facilities	116.32	6.07	-	122.39
Rolling Stock and Ferries	129.87	6.45	(0.49)	135.83
Leased Assets and Improvements	<u>7.38</u>	<u>.43</u>	<u>-</u>	<u>7.81</u>
Total	319.64	48.35	(19.95)	348.04
Less: Depreciation	<u>(141.22)</u>	<u>(10.40)</u>	<u>0.47</u>	<u>(151.15)</u>
Net Capital Assets:	<u>\$ 178.42</u>	<u>\$ 37.95</u>	<u>\$ (19.48)</u>	<u>\$ 196.89</u>

Net capital assets increased \$18.47 million in 2023, or approximately 10%, due primarily to acquisition of rolling stock, facilities, and regional fare equipment. For additional information, refer to Note 3 (Capital Assets and Depreciation).

Kitsap Transit has commitments for capital projects and capital asset acquisitions of approximately \$40.07 million. Those capital expenditure commitments are expected to be largely funded with federal and state grant funding assistance. The year-end financial position of Kitsap Transit is adequate for its current operating budget provided there are no

significant declines of sales tax revenue.

As of December 31, 2022, Kitsap Transit's investment in capital assets, net of depreciation and amortization, is approximately \$178.42 million, as reflected in the following schedule (in millions).

	1/1/2022	Additions (Restated)	Retirements	12/31/2022 (Restated)
Construction in Progress	\$ 35.67	\$ 17.04	\$ (20.99)	\$ 31.72
Land	19.05	3.08	-	22.13
Office Equipment	2.83	0.02	-	2.85
Shop and Other Equipment	5.33	0.06	-	5.39
Regional Fare Equipment	3.98	-	-	3.98
Facilities	113.84	2.48	-	116.32
Rolling Stock and Ferries	114.92	15.35	(0.40)	129.87
Leased Assets and Improvements	<u>6.66</u>	<u>0.72</u>	<u>-</u>	<u>7.38</u>
Total	302.28	38.75	(21.39)	319.64
Less: Depreciation	<u>(131.59)</u>	<u>(10.03)</u>	<u>0.40</u>	<u>(141.22)</u>
Net Capital Assets:	<u>\$ 170.69</u>	<u>\$ 28.72</u>	<u>\$ (20.99)</u>	<u>\$ 178.42</u>

Net capital assets increased \$7.73 million in 2022, or approximately 5%, due primarily to acquisition of rolling stock and passenger ferry vessel. For additional information, refer to Note 3 (Capital Assets and Depreciation).

As of December 31, 2021, Kitsap Transit's investment in capital assets, net of depreciation and amortization, is approximately \$170.69 million, as reflected in the following schedule (in millions).

	1/1/2021	Additions	Retirements	12/31/2021
Construction in Progress	\$ 35.95	\$ 17.54	\$ (17.82)	\$35.67
Land	19.02	0.03	-	19.05
Office Equipment	2.83	-	-	2.83
Shop and Other Equipment	5.21	0.12	-	5.33
Regional Fare Equipment	3.98	-	-	3.98
Facilities	112.57	1.27	-	113.84
Rolling Stock and Ferries	101.62	16.41	(3.11)	114.92
Leased Assets and Improvements	<u>6.66</u>	<u>-</u>	<u>-</u>	<u>6.66</u>
Total	287.84	35.37	(20.93)	302.28
Less: Depreciation	<u>(123.52)</u>	<u>(11.17)</u>	<u>3.10</u>	<u>(131.59)</u>
Net Capital Assets:	<u>\$ 164.32</u>	<u>\$ 24.20</u>	<u>\$ (17.83)</u>	<u>\$ 170.69</u>

Net capital assets increased \$6.35 million in 2021, or approximately 4%, due primarily to acquisition of rolling stock and passenger ferry vessel. For additional information, refer to Note 3 (Capital Assets and Depreciation).

LONG-TERM DEBT

Long-term debt decreased \$3.14 million, or approximately 10%, in 2023 and \$3.06 million, or approximately 9%, in 2022 due to principal payments on General Obligation Bonds.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND DECEMBER 31, 2022

	2023	2022 (Restated)
CURRENT ASSETS:		
Cash and Cash Equivalent	\$ 130,632,631	\$ 117,232,203
Cash and Cash Equivalent - Restricted	9,692,474	13,761,647
Taxes Receivable	9,718,133	9,616,136
Taxes Receivable - Restricted	3,644,126	3,599,193
Accounts Receivable	2,042,695	2,623,776
Lease Receivable	315,816	295,404
Due From Other Governments	15,040,049	6,652,078
Inventory	6,759,632	4,915,440
Prepaid Expenses	523,117	1,019,698
Total Current Assets	178,368,673	159,715,575
NONCURRENT ASSETS:		
CAPITAL ASSETS not being depreciated		
Construction in Progress	41,022,494	31,728,876
Land	22,129,192	22,129,192
CAPITAL ASSETS being depreciated		
Property, Plant and Equipment	277,056,458	258,400,212
Less: Accumulated Depreciation	(148,280,098)	(138,904,831)
Leasehold & Capital Improvements	6,653,787	6,653,787
Less: Accumulated Amortization	(2,406,296)	(2,168,426)
Right to Use Subscription Asset	1,084,230	655,345
Less: Accumulated Amortization	(424,689)	(141,084)
Right to Use Asset	74,822	69,913
Less: Accumulated Amortization	(23,539)	(6,946)
Total Net Capital Assets	196,886,361	178,416,038
OTHER NONCURRENT ASSETS:		
Prepaid Expenses	93,225	105,384
Long Term Lease Receivable	1,928,458	3,010,103
Intangible Assets, Net	271,647	291,243
Net Pension Asset	8,548,295	7,451,572
Total Other Noncurrent Assets	10,841,625	10,858,302
TOTAL ASSETS	\$ 386,096,659	\$ 348,989,915
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows Related to Pensions	7,252,467	8,032,115
Total Deferred Outflows of Resources	\$ 7,252,467	\$ 8,032,115
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 393,349,126	\$ 357,022,030

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
STATEMENT OF NET POSITION
DECEMBER 31, 2023 AND DECEMBER 31, 2022

	2023	2022 (Restated)
CURRENT LIABILITIES:		
Accounts/Warrants Payable	\$ 5,881,264	\$ 4,128,099
Accounts Payable to Other Agencies	634,320	395,704
Accrued Expenses	1,273,865	1,195,028
Unearned Revenue	1,918,101	2,895,624
Current Portion of Long-term Obligations	3,206,050	3,135,079
Other Current Liabilities	580,329	318,861
Total Current Liabilities	<u>13,493,929</u>	<u>12,068,395</u>
NONCURRENT LIABILITIES:		
General Obligation Bonds	26,437,157	29,643,207
Subscription Payable	289,209	257,852
Leased Payable	37,035	48,576
Employee Leave Benefits	2,979,922	2,915,684
Net Pension Liability	3,776,620	4,402,697
Total Noncurrent Liabilities	<u>33,519,943</u>	<u>37,268,016</u>
TOTAL LIABILITIES	<u>47,013,872</u>	<u>49,336,411</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred Inflows Related to Pensions	4,782,318	7,642,343
Deferred Inflows Related to Leases	2,054,071	3,125,471
Total Deferred Inflows of Resources	<u>\$ 6,836,389</u>	<u>\$ 10,767,814</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 53,850,261</u>	<u>\$ 60,104,225</u>
NET POSITION:		
Net Investment In Capital Assets	167,514,801	145,928,995
Restricted for Debt Services	1,388,460	1,387,033
Restricted for Net Pension Asset	10,955,036	8,026,342
Unrestricted	170,595,604	149,601,777
TOTAL NET POSITION	<u>\$ 339,498,865</u>	<u>\$ 296,917,805</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR FISCAL YEARS ENDED DECEMBER 31, 2023 AND DECEMBER 31, 2022**

	2023	2022 (Restated)
OPERATING REVENUES:		
Passenger Fares - Buses	\$ 2,525,686	\$ 2,366,861
Passenger Fares - Ferries	4,045,190	2,953,295
Other Operating Revenue	497,785	511,743
Other Transit Revenue	199,034	162,674
Total Operating Revenue	7,267,695	5,994,573
OPERATING EXPENSES:		
Operations:		
General Operations	30,275,346	27,406,809
Cost of Fuel	8,445,585	7,784,485
Maintenance	15,556,224	14,398,523
Customer Service & Marketing	1,816,843	1,464,500
Administration:		
General Administration	6,666,427	7,366,107
Planning and Development	2,477,951	2,413,989
Excise and B&O Taxes	26,836	19,899
Depreciation and Amortization	10,416,087	10,066,254
Total Operating Expenses	75,681,299	70,920,566
OPERATING INCOME (LOSS)	(68,413,604)	(64,925,993)
NONOPERATING REVENUES (EXPENSES):		
Sales Tax	78,116,377	77,563,039
State Operating Grant	99,042	82,734
Other Operating Grant	13,844,565	5,905,199
Interest Revenue	3,614,534	1,306,171
Interest Expense	(875,929)	(955,045)
Gain (Loss) on Asset Disposition	(48,546)	58,823
Other Nonoperating Revenue (Expense), net	(720,604)	(762,313)
Total Nonoperating Revenues (Expenses)	94,029,439	83,198,608
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	25,615,835	18,272,615
Capital Contributions	16,965,225	9,143,258
INCREASE (DECREASE) IN NET POSITION	42,581,060	27,415,873
NET POSITION - BEGINNING OF PERIOD	296,917,805	269,501,932
NET POSITION - END OF PERIOD	\$ 339,498,865	\$ 296,917,805

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR FISCAL YEARS ENDED DECEMBER 31, 2023 AND DECEMBER 31, 2022**

	2023	2022 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 4,122,114	\$ 2,022,115
Cash Received from Agencies	1,833,551	1,325,511
Cash Payments to Suppliers for Goods and Services	(33,494,195)	(31,147,626)
Cash Payments to Employees for Services	(28,225,597)	(27,011,787)
Cash Payments to Other Agencies	(1,651,122)	(1,545,442)
Other Operating Cash Received	658,346	644,129
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(56,756,903)</u>	<u>(55,713,100)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales Tax Received	77,189,752	75,945,000
Operating Subsidies	3,078,479	32,421,147
Cash Received Other than Customers	6,482	13,317
Cash Payments Other than Customers	(771,898)	(759,450)
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	<u>79,502,815</u>	<u>107,620,014</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(28,716,760)	(19,333,703)
Principal Paid on Debt	(3,135,079)	(3,059,239)
Interest Paid on Debt	(679,726)	(717,159)
Cash Flows from Sales and Disposition of Equipment	8,967	69,918
Capital Grants Received	15,493,407	9,459,673
NET CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	<u>(17,029,191)</u>	<u>(13,580,510)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	3,614,534	1,306,171
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,614,534</u>	<u>1,306,171</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	<u>9,331,255</u>	<u>39,632,575</u>
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	<u>130,993,850</u>	<u>91,361,275</u>
CASH AND CASH EQUIVALENT AT END OF YEAR	<u><u>\$ 140,325,105</u></u>	<u><u>\$ 130,993,850</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR FISCAL YEARS ENDED DECEMBER 31, 2023 AND DECEMBER 31, 2022**

	2023	2022 (Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
NET OPERATING INCOME (LOSS)	\$ (68,413,604)	\$ (64,925,993)
ADJUSTMENTS TO RECONCILE OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation & Amortization	10,416,087	10,066,254
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,642,299	(1,803,485)
(Increase) Decrease in Inventory	(1,844,192)	(2,286,485)
(Increase) Decrease in Prepaid Expenses	508,740	141,103
Increase (Decrease) in Accounts Payable	1,012,604	2,978,679
Increase (Decrease) in Wages & Benefits Payable	(78,837)	116,827
TOTAL ADJUSTMENTS	<u>11,656,701</u>	<u>9,212,893</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (56,756,903)</u>	<u>\$ (55,713,100)</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT.

**KITSAP COUNTY
PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
DBA KITSAP TRANSIT
Notes to Financial Statements
Years Ended December 31, 2023 and 2022.**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

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

In November 2016, Kitsap County voters approved three-tenths of a percent sales and use tax within Kitsap County to fund and implement passenger ferry service from Kitsap County to Seattle.

B. BASIS OF ACCOUNTING AND PRESENTATION

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

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

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

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

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

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

C. ASSETS, LIABILITIES AND NET POSITION

1. Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, including restricted assets, with a maturity of three months or less at the time of acquisition. Total cash and cash equivalents balance was \$140,325,105 and \$130,993,850 as of December 31, 2023, and December 31, 2022, respectively. It is Kitsap Transit's policy to temporarily invest surplus cash reserves and restricted assets with the Kitsap County Treasurers Office. Specific deposits and investments are described in Note (Deposits and Investments Note No. 2).

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

3. Receivables

The tax receivable is comprised of the following on December 31:

	<u>2023</u>	<u>2022</u>
Tax Receivable - Bus Services	\$ 9,718,133	\$ 9,616,136
Tax Receivable - Ferry Services	<u>3,644,126</u>	<u>3,599,193</u>
	<u>\$13,362,259</u>	<u>\$13,215,329</u>

These balances represent sales and use tax accruals for the last two months of each respective year that are collected by the Washington State Department of Revenue on behalf of Kitsap Transit and paid to Kitsap Transit with interest on the last business day of January and February, net of a 1.0% collection fee.

Customer account receivables consist of amounts owed from private individuals or organizations for contract sales or services. Kitsap Transit had \$2,042,695 and \$2,623,776 due from customers as of December 31, 2023, and December 31, 2022, respectively.

4. Amounts Due from Governments

Amounts due from governments include amounts due from other federal and state government entities largely related to grant funds due to Kitsap Transit. The balance was \$15,040,049 as of December 31, 2023, and \$6,652,078 as of December 31, 2022. These accounts are described in Note (Other Disclosures Note No. 12).

5. Inventories

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

	<u>2023</u>	<u>2022</u>
Rolling stock parts	\$ 3,998,229	\$ 2,467,656
Fuel, oil, and other fluids	286,388	242,392
Engines	2,449,800	2,181,230
Tires	<u>25,215</u>	<u>24,162</u>
	<u>\$ 6,759,632</u>	<u>\$ 4,915,440</u>

6. Restricted Assets and Net Position

Restricted assets and net position correspond to future obligations for debt service, cash and investments due to other agencies, and assets that are reserved for a specific purpose. In accordance with the terms of the Limited Sales Tax General Obligation Bonds, separate restricted reserve accounts are maintained. Specific debt service reserve requirements are described in Note (Long-Term Debt 7 and Leases Note No.

13). Accounts receivable restricted for ferry services reflects accrued sales and use tax revenue restricted for passenger ferry services.

The restricted assets are comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash and Investments – Reserve for Debt Service	\$ 1,388,460	\$ 1,387,135
Cash and Investments – Restricted for Ferry Services	8,304,014	12,374,512
Accounts Receivable – Ferry Services	<u>3,644,126</u>	<u>3,599,193</u>
	<u><u>\$ 13,336,600</u></u>	<u><u>\$ 17,360,840</u></u>

The restricted net position is comprised of the following:

	<u>2023</u>	<u>2022</u>
Reserve for Debt Service	\$ 1,388,460	\$ 1,387,033
Net Pension Asset	<u>10,955,036</u>	<u>8,026,342</u>
	<u><u>\$ 12,343,496</u></u>	<u><u>\$ 9,413,375</u></u>

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

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

9. Other Assets

Other assets consist of intangible assets related to the acquisitions of Cascade Trailway's franchise in 1983 and Horluck Foot Ferry franchise in 2003. Each intangible asset is amortized forty years on straight line basis. Intangible asset balances net of accumulated amortization is composed of the following:

	<u>2023</u>	<u>2022</u>
Horluck Foot Ferry	\$ 271,647	\$ 285,944
Cascade Trailway's	<u>-</u>	<u>5,299</u>
	<u><u>\$ 271,647</u></u>	<u><u>\$ 291,243</u></u>

10. Other Current Liabilities

Other current liabilities consist of retainage payable, rental deposits, and unclaimed property in the amount of \$580,329 and \$318,861 as of December 31, 2023, and December 31, 2022, respectively.

11. Employee Leave Benefits

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

An employee, who leaves Kitsap Transit in good standing, is paid the remaining balance of their general leave and compensatory time. An employee who is discharged or resigns in lieu of discharge is not eligible for general leave pay. The balance accrued for general leave and compensatory time was \$2,979,922 as of December 31, 2023, and \$2,915,684 as of December 31, 2022.

12. Accrued Expenses

The accrued expenses balance was \$1,273,865 and \$1,195,028 as of December 31, 2023, and December 31, 2022, respectively. These balances consist primarily of accrued wages and employee benefits.

13. Long-Term Debt - See Note (Long-Term Debt 7 and Leases Note No. 13).

14. Unearned Revenue

The unearned revenue balance was \$1,918,101 and \$2,895,624 as of December 31, 2023, and December 31, 2022, respectively. This unearned revenue is recognized as a liability rather than revenue because the revenue recognition criteria have not been met. See Note (Other Debits (Credits) Note No. 9).

15. Other Credits – See Note (Other Debits (Credits) Note No. 9).

16. Pensions – See Note (Reporting Pensions Note No. 5)

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.

For purposes of calculating the restricted net position related to the net pension asset, the Transit includes the net pension asset and the deferred inflows and outflows.

17. Leases – See Note (Leases No. 13)

Lessee: Kitsap Transit is a lessee for noncancelable leases. Kitsap Transit recognizes a lease liability and an intangible right-to-use lease assets in the financial statements. Kitsap Transit recognizes lease liabilities with an initial annual value of \$5,000 or more.

At commencement of a lease, Kitsap Transit initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of the lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commandment date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line method over its useful life.

Key estimates and judgements related to lease include how Kitsap Transit determines (1) the discount rate it uses to discount the expected lease payments to present value (2) lease term, and (3) lease payments.

- Kitsap Transit uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, Kitsap Transit uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes noncancelable period of the lease. Lease payments included in the measure of the lease liability are composed of fixed payments and purchase option price that Kitsap Transit is reasonably certain to exercise.

Kitsap Transit monitors changes in circumstances that would require a remeasurements of its lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lessor: Kitsap Transit is a lessor for noncancelable leases. Kitsap Transit recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, Kitsap Transit initially measures the lease receivable at the present value of the payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflow of the resources is initially measured as the initial amount of the lease receivable, adjusted for the lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the straight-line basis.

- Kitsap Transit uses its estimated incremental borrowing rate as the discount for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

Kitsap Transit monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflow of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

A. DEPOSITS

Kitsap Transit's bank deposits are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The deposit balance was \$10,277,241 as of December 31, 2023, and \$13,536,472 as of December 31, 2022.

Also consolidated within the Comparative Statement of Net Position are deposits of \$578,464 as of December 31, 2023, and \$835,792 as of December 31, 2022, that Kitsap Transit had on deposit with the fiscal agent of the Regional Fare Coordination System (RFCS). Amounts on deposit with the fiscal agent of RFCS represent Kitsap Transit's proportional share of its undivided interest in the non-equity joint venture. The RFCS non-equity joint venture is further described in Note (Joint Operations Note No. 10).

B. INVESTMENTS

Kitsap Transit is a participant in the Kitsap County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather; oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. Kitsap Transit reports its investment in the pool at amortized cost, which is the same as the value of the pool per share. The pool does not impose any restrictions on participant withdrawals.

Kitsap Transit's investment balance with the Kitsap County Treasurer's Investment Pool was \$127,785,228 as of December 31, 2023, and \$115,593,452 as of December 31, 2022. Kitsap Transit investments are at amortized cost.

Also consolidated within the Comparative Statement of Net Position are investments of \$1,684,172 as of December 31, 2023, and \$1,028,134 as of December 31, 2022, that the fiscal agent of the Regional Fare Coordination System (RFCS) had on deposit in the Local Government Investment Pool (LGIP). Amounts on deposit in the LGIP represent Kitsap Transit's proportional share of its undivided interest in the non-equity joint venture. The RFCS non-equity joint venture is further described in Note (Joint Operations Note No. 10).

Kitsap Transit

Notes to Financial Statements

Investments are subject to the following risks.

Interest Rate Risk:

Interest rate risk is the risk Kitsap Transit may face should interest rate variances affect the fair value of the investments. Kitsap Transit's policy is to invest all its funds with the Kitsap County Investment Pool. All the investments of Kitsap Transit are obligations of the U.S. Government, U.S. agency issues, and the Washington State Local Government Investment Pool, certificates of deposit, municipal obligations or money market deposits.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county does not have a formal policy that addresses credit risk.

It is Kitsap Transit's policy to limit its investment risk with the Kitsap County Investment Pool and money market accounts either covered by the FDIC or by collateral held in multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission.

Custodial Credit Risk

Custodial credit risk is the risk that in event of a failure of counterparty, the county would not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Kitsap Transit's investment policy is to limit investments risk with the Kitsap County Investment Pool and with depositories that are covered by Washington Public Deposit Protection Commission.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. Kitsap Transit's policy restricts securities other than US Treasury and Federal agency and the Washington State Local Government investment pool to a maximum of 25% of total investments of a single security type or on deposit with a single financial institution.

The investments are composed of the following:

	<u>2023</u>	<u>2022</u>
Unrestricted – Investments	\$ 122,983,447	\$ 107,552,127
Unrestricted – Fuel Reserve	495,960	495,960
Restricted – Ferry Services	<u>5,989,993</u>	<u>8,573,499</u>
	<u>\$ 129,469,400</u>	<u>\$ 116,621,586</u>

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Furnishings and equipment are capitalized if they have a unit value of at least \$5,000 and a useful life that exceeds a year. All rolling stock, buildings and other structures are capitalized and depreciated over the life of the asset as determined by the Federal Transit Administration. Additions, improvements, or rehabilitation to buildings and other structures with a value of at least \$5,000 are also capitalized.

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

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

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

Land	Not Depreciated
Furnishings & Equipment	3 to 10 years
Shop & Equipment	3 to 10 years
Buildings	40 years
Rolling Stock	5 to 15 years
Floating Stock	25 years

Kitsap Transit
Notes to Financial Statements

Capital assets activities for the year ended December 31, 2023, are as follows:

	Beginning Balance 01/01/2023	Increase	Decrease	Ending Balance 12/31/2023
Capital Assets, not Depreciated				
Construction in Progress	31,728,876	\$28,756,863	\$ (19,463,245)	41,022,494
Land	<u>22,129,192</u>	<u>-</u>	<u>-</u>	<u>22,129,192</u>
Total Capital Assets, not Depreciated	<u>53,858,068</u>	<u>28,756,863</u>	<u>(19,463,245)</u>	<u>63,151,686</u>
Capital Assets, being depreciated:				
Office Equipment	2,850,915	826,053	-	3,676,968
Shop and Other Equipment	5,389,157	156,633	-	5,545,790
Regional Fare Equipment	3,979,529	5,649,768	-	9,629,297
Facilities	116,320,685	6,072,678	-	122,393,363
Rolling Stock	55,147,140	6,443,110	(491,999)	61,098,251
Ferries	74,712,789	-	-	74,712,789
Leased Facilities	4,251,225	-	-	4,251,225
Leasehold Improvements	2,402,562	-	-	2,402,562
Intangible Assets	890,277	-	-	890,277
Right to Use Subscription Assets	655,345	428,885	-	1,084,230
Right to Use Lease Assets	<u>69,913</u>	<u>4,909</u>	<u>-</u>	<u>74,822</u>
Total Capital Assets Being Depreciated	<u>266,669,537</u>	<u>19,582,036</u>	<u>(491,999)</u>	<u>285,759,574</u>
Depreciation & Amortization				
Less Accumulated Depreciation:				
Office Equipment	(2,498,584)	(97,871)	-	(2,596,455)
Shop & Other Equipment	(4,292,740)	(226,442)	-	(4,519,182)
Regional Fare Equipment	(3,979,530)	(39,233)	-	(4,018,763)
Facilities	(77,514,008)	(3,659,484)	-	(81,173,492)
Rolling Stock	(36,965,473)	(2,712,180)	472,625	(39,205,028)
Ferries	(13,654,501)	(3,112,677)	-	(16,767,178)
Less Accumulated Amortization				
Leased Facilities	(1,354,467)	(96,616)	-	(1,451,083)
Leasehold Improvements	(813,959)	(141,254)	-	(955,213)
Intangible Assets	(599,032)	(19,598)	-	(618,630)
Right to Use Subscription	(141,084)	(283,605)	-	(424,689)
Right to Use Lease Assets	<u>(6,946)</u>	<u>(16,593)</u>	<u>-</u>	<u>(23,539)</u>
Total Accumulated Depreciation and Net Amortization	<u>(141,820,324)</u>	<u>(10,405,553)</u>	<u>472,625</u>	<u>(151,753,252)</u>
Total Capital Assets	<u>\$ 178,707,281</u>	<u>\$ 37,933,346</u>	<u>\$(19,482,619)</u>	<u>\$197,158,008</u>

Kitsap Transit
Notes to Financial Statements

Capital assets activities for the year ended December 31, 2022, are as follows:

	Beginning Balance 01/01/2022	Increase (Restated)	Decrease	Balance 12/31/2022 (Restated)
Capital Assets, not Depreciated				
Construction in Progress	\$35,673,898	\$17,041,266	\$ (20,986,288)	31,728,876
Land	19,048,023	3,081,169	-	22,129,192
Total Capital Assets, not Depreciated	<u>54,721,921</u>	<u>20,122,435</u>	<u>(20,986,288)</u>	<u>53,858,068</u>
Capital Assets, being depreciated:				
Office Equipment	2,827,947	22,968	-	2,850,915
Shop and Other Equipment	5,333,183	55,974	-	5,389,157
Regional Fare Equipment	3,979,529	-	-	3,979,529
Facilities	113,836,289	2,484,396	-	116,320,685
Rolling Stock	52,527,357	3,023,418	(403,635)	55,147,140
Ferries	62,394,427	12,318,362	-	74,712,789
Leased Facilities	4,251,225	-	-	4,251,225
Leasehold Improvements	2,402,562	-	-	2,402,562
Intangible Assets	890,277	-	-	890,277
Right to Use Subscription Assets	-	655,345	-	655,345
Right to Use Lease Assets	9,708	60,205	-	69,913
Total Capital Assets Being Depreciated	<u>248,452,504</u>	<u>18,620,668</u>	<u>(403,635)</u>	<u>266,669,537</u>
Depreciation & Amortization				
Less Accumulated Depreciation:				
Office Equipment	(2,382,656)	(115,928)	-	(2,498,584)
Shop & Other Equipment	(3,975,999)	(316,741)	-	(4,292,740)
Regional Fare Equipment	(3,978,666)	(864)	-	(3,979,530)
Facilities	(74,020,924)	(3,493,084)	-	(77,514,008)
Rolling Stock	(34,461,878)	(2,907,230)	403,635	(36,965,473)
Ferries	(10,902,466)	(2,752,035)	-	(13,654,501)
Less Accumulated Amortization				
Leased Facilities	(1,195,909)	(158,558)	-	(1,354,467)
Leasehold Improvements	(672,705)	(141,254)	-	(813,959)
Intangible Assets	(576,777)	(22,255)	-	(599,032)
Right to Use Subscription	-	(141,084)	-	(141,084)
Right to Use Lease Assets	(1,884)	(5,062)	-	(6,946)
Total Accumulated Depreciation and Net Amortization	<u>(132,169,864)</u>	<u>(10,054,095)</u>	<u>403,635</u>	<u>(141,820,324)</u>
Total Capital Assets	<u>\$ 171,004,561</u>	<u>\$ 28,689,008</u>	<u>\$(20,986,288)</u>	<u>\$ 178,707,281</u>

A. Construction Commitments

Kitsap Transit active construction projects as of December 31, 2023, are as follows:

PROJECT	Expenditures to Date	Remaining Commitment
Electric Buses and Chargers	\$ -	\$11,430,680
Routed Electric Buses	4,056	6,902,084
Silverdale Transfer Center	16,016,837	6,448,726
Worker Driver Buses	579,371	5,379,275
APC Systems Equipment	777,134	5,286,194
Access Buses	-	4,620,436
TOTAL	<u>\$ 17,377,398</u>	<u>\$40,067,395</u>

Kitsap Transit is adequately funded to meet its project commitments.

Kitsap Transit active construction projects as of December 31, 2022, are as follows:

PROJECT	Expenditures to Date	Remaining Commitment
Silverdale Transfer Center	\$ 6,383,918	\$ 8,836,809
Routed Coaches	2,987,388	6,902,084
Electric Bus	-	5,902,762
Worker Driver Buses	139,518	4,729,244
Access Buses	-	3,319,672
Solano Rehabilitation	10,412,342	2,883,244
TOTAL	<u>\$ 19,923,166</u>	<u>\$32,573,815</u>

Kitsap Transit is adequately funded to meet its project commitments.

B. Other Significant Commitments

Kitsap Transit has no other commitments.

NOTE 4 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 5 – PENSION

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the years:

Aggregate Pension Amounts – All Plans	2023	2022
Pension liabilities	\$ 3,776,620	\$ 4,402,697
Pension assets	\$ 8,548,295	\$ 7,451,572
Deferred outflows of resources	\$ 7,252,466	\$ 8,032,115
Deferred inflows of resources	\$ (4,782,318)	\$ (7,642,343)
Pension expense (income)	\$ (736,125)	\$ (389,284)

State Sponsored Pension Plans

Substantially all Kitsap Transit'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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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 local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). 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%. The employer contribution rate is developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 and 2022, were as follows:

		<u>2023</u>	
PERS Plan 1			
Actual Contribution Rates		Employer	Employee
January – June			
PERS Plan 1		6.36%	6.00%
PERS Plan 1 UAAL		3.85%	-
Administrative Fee		0.18%	-
Total		10.39%	6.00%
July – August			
PERS Plan 1		6.36%	6.00%
PERS Plan 1 UAAL		2.85%	-
Administrative Fee		0.18%	-
Total		9.39%	6.00%
September – December			
PERS Plan 1		6.36%	6.00%
PERS Plan 1 UAAL		2.97%	-
Administrative Fee		0.20%	-
Total		9.53%	6.00%

		<u>2022</u>	
PERS Plan 1			
Actual Contribution Rates		Employer	Employee
January – August			
PERS Plan 1		6.36%	6.00%
PERS Plan 1 UAAL		3.71%	-
Administrative Fee		0.18%	-
	Total	10.25%	6.00%
September – December			
PERS Plan 1		6.36%	6.00%
PERS Plan 1 UAAL		3.85%	-
Administrative Fee		0.18%	-
	Total	10.39%	6.00%

Kitsap Transit’s actual contributions to the plan were \$1,083,616 and \$1,029,691 for the years ended December 31, 2023, and 2022, respectively.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member’s AFC times the member’s years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. 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 rates are adopted by the Pension Funding Council and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plan 2/3 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 and 2022, were as follows:

<u>2023</u>			
PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
January – June			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.85%	-	
Administrative Fee	0.18%	-	
Total	10.39%	6.36%	
July – August			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.85%	-	
Administrative Fee	0.18%	-	
Total	9.39%	6.36%	
September – December			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.97%	-	
Administrative Fee	0.20%	-	
Total	9.53%	6.36%	
<u>2022</u>			
PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
January – August			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.71%	-	
Administrative Fee	0.18%	-	
Total	10.25%	6.36%	
September – December			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.85%	-	
Administrative Fee	0.18%	-	
Total	10.39%	6.36%	

Kitsap Transit's actual contributions to the plan were \$1,983,435 and \$1,700,890 for the years ended December 31, 2023, and 2022, respectively

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS, plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR).

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.0% 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 7.0 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, 2023, and June 30, 2022, 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%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	100%	

Sensitivity of NPL

The following tables present Kitsap Transit's proportionate share of the net pension liability calculated using the discount rate of 7% for December 31, 2023, and December 31, 2022, as well as what Kitsap Transit's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

2023

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	\$ 5,276,224	\$ 3,776,620	\$ 2,467,819
PERS 2/3	\$ 9,297,296	\$ (8,548,295)	\$ (23,209,576)

2022

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	\$ 5,881,942	\$ 4,402,697	\$ 3,111,662
PERS 2/3	\$ 8,775,201	\$ (7,451,572))	\$ (20,782,891)

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

Kitsap Transit's total reported pension liability was \$3,776,620 and \$4,402,697 as of June 30, 2023, and 2022, respectively. Kitsap Transit's total reported pension asset was \$8,548,295 and \$7,451,572 as of June 30, 2023, and 2022, respectively. The proportionate share of the net pension liabilities and assets are as follows:

		Assets	
		2023	2022
PERS 2/3		\$ 8,548,295	\$ 7,451,572
		Liability	
		2023	2022
PERS 1		\$ 3,776,620	\$ 4,402,697

Kitsap Transit's proportionate share of the collective net pension liabilities as of June 30 for each respective year was as follows:

2023

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.158122%	0.165443%	0.007321%
PERS 2/3	0.200917%	0.208562%	0.007645%

2022

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.159608%	0.158122%	-0.001486%
PERS 2/3	0.200107%	0.200917%	0.00081%

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.

Pension Expense (Income)

For the year ended December 31, Kitsap Transit recognized pension expense (income) as follows:

	Pension Expense (Income)	
	2023	2022
PERS 1	\$ 209,134	\$ 1,982,639
PERS 2/3	(945,259)	(2,371,923)
TOTAL	<u>\$ (736,125)</u>	<u>\$ (389,284)</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

Kitsap Transit reported deferred outflows of resources and deferred inflows of resources related to PERS 1 from the following sources:

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Notes to Financial Statements

	2023		2022	
PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources	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	-	(426,019)	-	(729,656)
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	489,427	-	544,658	-
TOTAL	\$ 489,427	\$ (426,019)	\$ 544,658	\$ (729,656)

Kitsap Transit
Notes to Financial Statements

Kitsap Transit reported deferred outflows of resources and deferred inflows of resources related to PERS 2/3 from the following sources:

PERS 2/3	2023		2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,741,278	\$ (95,511)	\$ 1,846,325	\$ (168,685)
Net difference between projected and actual investment earnings on pension plan investments	-	(3,221,514)		(5,509,002)
Changes of assumptions	3,588,870	(782,232)	4,153,222	(1,087,462)
Changes in proportion and differences between contributions and proportionate share of contributions	410,067	(257,041)	600,670	(147,538)
Contributions subsequent to the measurement date	1,022,824	-	887,240	-
				\$
TOTAL	\$ 6,763,039	\$ (4,356,298)	\$ 7,487,457	(6,912,687)

Deferred outflows of resources related to pensions resulting from the Kitsap Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. 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
2024	(289,845)	(1,403,582)
2025	(364,515)	(1,778,201)
2026	224,754	2,696,313
2027	3,587	954,839
2028	-	909,449
Thereafter	-	5,099
Total:	\$ (426,019)	\$1,383,917

NOTE 6 – RISK MANAGEMENT

1. Bus Services - Liability and Property Insurance Coverage

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. WSTIP was formed on January 1, 1989 when eight transit agencies in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase con and administrative services. As of December 31, 2023, there are 25 member transit agencies in WSTIP.

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

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

Members file claims with WSTIP. WSTIP staff assists with claim adjustments, loss prevention, and appraisal services for its members. In the past three years, Kitsap Transit did not have any settlements that exceeded its insurance coverage limits.

Kitsap Transit carries the following policies on insurance with the indicated limits of liability, pool self-insured risk (SIR) and agency deductibles for 2023:

Bus Property and Liability Policies			
Coverage	Policy Limit	POOL SIR	Kitsap Transit Deductible
Comprehensive Liability (Includes auto and general)	\$25,000,000 / occurrence	\$2,000,000	-
Public Officials Liability	\$25,000,000 / occurrence	\$2,000,000	\$5,000
All Risk Property Policy (Includes auto physical)	\$500,000,000 / occurrence	\$250,000	\$5,000
Flood	\$50,000,000 pool aggregate	-	\$500,000
Earthquake	\$25,000,000 pool aggregate	-	\$500,000
Crime	\$2,000,000 / occurrence	-	\$10,000
Cyber Liability	\$4,000,000 aggregate	-	\$5,000
Pollution Liability	\$5,000,000 aggregate	-	\$100,000

2. Passenger Ferry Services - Liability and Property Insurance Coverage

Kitsap Transit carries the following policies on insurance with the indicated limits of liability through commercial insurance providers for 2023:

Marine Property and Liability Policies		
Coverage	Policy Limit	Kitsap Transit Deductible
Protection and indemnity (Passenger and Crew Liability)	\$1,000,000,000 / occurrence	\$50,000
Commercial General Liability	\$10,000,000 / occurrence	\$10,000
Pollution Liability	\$5,000,000 / occurrence	-
All Risk Property – Vessel Coverage	Specific To Each Vessel	\$50,000 to \$100,000 ⁽¹⁾
All Risk Property – Passenger Ferry Terminals	Specific To Each Ferry Terminal	\$50,000

(1) Deductibles for property coverage of passenger ferry vessels are specific to each vessel and ranges from \$50,000 and \$100,000.

B. EMPLOYEE BENEFIT COVERAGE

1. Employee Medical Benefits

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

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

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

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

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

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

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

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

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

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

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

the seventh month of employment.

Kitsap Transit employee's premiums are deducted on a pre-tax basis.

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

2. Medical Insurance Coverage

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

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

As of December 31, 2023, 264 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust

HCP is responsible for payment of all covered claims. In 2023, the AWC Trust HCP purchased medical stop loss insurance for Regence/Asuris and Kaiser plans at an individual stop loss (ISL) of \$2 million through United States Fire Insurance Company. The aggregate policy is for 200% of expected medical claims.

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

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

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

3. Dental Benefits

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

4. Short-term Disability

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

ATU full-time and extra-board Routed and Access, and full-time Machinist and Teamster employees receive short-term disability benefits for an off the job illness or injury. Part-time Machinist and Teamsters receive short-term disability benefits if they elected medical for self-only. Benefits begin the first day of absence for injuries and the eighth day of absence for illness. The benefit is paid up to a maximum of 26 weeks at 66 2/3% of the weekly gross salary, not to exceed \$1,000 per week. Kitsap Transit funds short term disability benefits from the fourth to the seventh calendar day for illness. The employee uses general leave, or leave without pay, if general leave is not available for the first three days.

5. Long-term Disability

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

6. Life and Accidental Death and Dismemberment

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

7. Workers Compensation Insurance

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

8. Unemployment Insurance

Kitsap Transit self insures for unemployment insurance claims. Washington State Employment Security Department processes claims on behalf of Kitsap Transit. Kitsap

Transit submits amounts due for claims processed. Kitsap Transit paid to Employment Security \$31,115 and \$19,736 in unemployment claims in 2023 and 2022 respectively.

NOTE 7 – LONG-TERM DEBT

A. Long-Term Debt

In 2015, Kitsap Transit issued a ten-year \$2,500,000 Limited Sales Tax General Obligation Bond. The Bond matures in 2025 and has a fixed rate of interest of 2.24%. The bond includes early redemption without penalty in five to seven years. Interest and principal on the bond are due semi-annually on January 1st and July 1st of each year commencing on January 1, 2016.

In 2017, Kitsap Transit and JPMorgan Chase Bank, N.A. entered into a Bond Purchase Agreement. Under the Agreement, JPMorgan purchased Kitsap Transit's Limited Sales Tax General Obligation Bond 2017, in the aggregate principal amount of \$45,190,000. Kitsap Transit has irrevocably pledged Sales and Use Tax revenues and the full faith, credit and resources of Kitsap Transit for the payment of the Bond. The Bond had a fixed rate of interest of 2.39% as provided in the Agreement and matures on September 1, 2032. Effective January 2018, the interest rate increased to 2.71% in accordance with an escalation clause within the Agreement that required the Bond's interest rate to increase 32 basis points in the event the corporate tax rate declined below 25%. The corporate tax rate declined to 21% effective January 1, 2018.

The annual debt services requirements to maturity for debt from direct borrowings and direct placement are as follows:

Payment Date	Principal	Interest
2024	\$ 3,206,050	\$ 799,236
2025	3,282,157	713,592
2026	3,080,000	627,501
2027	3,150,000	544,033
2028	3,225,000	458,668
2029	3,305,000	371,270
2030-2033	<u>10,395,000</u>	<u>567,744</u>
TOTALS	<u>\$ 29,643,207</u>	<u>\$ 4,082,044</u>

The activity for Long-Term Debt for years 2023 and 2022 are as follows:

Bond	Balance 01/01/23	2023 Additions	2023 Payments	Balance 12/31/23	Due Within One Year
15 Bond	\$ 813,286	-	\$ 265,079	\$ 548,207	\$ 271,050
17 Bond	<u>31,965,000</u>	-	<u>2,870,000</u>	<u>29,095,000</u>	<u>2,935,000</u>
Totals	<u>\$32,778,286</u>	<u>\$ -</u>	<u>\$3,135,079</u>	<u>\$29,643,207</u>	<u>\$ 3,206,050</u>

Bond	Balance 01/01/22	2022 Additions	2022 Payments	Balance 12/31/22	Due Within One Year
15 Bond	\$ 1,072,526	-	\$ 259,240	\$ 813,286	\$ 265,079
17 Bond	<u>34,765,000</u>	-	<u>2,800,000</u>	<u>31,965,000</u>	<u>2,870,000</u>
Totals	<u>\$35,837,526</u>	<u>\$ -</u>	<u>\$3,059,240</u>	<u>\$32,778,286</u>	<u>\$ 3,135,079</u>

B. Changes in Long-Term Liabilities

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

Balance 1/1/2023	Additions	Payments	Balance 12/31/23
\$2,915,684	\$3,949,804	\$3,885,566	\$2,979,922

NOTE 8 – CONTINGENCIES AND LITIGATION

In the ordinary course of operations, Kitsap Transit is subject to pending and threatened legal actions and proceedings. In certain of these actions and proceedings, claims for monetary damages are asserted against Kitsap Transit. Such claims against Kitsap Transit are insured under its comprehensive liability policies with Washington State Transit Insurance Pool and commercial marine policies. As of December 31, 2023, Kitsap Transit's liability coverage is sufficient to cover all known or pending litigation and any potential decisions against Kitsap Transit will not have a material effect on the financial position of Kitsap Transit. See Note (Risk Management Note No. 6) for additional information regarding Kitsap Transit's insurance coverage with the Washington State Transit Insurance Pool.

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

compliance with the terms of each of its grants and such request for reimbursement is unlikely.

NOTE 9 – OTHER DEBITS (CREDITS)

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

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

	<u>2023</u>	<u>2022</u> <u>(Restated)</u>
Prepaid Expenses	\$ 616,342	\$ 1,125,082
Intangible Assets, Net - Cascade Trailway's	-	5,299
Intangible Assets, Net - Horluck Foot Ferry	<u>271,648</u>	<u>285,944</u>
	<u><u>\$ 887,990</u></u>	<u><u>\$ 1,416,325</u></u>

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

	<u>2023</u>	<u>2022</u>
Unearned Revenue – Passenger Fare Revenue	\$ 1,918,101	\$ 2,895,624

NOTE 10- JOINT OPERATIONS

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

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

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

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

Assets	2023	2022
Deposits	\$ 578,464	\$ 835,792
Investments	1,684,172	1,028,134
Accounts Receivable	29,278	1,166,896
Total Assets	\$ 2,291,914	\$ 3,030,822
Liabilities		
Accounts Payable	\$ 462,824	\$ 224,209
Unearned Revenue	1,829,090	2,806,613
Total Liabilities	\$ 2,291,914	\$ 3,030,822

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

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

NOTE 11 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

Kitsap Transit does not provide post-employment benefits

NOTE 12 – OTHER DISCLOSURES

MAJOR ACCOUNT RECEIVABLES

Kitsap Transit's major receivables consist of the following:

	2023	2022
Federal Transportation Administration	\$ 1,552,954	\$ 1,280,997
Washington Department of Transportation	13,487,095	5,371,081
Total	\$15,040,049	\$ 6,652,078

NOTE 13 – LEASES

The financial statements include leases where the annual payments are greater than \$5,000. For disclosure purposes Kitsap Transit has elected to only disclose the terms of those leases with an annual payment greater than \$50,000.

In March 2014 Kitsap Transit entered into a 20-year lease agreement to rent out space to the City of Bremerton. Kitsap Transit has used an incremental borrowing rate of 3.58%. The following is the monthly rent amounts over the life of the lease:

Years	Monthly
1-5	\$ 8,438
6-10	8,859
11-15	9,302
16-20	\$ 9,767

This lease had a total lease revenue amount of \$89,405 for both 2023 and 2022, and interest revenue of \$35,890 and \$38,373, respectively. There were no other deferred inflows related to this lease other than lease receivable and interest receivable.

In July 2016 Kitsap Transit entered into a 10-year lease agreement to rent out space to Parametrix, Inc . Kitsap Transit has used an incremental borrowing rate of 3.07%. The following is the monthly rent amount over the life of the lease:

Years	Monthly
1-3	\$ 8,550
4	\$ 8,824
5-10	\$ 8,573

This lease had total lease revenue of \$102,877 for 2023 and 2022 and interest revenue of \$9,883 and \$13,001, respectively. There were no other deferred inflows related to this lease other than lease receivable and interest receivable.

As of December 31, 2023, future lease receivables principal and interest payments are as follows:

Payment Date	Principal	Interest
2024	\$ 315,816	\$ 71,339
2025	285,800	61,455
2026	238,972	52,299
2027	189,227	45,467
2028	196,702	38,870
2029-2034	927,223	95,436
2035-2039	69,568	731
TOTALS	<u>\$ 2,223,308</u>	<u>\$ 365,597</u>

NOTE 14 – SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

The financial statements include SBITA's where the annual payments are greater than \$5,000. For disclosure purposes Kitsap Transit has elected to only disclose the terms of those leases with an annual payment greater than \$50,000.

In September 2021, Kitsap Transit entered into a five-year agreement to acquire the rights for video surveillance hosting software. Kitsap Transit used an incremental borrowing rate of 2.16%. The amortization expense related to this SBITA was \$73,617 for both 2023 and 2022 and interest expense of \$5,194 and \$6,987, respectively.

In February 2023, Kitsap Transit entered into a three-year agreement to acquire the rights for Microsoft 360 Office products. Kitsap Transit used an incremental borrowing rate for 2.16%. The amortization expense related to this SBITA for 2023 was \$82,250 and interest expense of \$3,530.

As of December 31, 2023, future lease subscription payable amounts are as follows:

Payment Date	Principal	Interest
2024	\$ 234,478	\$ 9,195
2025	240,151	3,730
2026	38,569	936
2027	10,489	114
TOTALS	<u>\$ 523,687</u>	<u>\$ 13,975</u>

NOTE 15 – COVID 19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The federal state of emergency for COVID-19 was ended on May 11, 2023.

NOTE 16- RESTATEMENT

Kitsap Transit has restated the financial statements for 2022 for the implementation of GASB 96 Subscription-Based Information Technology Arrangements (SBITAs). The restatement had the following effect on the 2022 financial statements:

GASB 96 SBITAs

Financial Category	Original Amount	Restated Amount	Debit (Credit)
General Operations	27,493,608	27,406,809	(86,799)
Maintenance Expenses	14,406,037	14,398,523	(7,514)
Planning and Development Expenses	2,446,203	2,413,989	(32,214)
Depreciation and Amortization	9,925,170	10,066,254	141,084
Interest Expense	943,300	955,045	11,745
Prepaid Expenses	1,161,281	1,019,698	(141,583)
Right to Use Subscription Asset	-	655,345	655,345
Right to Use Accumulated Depreciation Subscription Asset	-	141,084	(141,084)
Accounts/Warrants Payable	3,986,971	4,128,099	(141,128)

NOTE 17 – SUBSEQUENT EVENT

In January 2024, Kitsap Transit closed a purchase and sale agreement to purchase land in Bremerton for \$2,510,000 for the West Bremerton Transportation Center project.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.165443%	0.158122%	0.159608%	0.151332%	0.143818%	0.139753%	0.125889%	0.143583%	0.133708%
Employer's proportionate share of the net pension liability	3,776,620	4,402,697	1,949,187	5,342,837	5,530,313	6,241,416	5,973,531	7,711,083	6,994,172
TOTAL	\$ 3,776,620	\$ 4,402,697	\$ 1,949,187	\$ 5,342,837	\$ 5,530,313	\$ 6,241,416	\$ 5,973,531	\$ 7,711,083	\$ 6,994,172
Employer's covered employee payroll	29,322,651	25,467,610	24,238,224	21,874,736	20,068,180	18,290,020	15,598,657	16,864,232	14,965,262
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	12.88%	17.29%	8.04%	24.42%	27.56%	34.12%	38.30%	45.72%	46.74%
Plan fiduciary net position as a percentage of the total pension liability	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
Schedule of Proportionate Share of the Net Pension Liability (Asset)

PERS 2/3

As of June 30

Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.208562%	0.200917%	0.2000107%	0.190730%	0.180039%	0.172171%	0.156881%	0.175114%	0.165313%
Employer's proportionate share of the net pension liability (asset)	(8,548,295)	(7,451,572)	(19,933,877)	2,439,328	1,748,791	2,939,667	5,450,865	8,816,852	5,906,728
TOTAL	<u>\$ (8,548,295)</u>	<u>\$ (7,451,572)</u>	<u>\$ (19,933,877)</u>	<u>\$ 2,439,328</u>	<u>\$ 1,748,791</u>	<u>\$ 2,939,667</u>	<u>\$ 5,450,865</u>	<u>\$ 8,816,852</u>	<u>\$ 5,906,728</u>
Employer's covered employee payroll	29,054,124	25,243,427	24,021,169	21,661,659	19,822,771	18,033,739	15,383,733	16,511,581	14,673,046
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	29.42%	29.52%	82.98%	11.26%	8.82%	16.30%	35.43%	53.40%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.79%	85.82%	89.20%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
Schedule of Employer Contributions

PERS 1

For the Year Ended December 31
Last 10 Fiscal Years*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	1,083,616	1,029,691	1,067,043	1,136,566	1,070,922	878,907	781,511	748,192	689,702
Contributions in relation to the statutorily or contractually required contributions	(1,083,616)	(1,029,691)	(1,067,043)	(1,136,566)	(1,070,922)	(878,907)	(781,511)	(748,192)	(689,702)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Covered employer payroll	\$ 31,448,954	\$ 26,989,649	\$ 24,517,989	\$ 23,298,025	\$ 21,332,896	\$ 17,043,604	\$ 15,674,880	\$ 15,360,817	\$ 15,406,821
Contributions as a percentage of covered employee payroll	3.45%	3.82%	4.35%	4.88%	5.02%	5.16%	4.99%	4.87%	4.48%

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA AUTHORITY
Schedule of Employer Contributions
PERS 2/3
For the Year Ended December 31
Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 1,983,435	\$ 1,700,890	\$ 1,734,377	\$ 1,825,516	\$ 1,630,634	\$ 1,260,661	\$ 1,051,494	\$ 939,574	\$ 845,379
Contributions in relation to the statutorily or contractually required contributions	<u>\$ (1,983,435)</u>	<u>\$ (1,700,890)</u>	<u>\$ (1,734,377)</u>	<u>\$ (1,825,516)</u>	<u>\$ (1,630,634)</u>	<u>\$ (1,260,661)</u>	<u>\$ (1,051,494)</u>	<u>\$ (939,574)</u>	<u>\$ (845,379)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered employer payroll	\$ 31,185,480	\$ 26,742,359	\$ 24,297,226	\$ 23,071,613	\$ 21,332,896	\$ 16,814,910	\$ 15,450,610	\$ 15,100,281	\$ 15,098,482
Contributions as a percentage of covered employee payroll	6.36%	6.36%	7.14%	7.91%	7.64%	7.50%	6.81%	6.22%	5.60%

**Kitsap County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Expenditures				Passed through to Subrecipients	Note
			Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Highway Planning and Construction	20.205		-	268,550	268,550	-	1,2,3
Federal Transit Cluster								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507		-	10,071,301	10,071,301	-	1,2,3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	State of Good Repair Grants Program	20.525		-	311,674	311,674	-	1,2,3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526		-	4,269,315	4,269,315	-	1,2,3
Total Federal Transit Cluster:				-	14,652,290	14,652,290	-	
Total Federal Awards Expended:				-	14,920,840	14,920,840	-	

The accompanying notes are an integral part of this schedule.

KITSAP COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA KITSAP TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2023

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF ACCOUNTING

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

NOTE 2 – INDIRECT COST RATE

The Transit has not elected to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE 3 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of the program costs. Entire program costs, including Kitsap Transit's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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