



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Island County Public Transportation Benefit Area

(Island Transit)

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

Published February 13, 2025

Report No. 1036556



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

February 13, 2025

Board of Directors
Island Transit
Coupeville, Washington

Report on Financial Statements

Please find attached our report on Island Transit's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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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*

Island Transit January 1, 2023 through December 31, 2023

Board of Directors
Island Transit
Coupeville, 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 Island Transit, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated February 7, 2025.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described 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.

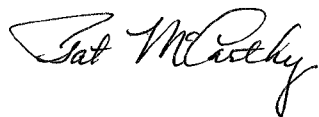
REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Transit'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 Transit's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

February 7, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Island Transit January 1, 2023 through December 31, 2023

Board of Directors
Island Transit
Coupeville, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Island Transit, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Transit'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 Island Transit, as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Transit 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 opinion.

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 Transit'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 opinion. 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 Transit'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 Transit'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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2025 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit'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 Transit's internal control over financial reporting and compliance.

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

February 7, 2025

FINANCIAL SECTION

Island Transit January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023

Statement of Revenues, Expense, and Change in Net Position – 2023

Statement of Cash Flows – 2023

Notes to Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

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

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

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Island County Public Transportation Benefit Area (dba Island Transit) provides regularly scheduled fixed route, on-demand Paratransit, and commuter vanpool service to Island County residents. Established in 1983, the transit began service in December 1987.

During 2023, Island Transit bus and Paratransit service was fare free. Except from mid-2016 to mid-2018 when a fare was charged on the Camano to Everett line (route 412) in accordance with a state legislative appropriation mandate, Island Transit bus and Paratransit service has been fare-free since its inception.

An Introduction

This Management Discussion and Analysis (MD&A) section of Island Transit's Annual Financial Report presents management's overview and analysis of the PTBA's financial performance for the fiscal year ended December 31, 2023. Management is responsible for the completeness, reliability, and objectivity of these financial statements, which report information using accounting methods like those used by private sector companies. This MD&A section includes the two statements.

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

The *Statement of Revenue, Expense, and Change in Net Position* shows how the PTBA's net position changed during the fiscal year. A change in net position is reported as soon as the underlying event triggering the change occurs, regardless of the timing of resulting cash flows. In other words, there will be revenues and expenses triggered and reported in this period for some items that will result in cash receipts or disbursements in a future reporting period (for example, interest revenue earned in this period but received in a later period, or unused vacation leave earned in this period but paid in a later period).

This MD&A section should be read in conjunction with the financial statements and the trailing notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements.

Financial Highlights

Cash receipts from vanpool fares, sales tax, grants, interest, and miscellaneous revenue combined with payments for operating activities to create a cash increase of \$7,380,482, which was significant, but -53.32% less of a cash increase than last year's \$15,811,781 cash rise.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

Total revenue was down -21.59%, or -\$5,977,688. Sales tax income was up 2.27% or \$374,905. Total grant income ended lower by -67.43% or -\$6,975,910, where federal operating grant income decreased by -97.02% or -\$5,125,017, and state operating grant revenue decreased by -36.75% or -\$1,859,331.

Total expense increased 12.19% or \$1,757,135. Island Transit increased service to levels to approximately 16.33% from the prior year, and 2023 annual inflation increased prices 3.5% on average. An accounting adjustment to report Island Transit's share of the state's revised pension liability reduced total expense by -\$923,669.

The public continued to return to public transit following a steep decline in ridership during the Covid-19 pandemic. Annual 2023 ridership climbed 19.22% or 73,131 rides. Bus ridership rose 21.11% or 58,879 rides, paratransit jumped 14.81% or 6,163 rides, and vanpool increased 13.49% or 8,089 rides. Active vanpools rose from 24 to 27.

Overview of Financial Statements

Statement of Net Position

ASSETS	<u>2023</u>
Capital	\$ 30,479,400
Other	<u>67,503,035</u>
Total Assets	97,982,435
DEFERRED OUTFLOWS	
Related to Pension	1,679,015
LIABILITIES	
Long-Term	1,913,928
Short-Term	<u>1,013,829</u>
Total Liabilities	2,927,757
DEFERRED INFLOWS	
Related to Pension	1,178,719
Related to Leases	<u>53,691</u>
Total Deferred Inflows	1,232,410
NET POSITION	
Invested in Capital Assets	30,479,399
Restricted	2,032,250
Unrestricted	<u>62,989,633</u>
NET POSITION	\$ 95,501,282

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

Cash rose 13.96% or \$7,380,482. Federal grant revenues declined -97.02% -\$5,125,017 and state grant revenue declined -36.75% or -\$1,859,331. Local sales tax receivable increased 0.89% or \$24,790 as unreceived sales tax revenue for November and December changed 2.06% and -0.20% respectively from the previous year. Parts inventory increased 61.21% or \$706,960 due to inflation and increased items.

Payments due from other government agencies decreased -88.86%, or -\$3,940,669 as state operating grant reimbursements were stalled by an administrative delay finalizing operating grant agreements.

Capital acquisitions of bus annunciator systems and tablets, one (1) maintenance pickup truck with snowplow, nine (9) vehicle toolboxes sets, an HVAC upgrade, two (2) electric charging stations, a 36 acre land parcel, a propane evacuation machine, four (4) software systems, computer switches, a cyber firewall, and six (6) newly capitalized computer leases resulted in a 6.17% or \$3,262,695 increase to capital assets before depreciation. A 11.14 % or \$2,566,332 increase in accumulated depreciation, led by the addition of annunciators and capitalized computer leases, limited the rise in net capital assets to 2.15% or \$641,054.

Total assets plus deferred outflows summed to \$99,661,450, which was 5.16% or \$4,892,910 higher than the prior year. Deferred outflows of \$1,679,015 decreased -8.93% or -\$164,664 due mostly to changes in pension contributions and differences between expected and actual pension fund experience.

Total liabilities and deferred inflows of \$4,160,167 decreased -12.38% or -\$587,651 was primarily caused by a -36.29% or -\$701,868 decrease in deferred inflows related to pensions which positively changed from a more optimistic PERS state pension fund earning economic assumption.

Pension liability of \$879,263 decreased -14.21% or -\$145,663 and pension asset of \$2,032,250 increased 13.83% or \$246,880 as state pension actuaries adjusted the state pension fund value because of stronger 2023 stock market. Compensated absences (accrued sick and vacation leave) of \$788,166 fell -4.40% or -\$36,297 as accrued compensated hours fell -0.51% or -191 hours. Accounts payable decreased -61.53% or -\$554,452 which reflected a return to a typical total compared to last year's larger than usual amount due to a late receipt of five vanpool vehicles with payment remaining at year end.

GASB 68 / 71 requires certain defined transactions that do not qualify for treatment as either assets or liabilities be accounted for and reported as either deferred outflows of resources (a separate subheading following assets but before liabilities) or deferred inflows of resources (a separate subheading following liabilities but before equity). The reported deferred inflow and outflow subheadings account for Island Transit's premiums paid to the PERS retirement fund's after DRS's (Department of Retirement System's) 6/30/2022 report date but not yet included in their reported pension liability, differences between projected vs. actual investment earnings, differences between

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

expected and actual investment experience, changes in assumptions, as well as changes in the percentage share of net pension liability.

An increased pension asset, a decreased pension liability, as well as changes to deferred outflow and inflow accounts combined for a \$923,669 positive effect on net position. Ending net position was \$95,501,282, up 6.16% or \$5,540,331.

Statement of Revenue, Expense, and Change in Net Position

REVENUE	<u>2023</u>
Operating	\$ 201,953
Non-Operating	<u>21,508,516</u>
Total Revenue	<u>21,710,469</u>
EXPENSE	
Operations	9,685,525
Maintenance	1,307,359
Administration	2,630,430
Depreciation / Amortization	<u>2,546,544</u>
Total Expense	<u>16,169,858</u>
Increase (Decrease) in Net Position	<u>5,540,611</u>
Prior Period Adjustments	<u>(280)</u>
CHANGE IN NET POSITION:	\$ <u>5,540,331</u>

▪ **Operating Revenue**

Vanpool revenue was \$201,953, an 11.12% or \$20,208 increase. Many commuters have shifted to a remote workplace, but we saw a 12.50% increase in rideshare usage during the year from 24 to 27 groups.

▪ **Non-Operating Revenue**

Local sales tax revenue of \$16,883,704 increased 2.27% or \$374,905. Island County consumers continue to spend in the county despite higher interest rates and a turbulent stock market. Low real estate inventory coupled with increasing interest rates continue to drive home prices up throughout the year. A 2023 annual inflation rate of 3.5% is likely the main contributing factor behind increased sales tax revenue.

Grant income of \$3,369,553 decreased -67.43% or -\$6,975,910. Grant revenue consisted of \$157,424 federal operating, \$2,782,041 state operating, \$0 federal capital, \$418,000 state capital, and \$12,088 local grant money. Total federal grant income fell -97.02% or -\$5,125,017, total state grant revenue dropped -36.75% or -

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

\$1,859,331, and total other local grants increased 231.18% or \$8,438.

Federal capital grant revenue fell -100.00% or -\$743,605 since the transit did not complete any federal capital grant projects. State capital grant revenue increased 60.69% or \$157,870 due to the completion of the bus annunciator project. Local capital grant revenue rose 100.00% or \$9,588 due to the fulfillment of a bus stop seat grant.

Federal operating grant cash reimbursements fell -53.76% or -\$183,044 due to a delay on a contract completion for the mobility management and intercounty connector grants. On the state grant side, the intercounty connector, Paratransit, fixed route, and route study grants generated an -41.30% or -\$1,957,201 less cash than the previous year because of a delay in the contract finalization.

Interest revenue increased 121.30% or \$634,063 due to rising interest rates and a larger invested cash balance. Miscellaneous revenue fell -23.92% or -\$30,954 as no vehicles were disposed versus four vehicles in the previous year.

▪ **Expense**

Operations expense included the cost of operators, dispatchers, safety support, customer service, fueling, park & ride maintenance, technology, and facility maintenance. Total operations expense was \$8,679,724, an increase of 14.88% or \$1,124,214. An accounting adjustment for pensions reduced operations expense by -\$578,119.

Fuel cost increased 14.95%, or \$129,494 as fuel prices steadily increased throughout the year. Fuel cost of \$995,863 was higher than the previous nine-year average of \$709,226.

Vehicle maintenance expense represented the cost of parts and labor required for vehicle repair. Vehicle maintenance expense was \$1,307,359, a decrease of -7.79% or -\$110,399. An accounting adjustment for pensions reduced vehicle maintenance expense by -\$98,310.

Administration expense included all other functions including executive direction, planning, marketing, purchasing, finance, and human resources. Total administrative expense was \$2,630,430, an increase of 27.98% or \$575,153. Liability insurance premiums increased 39.25% or 143,941, while professional service expense increased 32.98% or \$106,175. Emergency supply expense fell -10.42% or -\$9,415. An accounting adjustment for pensions reduced administration expense by -\$125,067.

Depreciation expense was adjusted to recognize the reduction of capital asset value due to wear and tear. Depreciation expense was \$2,546,544, an increase of 1.19% or \$30,001. Island Transit added one (1) new vehicle with snowplow, a tree farm outbuilding, twelve (12) bus stop seats, bus display systems, a propane evacuation machine, computer tablets, computer switches, a computer firewall, an operator room upgrade, two (2) electric chargers, an HVAC upgrade, nine (9) toolboxes, and five (5)

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

software systems.

▪ **Change in Net Position**

Island Transit's net position was \$95,501,282, which was a 6.16%, a \$5,540,331 increase from the prior year, was the net combination of total revenue of \$21,710,469, down -21.59% or -\$5,977,688, total expense of \$16,169,858 up 12.19% or \$1,757,135, and prior period adjustment of -\$280.

Actual vs. Budget

Island Transit passed a 2023 budget on December 2, 2022 with a cash basis, projected deficit of -\$9,496,364. For the year ending 12/31/2023, Island Transit realized an accrual surplus of \$5,540,611 before prior period adjustment.

In the following analysis, the term "actual" will refer to accrual basis numbers shown on these financial statements, while the term "budget" will refer to cash basis figures in the Island Transit 2023 budget not included in this financial report. With the understanding that presentation methods differ widely between the budget and actual financial statements, a quick look at budget (cash basis) estimates versus actual (accrual basis) results will help reveal how the 2023 surplus emerged.

Before any further discussion, it should be noted that there are clear differences in how budget cash statements and GAAP accrual statements are presented. Some examples include: Island Transit's 2023 accrued financial statements show \$2,546,544 of depreciation expense whereas the budget statements do not; major capital purchases of \$3,262,694 were expensed in the budget statement, but were capitalized in accrued financial statements; and total expense was adjusted down -\$923,669 on accrued financial statements per pension liability information provided by DRS (WA Department of Retirement Systems), but not so in the budget statement.

Actual total revenue was -\$3,911,724 below budget. Actual operating revenue, which consists of vanpool fares, was \$23,497 above budget. Actual non-operating revenue was -\$1,582,827 below budget, partly because operating revenue grants were -\$4,655,738 less than budget while sales tax and interest were \$142,580 and \$715,569 above budget, respectively. Capital revenue was -\$2,352,394 below budget. Miscellaneous revenue was -\$26,185 below budget.

The actual total operating expense of \$16,159,920 was -\$4,134,215 below budget. Since depreciation of -\$2,546,544 reduced actual expense but not budget expense, and a PERS actuary adjustment for -\$923,669 reduced actual expense but not budget expense, it could be interpreted that actual operating expense was -\$664,002 below budget. Wages and benefits actuals were -\$2,453,424 below budget. Island Transit incurred high operator turnover during 2023. Employed operators worked overtime to cover newly implemented Sunday service beginning June 2023. Overtime eliminated the added cost for additional employee benefits. Other budget actual comparisons

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

reflected overages such as \$136,397 for fuel and \$106,175 for professional service, or small reductions such as with -\$9,415 in emergency supplies.

Actual capital expense was -\$13,858,267 below budget due to various unfulfilled budgeted capital purchases such as nine (9) electric buses, a South Whidbey Transit Center, a Terry's Corner restroom facility, and park & ride improvements.

In sum, actual total revenue was below 2023 budget figures by -\$3,911,724. Actual operating revenue exceeded budget by \$23,497 as active vanpool vans increased from 24 to 27. Actual non-operating revenue was below budget by -\$1,582,827 primarily because of sharp drop in grant revenue due to unsigned grant contracts at year-end. Capital revenue was -\$2,352,394 below budget due to unfulfilled capital grant projects.

Actual total expense was below budget 2023 budget figures by -\$17,982,544. Actual operating expense was -\$4,134,215 below budget with both depreciation and a significant PERS accounting adjustment included in the actual total. Delayed hiring and lower than anticipated fuel costs drove the reduction in actuals. Non-operating expense of \$9,938 was not budgeted. Actual capital expense was -\$13,858,267 less than budget due to delayed projects.

Economic Trends and Impacts

Island County consists of Whidbey and Camano Islands, which are located at the north end of the Puget Sound, forty miles north of Seattle, Washington. Island County is the second smallest of the 39 Counties in Washington in land mass, and fifth in terms of population (410 persons per square mile).

According to the most current EDC Island County Profile Report (published February 2024), the population for Island County was 88,150 in 2023, a 10.60% increase from the 2013, growing 10.14% in unincorporated areas and 11.60% in incorporated areas. Oak Harbor is the most densely populated with an estimated 2022 figure of 24,780 residents, while Camano Island ranks second with about 17,642 people.

Per WA State Employment Security Department, Island County's 2022 labor force averaged 47,679. Naval Air Station Whidbey Island, just north of Oak Harbor, is the single largest employer with about 11,100 military and civilians and is a major economic force in the County. Other large employers include the Oak Harbor School District, Boeing, Whidbey Health, Island County Government, Stanwood-Camano School District, Walmart, and the South Whidbey School District. Government is the largest employment sector, followed by education, healthcare, and retail trade. The most recent tally in May 2022 showed an Island County unemployment rate at 5.6%.

According to the 2024 EDC Island County Profile Report, the median hourly wage in 2021 was \$24.21 as compared to the state median wage of \$30.50. The 2022 per capita income was \$44,062, well below the state average of \$50,764. The median household income in 2022 for Island County residents was \$81,783, below the state

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

median of \$91,306.

Island Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. Island Transit's portion of local sales tax is 0.09%, the legal limit for transit agencies in Washington State. According to *Washington Department of Revenue* latest statistics totals, Island County annual sales tax revenue increased 4.15% between 2022 and 2023 for an annual period ending the third quarter YoY. In comparison, Island Transit annual sales tax revenue increased 5.22% between 2022 and 2023 for the period ending the third quarter YoY. Island Transit sales tax revenue increased 2.13% between 2022 and 2023 for the annual period ending the fourth quarter YoY.

Retail home sale prices rose sharply since 2022 due to a combination of low housing supply and high consumer demand. The Federal Reserve began a campaign to raise interest rates to slow the economy starting March 2022 with a 0.5% increase, ending December 2022 with a 4.50% cumulative rise. The federal funds rate continued to increase another 0.75% to 5.25% in 2023. Island County real estate purchases slowed, but prices continued to rise in Island County. The 2023 median price for a house on South Whidbey was \$577,900, and the Island County median was \$560,000.

Real estate excise tax (REET) is an indicator of increased population and economic activity. New families add to the economic traffic of their communities, and Island Transit benefits from the sales tax collected from added commerce. Between 2017 and 2019, the Navy added three P-8A Poseidon aircraft squadrons and brought approximately 2,500 people to the local economy. 2021 marked a flurry of retail and residential development in Oak Harbor, WA. The Island County Treasurer reported an annual decrease of their agency's share of REET collections of -19.70% or -\$1,268,355 in 2022, and -16.99% or -\$878,868 in 2023. Increased interest rates and rising prices resulted in reduced home sales and REET collections.

Island County is a scenic destination, where Oak Harbor, Coupeville, Freeland, and Langley benefit greatly from tourism. Island Transit benefits from the sales tax generated when tourists spend money. The WA Department of Revenue reported a decrease in 2023 Island County hotel / motel tax of -12.88% or -\$94,030.

Requests for Information

This financial report is designed to provide a general overview of the PTBA's (Public Transit Benefit Area) finances. Questions concerning any of the information presented in this report or requests for additional financial information should be sent to:

Paul Arand, CPA
Island Transit
Financial Controller
19758 SR 20, Coupeville, WA 98239
(360)-678-9510

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
STATEMENT OF NET POSITION (Page 1 of 2)
DECEMBER 31, 2023

ASSETS	<u>2023</u>
CURRENT:	
Cash and Cash Equivalents	\$ 60,235,422
Interest Receivable	9,118
Due From Other Governments	493,981
Local Sales Tax Receivable	2,813,852
Lease Receivable	5,191
Parts Inventory	1,861,960
TOTAL CURRENT ASSETS	<u>65,419,524</u>
NON-CURRENT:	
Non-depreciable Assets	
Land	<u>2,259,288</u>
Total Non-depreciable Assets	2,259,288
Depreciable Assets	
Improvements Other Than Buildings	9,581,865
Buildings	19,187,250
Maintenance Equipment	1,611,609
Vehicles	19,931,486
Office Equipment	1,761,471
Computer Software	1,747,568
Accumulated Depreciation / Amortization	<u>(25,601,137)</u>
Total Depreciable Assets	<u>28,220,112</u>
Lease Receivable	51,261
Pension Assets	2,032,250
TOTAL NON-CURRENT ASSETS	<u>32,562,911</u>
TOTAL ASSETS	<u>\$ 97,982,435</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to PERS State Pension Plan	<u>\$ 1,679,015</u>

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
STATEMENT OF NET POSITION (Page 2 of 2)
DECEMBER 31, 2023

LIABILITIES	<u>2023</u>
CURRENT:	
Wages, Taxes, and Benefits Payable	\$ 560,258
Accounts Payable	346,702
Lease Liability	<u>106,869</u>
TOTAL CURRENT LIABILITIES	1,013,829
NON-CURRENT:	
Compensated Absences	788,166
Lease Liability	246,499
Pension Liabilities	<u>879,263</u>
TOTAL NON-CURRENT LIABILITIES	1,913,928
TOTAL LIABILITIES	<u>2,927,757</u>
DEFERRED INFLOWS OF RESOURCES	
Related to PERS State Pension Plan	1,178,719
Related to Leases	<u>53,691</u>
TOTAL DEFERRED INFLOWS	<u>1,232,410</u>
NET POSITION	
Invested in Capital Assets	30,479,399
Restricted	2,032,250
Unrestricted	<u>62,989,633</u>
TOTAL NET POSITION	\$ <u>95,501,282</u>

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
STATEMENT OF REVENUE, EXPENSE, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>2023</u>
OPERATING REVENUE	
Transit Fares	\$ 201,953
OPERATING EXPENSE	
Operations	8,679,724
Fuel	995,863
Vehicle Maintenance	1,307,359
Administration	2,630,430
Depreciation / Amortization	2,546,544
Total Operating Expense	<u>16,159,920</u>
OPERATING INCOME (LOSS)	(15,957,967)
NON-OPERATING REVENUE	
Operating Assessments and Tax Levies	16,883,704
Federal Grants	157,424
State Grants	3,200,041
Other Grants	12,088
Interest	1,156,787
Other	98,472
Total Non-operating Revenue	<u>21,508,516</u>
NON-OPERATING EXPENSE	
Lease Interest	<u>9,938</u>
Total Non-operating Expense	9,938
NON-OPERATING INCOME (LOSS)	<u>21,498,578</u>
INCREASE (DECREASE) IN NET POSITION	5,540,611
NET POSITION , January 1	89,960,951
PRIOR PERIOD ADJUSTMENT	<u>(280)</u>
NET POSITION, December 31	\$ <u><u>95,501,282</u></u>

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Fares	\$ 201,953
Payments for Operating Activities	<u>(11,112,662)</u>
Net Cash Provided (Used) by Operating Activities	<u>(10,910,709)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Receipts from Local Sales Tax	16,883,704
Receipts from Non-Operating Grants	2,941,965
Receipts from Other Sources	<u>98,472</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>19,924,141</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Activity from Capital Transactions	(3,207,386)
Lease Interest	(9,938)
Receipts from Capital Grants	<u>427,588</u>
Net Cash Provided (Used) by Capital Financing Activities	<u>(2,789,736)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts from Interest	<u>1,156,787</u>
Net Cash Provided (Used) by Investing Activities	<u>1,156,787</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,380,483
Cash and Cash Equivalents at Beginning of Year	<u>52,854,939</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>60,235,423</u>

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
**RECONCILIATION OF NET OPERATING INCOME (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>2023</u>
Net Operating Income (Loss)	\$ (15,957,967)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation Expense	2,566,332
Prior Period Adjustment - Lease Liability	19,508
Prior period Adjustment - Depreciation Leased Equipment	(19,788)
Changes in Assets and Liabilities	
Increase in Sales Tax Receivable	(24,790)
Increase in Interest Receivable	(3,095)
Decrease in Net Lease Receivable	5,018
Decrease in Due from Other Government Units	3,940,669
Increase in Parts Inventory	(706,960)
Decrease in Deferred Outflows Due to Pensions	164,664
Decrease in Accounts Payable	(554,452)
Increase in Wages, Taxes, and Benefits Payable	458,139
Decrease in Compensated Absences	(36,297)
Decrease in Net Pension Liability	(145,663)
Increase in Net Pension Asset	(246,880)
Increase in Net Lease Liability	332,721
Decrease in Deferred Inflows Related to Pension	(695,790)
Decrease in Deferred Inflows Related to Leases	(6,078)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>(10,910,709)</u>

See Accompanying Notes to Financial Statements

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Island County Public Transportation Benefit Area (dba Island Transit) was established in November 1983 when the sales tax and transit system was approved by 56.5% of the voters. Island Transit operates under the laws of the state of Washington applicable to a public transportation benefit area.

Island Transit is a special purpose government agency that provides transit services to the public. The agency is supported primarily through local sales tax and is classified as a proprietary fund for financial reporting purposes.

Island Transit is governed by a six-member board, five voting members and one non-voting union representative. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Island Transit has no component units.

B. Basis of Accounting and Reporting

1. Proprietary Funds

Island Transit's financial statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Island Transit's operating revenues stem from fares collected for vanpool usage. Operating expenses for the PTBA include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

C. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

It is Island Transit's policy to invest all temporary cash surpluses. On 12/31/23 the Island County Treasurer held \$60,235,422 in short-term residual investments. This amount is classified on the balance sheet as cash and cash equivalents. The interest on these investments is reported as interest income.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. There were no compensating balances maintained during 2023.

For the purposes of the *Statement of Cash Flows*, Island Transit considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

See Note 2. *Deposits and Investments*.

3. Interest Receivable

Interest receivable is revenue earned on cash investments at the end of the year, but not yet received. Interest receivable accrued for sales tax interest was \$9,118.

4. Accounts Receivable

Accounts receivable is revenue earned but not yet received at year end.

5. Due from Other Governments

Amounts due from other government entities is revenue for grant contract services performed and billed, but not yet received at year end. Due from other governments on December 31, 2023, was \$493,981, which included \$39,661 for four (4) months billing on fuel refund, \$35,315 for two (2) insurance reimbursements, \$1,000 for a solar panel project, and \$418,000 for an annunciator installation for all Island Transit buses.

6. Lease Receivable

A lease is a contract by which one party conveys land, property, services, etc. to another for a specified time, usually in return for a periodic payment. A lease receivable is the financial obligation where Island Transit will receive lease

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

payments required by a lease. Under ASC 842, IFRS 16, GASB 87, and GASB 96, the lease receivable is calculated as the present value of the remaining lease payments over the lease term. The lease receivable as of December 31, 2023, was \$56,452, where \$5,191 was due within 12 months (current), and \$51,261 total was due for the remainder of the lease (non-current).

7. Local Sales Tax Receivable

Local sales tax receivable is sales tax revenue earned in the current period but not yet received by year end. Local sales tax receivable on December 31, 2023, was \$2,813,852 which consisted of two (2) months state sales tax due from Washington State Department of Revenue for .09 percent of November and December 2023 County sales tax receipts.

8. Parts Inventory

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure when inventory items are consumed. The reserve for inventory is equal inventory not consumed. A comparison to market value is not considered necessary. Inventories are valued using the first-in first-out method which approximates the market value. Parts inventory at year end was \$1,861,960.

9. Capital Assets

Capital assets, which include property, plant, equipment, are assets with an initial, individual cost of \$5,000 or greater value. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The cost for normal maintenance and repairs is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Per GASB 89, interest incurred during the construction phase of the capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated lives:

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

Major Class	Depr. Life (yrs.)
Improvements Other Than Buildings	15
Buildings	50
Maintenance Equipment	5-10
Vehicles	4-12
Office Equipment	5-10
Computer Software	3-7

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

10. Pensions

For purposes of measuring the net pension asset, 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. See Note 8, *Pension Plans – PERS – Defined Benefit*.

For purposes of calculating the restricted net position related to the net pension asset, Island Transit includes the net pension asset only.

11. Interest Payable

Interest payable is interest accrued and owed in the current year for outstanding debt, but unpaid at year end.

12. Accounts Payable

Accounts payable is an amount owed for purchases made, but unpaid, at year end. Accounts payable was \$346,702 as of December 31, 2023.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

13. Compensated Absences

Island Transit compensates accumulated unused vacation and sick leave. It accounts for unpaid leave for compensated absences as an expense and liability when incurred.

Vacation Pay

Island Transit's payroll policy states employees accumulate vacation benefits at the rate of 12 days per year for 0-4 years of service, 15 days for 5-9 years, 18 days for 10-14 years, 21 days for 15-19 years and 24 days at 20+ years. Employees may accumulate no more than 240 hours of vacation at year end. In the event of employment separation, the employee receives compensation at the regular rate of pay for vacation leave up to 240 hours, except when termination takes place during the introductory period.

Sick Leave

Island Transit's payroll policy states employees accumulate sick leave benefits at the rate of 12 days per year. There is no limit on sick hours. Employees who leave Island Transit in good standing and after five years of employment are paid a percentage of their sick leave with a maximum ceiling based on the number of years of employment. The chart below details the calculations used to determine the amount to be paid:

Years of Employment	Percentage	Ceiling
5-9	25%	480
10-14	50%	960
15-19	60%	1,440
20+	80%	1,920

The compensated absence liability at year end was \$788,166.

14. Lease Liability

A lease is a contract by which one party conveys land, property, services, etc. to another for a specified time, usually in return for a periodic payment. A lease liability is the financial obligation for the payments required by a lease. Under ASC 842, IFRS 16, and GASB 87, the lease liability is calculated as the present

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

value of the remaining lease payments over the lease term. The lease liability as of December 31, 2023, was \$353,368, where \$106,869 was due within 12 months (current), and \$246,499 was due over the remainder of the lease (non-current).

15. Accrued Wages and Other Accrued Liabilities

This category includes accrued wages and accrued employee benefits. Accrued wages are earnings accrued and owed in the current year for work performed, but unpaid at year end. Accrued wages totaled \$560,258 on December 31, 2023, which consists of hourly operator wages earned after the normal hourly payroll cutoff date of December 24th, 2023, and related benefits to be paid at year end.

16. Operating Revenues / Expenses

Island Transit reports operating revenues as defined in GASB 9. Operating revenues result from fees and charges from providing services in connection with the ongoing operations of providing ride-sharing services. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are expenses that are directly incurred in the operation of providing ride-sharing services.

17. Minimum Fund Balance

The Island Transit board authorizes when funds must be designated as assigned for certain purposes. Island Transit board resolution 1-16 states that by the year 2026, the assigned operating / emergency reserve should attain two months operating expenses, while the assigned operating cash reserve should hold one month of operating expenses. Island Transit meets these two mandates as of 12/31/2023. These funds are included in the unrestricted net position category on the *Statement of Net Position*.

18. Net Position Classification

Cash reserves are divided between assigned and unassigned reserves. Assigned reserves are funds earmarked for a specific purpose. Unassigned reserves is cash outside of the assigned reserves used to pay daily expenses. Island Transit board resolution 15-18 budgets money to assigned reserves to save for future capital expenditures. See Note 12, *Assigned Reserves*.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

NOTE 2. DEPOSITS AND INVESTMENTS

A. Deposits

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, Island Transit would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. Island Transit's deposits and certificates of deposit are mostly 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 (PDPC).

As required by state law, RCW 39.58, the Island County Treasurer deposits funds to public depositories approved by the Washington Public Deposit Protection Commission (PDPC). The non-invested portion of Island Transit's operating cash as of 12/31/23, \$1,735,422, was held by the Island County Treasurer in a local bank account. Of that amount, the FDIC deposit insurance guarantees \$250,000. Thus, the remaining bank balance of \$1,485,422 was exposed to custodial credit risk.

Fund	Uninsured and Uncollateralized	Uninsured and Collateral Held by Bank	Uninsured and Collateral Held by Pledging
			Bank's Trust Department
Operating Cash	\$ 1,485,422	\$ -	\$ -
Totals	\$ 1,485,422	\$ -	\$ -

A. Investments

It is Island Transit's policy to invest all temporary cash surpluses. The interest on these investments is put in the operating cash reserve.

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk Island Transit may face should interest rate variances affect the fair value of investments. Island Transit's investment policy states the investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, considering Island Transit's investment risk constraints and liquidity needs. Return on investments is of secondary importance compared to the safety and liquidity objectives. Interest rate variances impact the fair value of the Island County

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

Treasure Investment Pool (ICTIP); however, the Island County Treasurer holds securities to term and recovers the face value of the investment. Thus, interest rate risk does not impact Island Transit's ability to recover the full amount of its investment in the ICTIP.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy of Island Transit and the Island County Treasurer is to invest in low-risk securities authorized by RCW 48.13, which includes investments in federal agency bonds, federal notes, municipal bonds, and the WA State Treasurer LGIP (Local Government Investment Pool). Island Transit did not individually hold any investment securities as of 12/31/2023.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, Island Transit will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Island Transit's policy is to rely on the Island County Treasurer to obtain a third-party custodian to safeguard its investment and protect against safekeeping/custodial risks. Island County Treasurer holds investments at a public depository, which is insured against loss by the Public Deposit Protection Commission (PDPC) as described in RCW 39.58.060.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. Island Transit's investment policy directs its officers to diversify the investment portfolio with consideration to maturity, issuer, and class of security. Island Transit's entire investment portfolio is with the Island County Treasurer's Investment Pool (ICTIP), an external pool, which was established to allow for greater diversification of investments, thus reducing concentration risk.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Island Transit does not have a formal policy for foreign currency risk. The Island County Treasurer invests about 1% of ICTIP funds in IBRD – Supra-nationals (international institutions).

Investments in Island County Treasurer's Investment Pool (ICTIP)

Island Transit is a participant in the Island County Treasurer's 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. Island Transit reports its investment in the pool at a fair value amount of \$58,500,000 as of 12/31/2023. The pool does not limit participant withdrawals, impose liquidity fees, use redemption gates, or employ any other withdrawal restrictions.

Investments Measured at Fair Value

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3: Unobservable inputs for an asset or liability.

At year end, Island Transit had the following investments measured at fair value:

		Investments Measured at Fair Value		
		Quoted	Significant	Significant
		Prices in		
		Active	Observable	Unobserva
		markets for	Inputs	ble Inputs
		Identical	(Level 2)	(Level 3)
	12/31/21	(Level 1)		
Investments Measured at the net asset value (NAV)				
Island County Treasurer Investment Pool (ICTIP)	58,500,000	58,500,000	-	-
Total Cash Equivalent Investments	\$ 58,500,000	\$ 58,500,000	\$ -	\$ -

Summary of Deposit and Investment Balances

The following is a summary of deposits and investment balances as of 12/31/2023.

	Single Fund
Cash on Hand	
Deposits with Private Financial Institutions	\$ 1,735,422
ICTIP External Investment Pool	58,500,000
Total Cash On Hand	60,235,422
Deposits	
Current	
Deposits with Private Financial Institutions	1,735,422
Total Deposits	1,735,422
Investments	
Current	
ICTIP External Investment Pool	58,500,000
Total Investments	58,500,000
Total Cash Equivalent Deposits and Investment	\$ 60,235,422

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

NOTE 3. CAPITAL ASSETS AND DEPRECIATION

The statement of revenues and expenses includes depreciation for these depreciable capital assets from the prior year, as well as any additions or deletions during 2023. In 2023, asset and accumulated depreciation account balances changed by the following amounts.

Description	Beginning Balance 1/1/2023	Additions 2023	Deletions 2023	Ending Balance 12/31/23
Capital Assets Not Being Depreciated:				
Land	\$ 1,814,573	\$ 444,715	\$ -	\$ 2,259,288
Construction in Progress	-	-	-	-
Total Capital Assets Not Depreciated	1,814,573	444,715	-	2,259,288
Capital Assets Being Depreciated				
Improvements Other Than Buildings	9,571,433	10,432	-	9,581,865
Buildings	18,630,200	557,050	-	19,187,250
Maintenance Equipment	1,166,078	445,531	-	1,611,609
Vehicles	18,944,462	987,024	-	19,931,486
Office Equipment	1,662,417	99,055	-	1,761,471
Computer Software	1,083,988	663,579	-	1,747,567
Total Capital Assets Depreciated	51,058,578	2,762,670	-	53,821,248
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,974,099	365,255	-	4,339,355
Buildings	4,248,223	402,734	-	4,650,957
Maintenance Equipment	1,007,783	57,849	-	1,065,633
Vehicles	11,458,161	1,492,848	-	12,951,010
Office Equipment	1,346,177	137,512	-	1,483,688
Computer Software	1,018,053	90,345	-	1,108,398
Total Accumulated Depreciation	23,052,498	2,546,544	-	25,599,041
Total Capital Assets Depreciated (Net)	28,006,081	216,126	-	28,222,207
TOTAL ALL CAPITAL ASSETS (Net)	\$ 29,820,654	\$ 660,841	\$ -	\$ 30,481,495

Computer software currently employed includes RTA (Ron Turley Associates) maintenance software purchased in 2006, *Faster* maintenance time and parts tracking software in 2023, *Track-it* operation communication software in 2023, *Ecolane* operations bus scheduling software in 2023, *Route Match* dispatch software in 2010 and 2016, *Fleet-Net* accounting software in 2014, *Paycor* payroll cloud software in 2023, *Netsuite* financial cloud software in 2023, *Microsoft Windows* in 2016 and *Office*

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

360 in 2021, Veeam backup software in 2018, Vipre-Antivirus in 2019, Veeam VMware Horizon Enterprise in 2019, Fortigate Firewall in 2020, Lansweeper in 2021, Tintri in 2021, and Veeam VDI Enterprise in 2021.

NOTE 4. CONSTRUCTION IN PROGRESS

There is no construction-in-progress as of 12/31/2023.

NOTE 5. ACCOUNTS AND INTEREST PAYABLE

Accounts payable on December 31, 2023, was \$346,702. There was no interest payable at year end.

NOTE 6. LONG TERM LIABILITIES

Island Transit employees earn sick and vacation leave based on years of service. Employees can accrue earned but unused leave with some limitations for the duration of their employment. When an employee leaves the company, they are compensated (compensated absences) for a portion of their accrued sick and vacation leave remaining for their service.

For pension information, see *Note 8 – PENSION PLANS – PERS – DEFINED BENEFIT*.

The change in long-term liabilities is as follows:

	Beginning Balance			Ending Balance	Due Within
Governmental Activities	1/1/2023	Additions	Reductions	12/31/2023	One Year
Compensated absences	\$ 824,463	\$ -	\$ (36,297)	\$ 788,166	\$ -
Lease obligations	16,065	230,434	-	246,499	-
Pension obligations	1,024,926	-	(145,663)	879,263	-
Long Term Liability	\$ 1,865,454	\$ 230,434	\$ (181,960)	\$ 1,913,928	\$ -

NOTE 7. LEASE (LESSEES)

A lessee recognizes a lease as an asset and a liability. Under ASC 842, IFRS 16, and GASB 87, and GASB 96 the lease asset and liability are calculated as the present value of the remaining lease payments over the lease term.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

Island Transit leased equipment as of December 31, 2023, with the following terms.

<u>Nonfinancial Asset Lease Arrangements</u>							
	Description	Lessor	Start Date	End Date	Pmts	Basis	Rate
1.	Postage Meter Machine - Administration	Pitney Bowes Global Financial	43556	6/29/24	63	4,000	2.10%
2.	Oasys - Konica Copier - Administration	GreatAmerica Financial Services	44782	8/8/27	60	13,685	8.82%
3.	Oasys - Konica Copier - Maintenance	GreatAmerica Financial Services	44782	8/8/27	60	6,630	8.48%

Island Transit leased software as of December 31, 2023, with the following terms.

<u>Subscription Based Information Technology Lease Arrangements</u>							
	Description	Lessor	Start Date	End Date	Pmts	Basis	Rate
1.	Ecolane Software - Operations	Transit Technologies Corp.	11/1/2022	10/31/2027	60	\$230,713	3.86%
2.	NetSuite Oracle Software - Finance	Oracle Corporation	12/1/2023	11/30/2026	36	\$249,518	3.74%
3.	Faster Software - Maintenance	TT FASTER LLC	5/1/2023	4/30/2028	60	\$183,502	3.86%
4.	Veeam Software - IT	Veeam Software	10/17/2021	10/16/2024	36	\$22,254	3.74%
5.	Barracuda Software - IT	Kohlberg Kravis Roberts Inv. Firm	5/18/2022	5/17/2025	36	\$9,586	3.74%
6.	FleetWatch Software - Maintenance	S&A Systems	5/18/2022	5/17/2025	36	\$15,554	3.74%

The total amount of lease assets, and the related accumulated amortization by major class of underlying as of December 31, 2023, was:

<u>Total Lease Assets and Depreciation</u>				
	Beg. Bal.	Increases	Decreases	End. Bal.
Leased Equipment	24,315	711,128	0	735,443
Total	24,315	711,128	0	735,443
Accum. Depr. Leased Equip	4,211	85,749	0	89,960
Total	4,211	85,749	0	89,960

As of December 31, 2023, the principal and interest requirements to maturity for the remaining lease liability cost of leased assets net prepaid expenses were as follows:

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

<u>Lease Principle and Interest Requirements</u>			
	Principle	Interest	Total
2022	\$3,667	\$1,266	\$4,933
2023	\$65,793	\$7,801	\$73,595
2024	\$106,869	\$12,109	\$118,978
2025	\$97,815	\$8,125	\$105,941
2026	\$94,862	\$4,230	\$99,092
2027	\$40,051	\$1,336	\$41,388
2028	\$13,771	\$251	\$14,022
Total	\$422,828	\$35,118	\$457,949

NOTE 8. LEASE (LESSORS)

A lessor is required to account for lease payments as a lease receivable and deferred revenue. Under ASC 842, IFRS 16, GASB 87, and GASB 96 the lease receivable and deferred inflow are calculated as the present value of the remaining lease payments over the lease term.

Island Transit leased equipment as of December 31, 2023, with the following terms.

<u>Description of Lease Arrangements</u>								
	Description	Lessee	Renewal	Start Date	End Date	Pmts	Basis	Rate
1.	Race Road Cell Tower	T-Mobile	Every 5 years	1/1/2022	9/24/2032	130	\$65,848	3.40%

The total amount of inflows of resources recognized in the reporting period was:

<u>Lease Inflow of Resources</u>			
Year	Principle	Interest	Total
2022	\$4,378	\$2,171	\$6,549
2023	\$5,018	\$2,010	\$7,028
2024	\$5,191	\$1,837	\$7,028
2025	\$5,370	\$1,658	\$7,028
2026	\$5,555	\$1,473	\$7,028
2027	\$5,923	\$1,280	\$7,203
2028	\$6,665	\$1,066	\$7,730
2029	\$6,895	\$836	\$7,730
2030	\$7,133	\$598	\$7,730
2031	\$7,379	\$352	\$7,730
2032	\$6,343	\$99	\$6,442
Total	\$65,848	\$13,378	\$79,226

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NOTE 9. PENSION PLANS – PERS - DEFINED BENEFIT

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

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 year 2023:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ (879,263)
Pension assets	2,032,250
Deferred outflows of resources	1,679,015
Deferred inflows of resources	(1,178,719)
Pension expense/expenditures	\$ (173,342)

State Sponsored Pension Plans

Substantially all Island Transit 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.

The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government employers and No. 50, Pension Disclosures, an amendment of GASB Statements No. 25, No. 27, No.68 (an amendment of GASB No. 27), and No.71 (an amendment to GASB No. 68).

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:

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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 2% 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 were as follows:

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

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- * For employees participating in JBM, the contribution rate was 12.26%.

Island Transit's actual PERS plan contributions to PERS plan 1 UAAL for the year ended 12/31/23 was \$255,331.

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. 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 were as follows:

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PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee *
January - June 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.36%
July - August 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	9.39%	6.36%
September - December 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	9.53%	6.36%

* For employees participating in JBM, the contribution rate was 15.90%.

Island Transit's actual PERS plan contribution to PERS Plan 2/3 for the year ended 12/31/23 was \$481,502.

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

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- **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). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan 1/2 assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022, measurement date.

Discount Rate

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

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% 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each

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major asset class included in the pension plan's target asset allocation as of June 30, 2023. The inflation component used to create the table is 2.2% 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
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%
Total	100%	

Sensitivity of the Net Pension Liability / (Asset)

The table below presents Island Transit's proportionate share of the net pension liability and asset calculated using the discount rate of 7%, as well as what Island Transit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

Sensitivity of Net Pension Liability / (Asset)			
For the Fiscal Year Ended June 30, 2023			
	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
PERS 1	\$ 1,228,396	\$ 879,263	\$ 574,551
PERS 2/3	2,210,315	(2,032,250)	(5,517,786)
Total NPLA	\$ 3,438,712	\$ (1,152,987)	\$ (4,943,234)

* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available

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in the separately issued DRS financial report.

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

As of June 30, 2023, Island Transit reported its proportionate share of the net collective pension asset and net pension liabilities as follows:

Plan	Liability (or Asset)
Pension Liability - PERS 1	\$ 879,263
Pension Asset - PERS 2/3	(2,032,250)
Net Pension Liability and Asset	\$ (1,152,987)

As of June 30, 2023, Island Transit's proportionate share of the collective pension asset and liability was as follows:

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.0368100%	0.0385180%	0.0017080%
PERS 2/3	0.0481390%	0.0495830%	0.0014440%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023, 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 Non-Employer Allocations*.

Pension Expense

As of December 31, 2023, Island Transit recognized pension expense as follows:

Plan	Pension Expense
PERS 1	\$ 46,134
PERS 2/3	(219,476)
Total Pension Expense	\$ (173,342)

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Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2023, Island Transit reported deferred outflows of resources and

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual		
investment earnings on pension plan investments	-	(99,185)
Changes of assumptions	-	-
Changes in proportion and differences between		
contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	115,221	-
TOTAL	\$ 115,221	\$ (99,185)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 413,967	\$ (22,706)
Net difference between projected and actual		
investment earnings on pension plan investments	-	(765,875)
Changes of assumptions	853,209	(185,966)
Changes in proportion and differences between		
contributions and proportionate share of contributions	46,571	(104,987)
Contributions subsequent to the measurement date	250,047	-
TOTAL	\$ 1,563,794	\$ (1,079,535)

TOTAL PERS 1, 2, 3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 413,967	\$ (22,706)
Net difference between projected and actual		
investment earnings on pension plan investments	-	(865,059)
Changes of assumptions	853,209	(185,966)
Changes in proportion and differences between		
contributions and proportionate share of contributions	46,571	(104,987)
Contributions subsequent to the measurement date	365,268	-
TOTAL	\$ 1,679,015	\$ (1,178,718)

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deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources related to pensions resulting from the Island Transit's contributions after the measurement date will be recognized as a reduction of the net pension asset in the year ended December 31, 2024. 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
2024	\$ (67,481)
2025	(84,865)
2026	52,327
2027	835
2028	-
Thereafter	-
Total	\$ (99,184)

Year Ended December 31:	PERS 2/3
2024	\$ (362,588)
2025	(461,095)
2026	614,203
2027	218,459
2028	222,401
Thereafter	2,833
Total	\$ 234,213

NOTE 10. PENSION PLANS – 457 - DEFINED CONTRIBUTION

Island Transit offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 457. The plan was established by resolution November 14, 1990, and became effective in January 1991. Furthermore, the employees of Island Transit elected not to be a part of the Social Security system.

This plan is with Mission Square Retirement, formerly called International City/County Management Association Retirement Corporation (ICMA-RC). The plan,

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available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In lieu of tax payments into the Social Security system, Island Transit matches employee contributions to the employee's 457 plan up to 6.2% of an employee's gross wages, not to exceed the annual federal contribution limits. Island Transit's deferred compensation expense was \$319,936. Island Transit has no outstanding liability due to this plan as of 12/31/23.

NOTE 11. RISK MANAGEMENT - WASHINGTON STATE TRANSIT INSURANCE POOL

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

At the end of 2023, Island Transit retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Island Transit has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

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

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

WSTIP utilizes a combination of self-insurance, reinsurance, and excess insurance to provide the limits noted in the summary below. Carriers include Government

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Entities Mutual, Munich Reinsurance America, Hallmark Specialty Insurance Company, and Allied World Assurance Company for the liability lines; Evanston for auto physical damage; American International Group Inc. (AIG)/National Union Fire Insurance for the crime policy; and Beazley Cyber Services for the cyber liability policy. The excess property carrier for all risk property and boiler and machinery is Alliant Property Insurance Program provided by Alliant Insurance Services.

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

The following is a summary of insurance coverage provided in 2023:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY:			
Bodily Injury & Property Damage	\$25 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$25 million	Per offense	\$0
Contractual liability	\$25 million	Per occurrence	\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0
Permissive Use of a Member-Owned Motor Vehicle	\$100,000 for property damage and \$300,000 for bodily injury	Per occurrence	\$0
Agency, rental, and personal/private vehicle occupants not covered by workers compensation or transit passengers	\$100,000 for property damage and \$300,000 for bodily injury	Per occurrence	\$0
		Per occurrence	\$0
Endorsement 1: COMMUNICABLE DISEASE LIABILITY:	\$500,000	Per occurrence	\$0
Annual aggregate for all Members or Additional Covered Parties	\$2 million		

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PUBLIC OFFICIALS' LIABILITY	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 1: VIOLATIONS OF WAGE & HOUR LAWS	\$250,000	Per occurrence	\$25,000
Annual aggregate per Member	\$250,000		
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$35 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit
AUTO PHYSICAL DAMAGE Auto Physical Damage (below \$250,000 in value)	Fair market value		\$5,000
Auto Physical Damage for all vehicles valued over \$250,000 and less than 10 years old	Replacement Cost	Limited to \$1.6 million any one vehicle	\$5,000
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$2 million	Per occurrence	\$10,000

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Employee theft	\$2 million	Per occurrence	\$10,000
Forgery or alteration	\$2 million	Per occurrence	\$10,000
Inside the premises – theft of money and securities	\$2 million	Per occurrence	\$10,000
Inside the premises – robbery or safe burglary of other property	\$2 million	Per occurrence	\$10,000
Outside premises	\$2 million	Per occurrence	\$10,000
Computer fraud	\$2 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$2 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$2 million	Per occurrence	\$10,000

CYBER LIABILITY INSURANCE		Coverage	Deductible
Annual Policy and Program Aggregate Limit of Liability for all policy holders (not just WSTIP members)	\$45 million		
Insured/Member Annual Aggregate Limit of Liability	\$2 million		\$5,000
BREACH RESPONSE COSTS	\$500,000	Aggregate for each insured/member (limit is increased to \$1 million if Beazley Nominated Service Providers are used)	
FIRST PARTY LOSS			
Business Interruption			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$500,000	Aggregate limit	
Dependent Business Loss			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$100,000	Aggregate limit	
Cyber Extortion Loss	\$750,000	Aggregate limit	
Data Recovery Costs	\$750,000	Aggregate limit	

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LIABILITY			
Data & Network Liability	\$2 million	Aggregate limit	
Regulatory defense and penalties	\$2 million	Aggregate limit	
Payment Card Liabilities & Costs	\$2 million	Aggregate limit	
Media Liability	\$2 million	Aggregate limit	
eCRIME			
Fraudulent Instruction	\$75,000	Aggregate limit	
Funds Transfer Fraud	\$75,000	Aggregate limit	
Telephone Fraud	\$75,000	Aggregate limit	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS			
Reputation Loss	\$100,000	Limit of Liability	
Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$100,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	
Cryptojacking	\$25,000	Limit of Liability	

Covered Locations Pollution Liability Insurance Policy

Island Transit purchased a Covered Locations Pollution Liability insurance policy. The policy term is from April 4, 2021, to April 4, 2024. The carrier is Beazley Eclipse. The insuring agreement has coverage parts for covered location pollution liability coverage – new pollution conditions, covered location pollution liability coverage – existing pollution conditions, transportation pollution liability, and non-owned disposal site pollution liability. The policy covers cleanup costs, damages, and claims expenses. The limit of coverage is \$5 million for each pollution condition – includes claims expenses with a \$5 million aggregate including claims expenses. Island Transit has a \$100,000 deductible per pollution condition. Locations must be listed to be covered.

NOTE 12 – CONTINGENCIES AND LITIGATIONS

Island Transit has recorded in its financial statements all material liabilities, including

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA

an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that Island Transit will have to make payment. In the opinion of the management, Island Transit's insurance policies are adequate to pay all known or pending claims.

Island Transit participates in various 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. Island Transit management believes that such disallowances, if any, will be immaterial.

Unpaid Claims Liabilities

WSTIP (Washington State Transportation Insurance Pool) establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. As of December 31, 2023, there were four unpaid claims. The total amount reserved by the risk pool for open claims for Island Transit was \$39,250 as of 12/31/23.

Settlements Exceeding Insurance Coverage

During the last three years ending December 31, 2022, there were no settlements that exceeded insurance coverage.

NOTE 13 – ASSIGNED AND UNASSIGNED RESERVES

As of 12/31/23, Island Transit had assigned and unassigned reserves in the following amounts:

Cash Reserves		
Bus	Assigned	\$ 12,698,184
Van	Assigned	862,000
Support Vehicle	Assigned	439,307
Other Capital	Assigned	10,082,023
Land Acquisition	Assigned	3,000,000
Fuel	Assigned	800,012
Operating / Emergency	Assigned	2,399,984
Operating Cash	Unassigned	29,953,912
Total Cash Reserves		<u>\$ 60,235,422</u>

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NOTE 14 – PRIOR PERIOD ADJUSTMENT

Island Transit chose to implement the new GASB 96 lease standard in 2023. Per GASB 96, Island Transit adjusted asset and liability accounts retroactively for leases that were in effect prior to 2023. The following schedule shows the effect of the new standard on the *Statement of Net Position*.

Account	Effect on Net Position - Increase (Decrease)
Lease Liability	19,508
Accumulated Depreciation	(19,788)
Total	(280)

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SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS Pension Plans 1, 2, and 3
FOR THE YEAR ENDED JUNE 30, 2023
Last 10 Fiscal Years (see Note 1 below)

PERS # 1	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.0385%	0.0368%	0.0392%	0.0408%	0.0429%	0.0435%	0.0409%	0.0398%	0.0418%
Employer's proportionate share of the net pension liability (asset)	\$ 879,263	\$ 1,024,925	\$ 478,565	\$ 1,441,449	\$ 1,647,123	\$ 1,942,144	\$ 1,942,113	\$ 2,139,273	\$ 2,184,698
Covered payroll	\$ 6,854,460	\$ 6,080,742	\$ 6,016,298	\$ 6,189,075	\$ 6,012,883	\$ 5,778,936	\$ 5,161,378	\$ 4,735,826	\$ 4,786,542
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	12.83%	16.86%	7.95%	23.29%	27.39%	33.61%	37.63%	45.17%	45.64%
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%

PERS # 2/3	2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.0496%	0.0481%	0.0503%	0.0531%	0.0553%	0.0561%	0.0526%	0.0511%	0.0539%
Employer's proportionate share of the net pension liability (asset)	\$(2,032,250)	\$(1,785,370)	\$(5,010,789)	\$ 678,709	\$ 536,840	\$ 957,789	\$ 1,829,197	\$ 2,573,247	\$ 1,927,271
Covered payroll	\$ 6,854,460	\$ 6,080,742	\$ 6,016,298	\$ 6,189,075	\$ 6,012,883	\$ 5,778,936	\$ 5,161,378	\$ 4,735,826	\$ 4,786,542
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-29.65%	-29.36%	-83.29%	10.97%	8.93%	16.57%	35.44%	54.34%	40.26%
Plan fiduciary net position as a percentage of the total pension asset.	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

Notes to the Schedule of Proportionate Share of the Net Pension Liability.

NOTE 1. METHOD OF PRESENTATION

The *Schedule of Proportionate Share of the Net Pension Liability* is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available.

NOTE 2. FISCAL YEAR

The amounts presented for each fiscal year were determined by the Department of Retirement System (DRS) as of their June 30 year-end that occurred within Island Transit's calendar fiscal year.

ISLAND COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
PERS Pension Plans 1, 2, and 3
FOR THE YEAR ENDED DECEMBER 31, 2023
Last 10 Fiscal Years (see Note 1 below)

PERS # 1	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contribution	\$ 255,331	\$ 236,215	\$ 259,796	\$ 289,187	\$ 306,661	\$ 300,092	\$ 268,964	\$ 234,665	\$ 203,576
Contributions in relation to the statutorily or contractually required contribution	\$ (255,331)	\$ (236,215)	\$ (259,796)	\$ (289,187)	\$ (306,661)	\$ (300,092)	\$ (268,964)	\$ (234,665)	\$ (203,576)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 7,570,781	\$ 6,284,044	\$ 6,052,033	\$ 6,029,661	\$ 6,168,711	\$ 5,926,903	\$ 5,484,311	\$ 4,919,605	\$ 4,641,821
Contributions as a percentage of covered payroll	3.37%	3.76%	4.29%	4.80%	4.97%	5.06%	4.90%	4.77%	4.39%

PERS # 2/3	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contribution	\$ 481,502	\$ 399,666	\$ 432,335	\$ 488,402	\$ 485,726	\$ 444,516	\$ 377,353	\$ 306,492	\$ 269,741
Contributions in relation to the statutorily or contractually required contribution	\$ (481,502)	\$ (399,666)	\$ (432,335)	\$ (488,402)	\$ (485,726)	\$ (444,516)	\$ (377,353)	\$ (306,492)	\$ (269,741)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 7,570,781	\$ 6,284,044	\$ 6,052,033	\$ 6,029,661	\$ 6,168,711	\$ 5,926,903	\$ 5,484,311	\$ 4,919,605	\$ 4,641,821
Contributions as a percentage of covered payroll	6.36%	6.36%	7.14%	8.10%	7.87%	7.50%	6.88%	6.23%	5.81%

Notes to the Schedule of Employer Pension Contributions.

NOTE 1. METHOD OF PRESENTATION

The *Schedule of Employer Pension Contributions* is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments are required to present information for those years for which information is available.

NOTE 2. FISCAL YEAR

The amounts presented for each fiscal year were determined by the Department of Retirement System (DRS) as of their June 30 year-end that occurred within Island Transit's calendar fiscal year.

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.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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