Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Snohomish County Public Transportation Benefit Area

(Community Transit)

For the period January 1, 2013 through December 31, 2014

Published June 11, 2015

Report No. 1014469

Washington State Auditor's Office

June 11, 2015

Board of Directors
Community Transit
Everett, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Community Transit
Snohomish County
January 1, 2014 through December 31, 2014

The results of our audit of the Community Transit are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

Federal Awards

Internal Control Over Major Programs:

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

We issued an unmodified opinion on the Authority's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Authority qualified as a low-risk auditee under OMB Circular A-133.

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

Community Transit
Snohomish County
January 1, 2013 through December 31, 2014

Board of Directors
Community Transit
Everett, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Community Transit, Snohomish County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 4, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 4, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Community Transit
Snohomish County
January 1, 2014 through December 31, 2014

Board of Directors
Community Transit
Everett, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Community Transit, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Jan M. Jutte

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 4, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Community Transit
Snohomish County
January 1, 2013 through December 31, 2014

Board of Directors
Community Transit
Everett, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Community Transit, Snohomish County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Transit, as of December 31, 2014 and 2013, and the changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 24 and information on postemployment benefits other than pensions on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

June 4, 2015

FINANCIAL SECTION

Community Transit
Snohomish County
January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2014 and 2013
Comparative Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013
Comparative Statement of Cash Flows – 2014 and 2013
Notes to Financial Statements – 2014 and 2013

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB) – Schedule of Funding Progress – Schedule of Employer Contributions – 2014 and 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Management's Discussion and Analysis

This section of Community Transit's Comprehensive Annual Financial Report (CAFR) represents management's overview and analysis of Community Transit's financial performance for the fiscal year ended December 31, 2014. This section should be read in conjunction with the financial statements which follow.

Introduction

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

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

Financial Summary

- As of December 31, 2014, Community Transit's assets exceeded its liabilities by $292.3 million. Of this amount, $132.5 million is available to meet our primary goal of providing service to the public and to be invested in future capital improvements as discussed in Community Transit's six-year plan.
- Community Transit's total net position increased by $10.3 million.
- Capital grants and contributions amounted to $3.2 million.
- Community Transit's primary source of funding is from local sales taxes. In 2014, sales tax revenue increased by $4.8 million.

Overview of the Financial Statements

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

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

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

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

The basic financial statements can be found following this Management Discussion and Analysis.

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

Community Transit's Financial Position

Community Transit's overall financial position improved in 2014. Net investment in capital assets decreased by $3.6 million, restricted net position decreased by less than $0.1 million, and unrestricted net position increased by $13.9 million. This resulted in an increase in total net position of $10.3 million.

Current assets net of current liabilities amounted to $141.9 million for the year ended December 31, 2014, as compared to $127.5 million for 2013, and $113.5 for 2012.

Sales tax revenues increased by 6.4 percent for 2014, as compared to a 10.8 percent increase for 2013, and a 5.9 percent increase for 2012.

Cash reserves available to meet current and future obligations increased to $131.4 million in 2014 from $114.2 million in 2013 and $101.2 million in 2012. Of these reserves, $2.3 million was restricted for debt service and workers compensation claims. As of December 31, 2014, Community Transit had $1.8 million in long-term public financing debt.

Financial Analysis

For the year ended December 31, 2014, Community Transit's assets exceeded liabilities by $292.3 million. A summary of Community Transit's net position follows.

Summary Statement of Net Position

	2014	2013	2012
Assets:			
Current and Other Noncurrent Assets	$ 157,056,702	$ 141,847,776	$ 124,609,191
Capital Assets	159,711,281	164,963,426	163,429,576
Total Assets	**316,767,983**	**306,811,202**	**288,038,767**
Deferred Outflows of Resources:	**-**	**40,286**	**82,553**
Liabilities:			
Current and Other Liabilities	15,112,596	14,340,095	11,158,987
Noncurrent Liabilities	9,340,741	10,505,660	11,806,440
Total Liabilities	**24,453,337**	**24,845,755**	**22,965,427**
Net Position:			
Net investment in capital assets	157,546,954	161,104,099	159,570,248
Restricted	2,292,861	2,314,361	2,220,611
Unrestricted	132,474,831	118,587,273	103,365,034
Total Net Position	**$ 292,314,646**	**$ 282,005,733**	**$ 265,155,893**

Public transportation is a capital-intensive enterprise. Consequently, 53.9 percent of Community Transit's net position was invested in capital assets in 2014, as compared to 57.1 percent in 2013 and 60.2 in 2012. Because these capital assets are used to provide services to citizens, they are not available for future spending.

External restrictions on assets affect 0.8 percent of net position in 2014, 2013, and 2012. Community Transit's Board of Directors designated 26.3 percent of total net position for vehicle replacements and other capital improvements in 2014 compared to 23.6 percent in 2013 and 22.3 percent for 2012. An additional $1.8 million in 2014 was designated for Workers' Compensation; correspondingly, $1.2 million was designated in 2013 and $1.3 million in 2012. The remaining $53.8 million in 2014 is available to support our public obligation for future transit operations as compared to $51.0 million in 2013 and $42.9 million for 2012. Additional information regarding net position can be obtained from Note 10 in the Notes to the Financial Statements section.

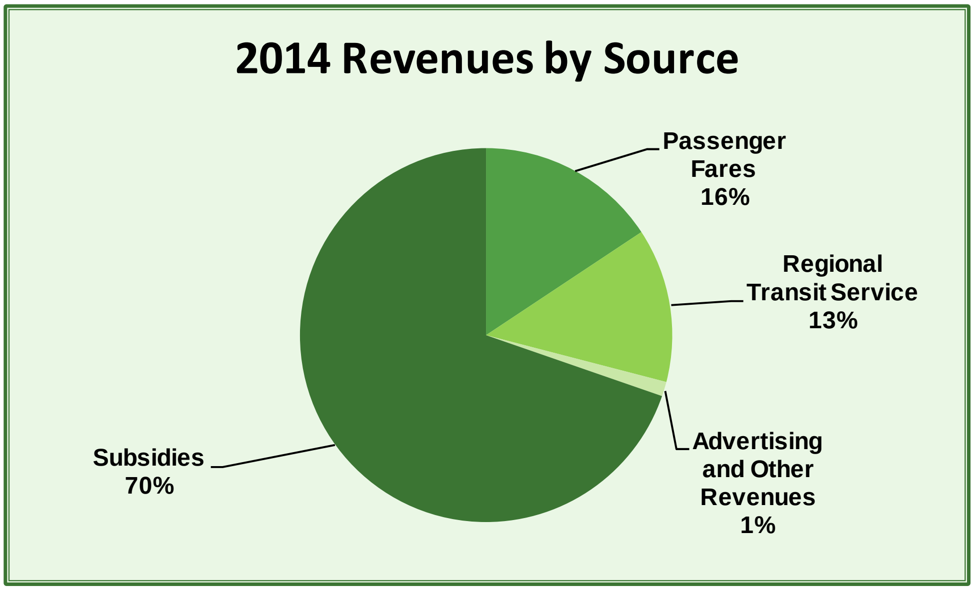
Community Transit's net position increased by $10.3 million during the current fiscal year. Key elements of this increase follow.

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

	2014	2013	2012
Operating Revenues:			
Passenger Fares	$ 19,769,863	$ 19,331,239	$ 17,633,704
Regional Transit Service	16,870,539	16,402,918	16,474,072
Advertising	836,580	784,946	878,743
Nonoperating Revenues:			
Subsidies	87,315,853	83,455,798	80,469,900
Other Revenues	750,209	748,945	405,128
Total Revenues	**125,543,044**	**120,723,846**	**115,861,547**
Expenses:			
Operations and Maintenance	58,801,929	55,685,100	55,927,529
General and Administrative	21,012,151	19,748,865	20,544,387
Contracted Transportation	23,370,984	22,547,152	22,883,391
Depreciation and Amortization	15,150,735	15,573,477	17,726,870
Nonoperating Expenses	99,684	120,544	123,146
Total Expenses	**118,435,483**	**113,675,138**	**117,205,323**
Net Income (Loss) Before Contributions	**7,107,561**	**7,048,708**	**(1,343,776)**
Capital Grants and Contributions	3,201,352	9,801,132	3,015,353
Total Change in Net Position	**10,308,913**	**16,849,840**	**1,671,577**
Net Position—Beginning of Year	282,005,733	265,155,893	263,484,316
Net Position—End of Year	**$ 292,314,646**	**$ 282,005,733**	**$ 265,155,893**

Revenues

During 2014, revenues increased by $4.8 million, or 4.0 percent. Revenues from major sources are illustrated in the following chart:



The major components of the overall increase in revenues were sales tax, fares and regional transit service.

Subsidies include sales tax revenue and operating grants. State and Federal subsidies decreased $0.9 million in 2014 and $4.3 million in 2013, partially offsetting the increase in sales tax revenue. This resulted in total subsidies increasing by $3.9 million, or 4.6 percent, over the preceding year and $3.0 million, or 3.7 percent, when comparing 2013 to 2012.

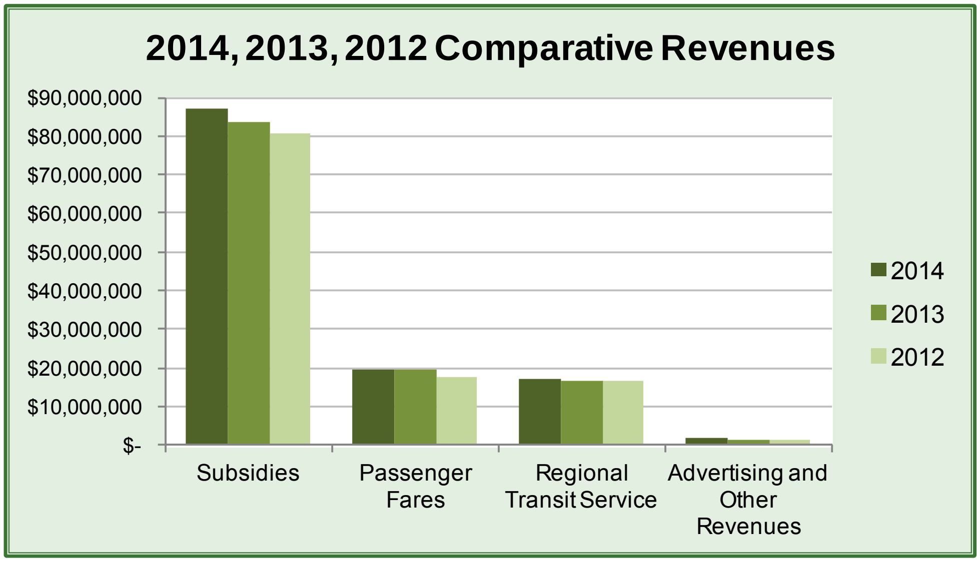
Sales tax revenues increased by 6.4 percent in 2014, resulting in an additional $4.8 million in sales tax revenue. In 2013, the increase was 10.8 percent, or $7.3 million, when compared to 2012. The increases in sales tax are attributed to the local economy.

Regional transit service revenues increased $0.5 million, or 2.9 percent, in 2014. The 2013 decrease was $0.1 million, or 0.4 percent, when compared to 2012. The 2014 increase reflected current service levels and contract rates.

Passenger fares for 2014 increased by $0.4 million, or 2.3 percent, primarily due to an increase in ridership. Rates increased in February 2013, resulting in an increase in fare revenues for 2013 of $1.7 million, or 9.6 percent when compared to 2012.

Advertising and other revenues increased in 2014 by $0.1 million, or 3.4 percent. The increase in 2013 when compared to 2012 was $0.3 million, or 19.5 percent.

The following chart compares revenues by major source for 2014, 2013, and 2012.



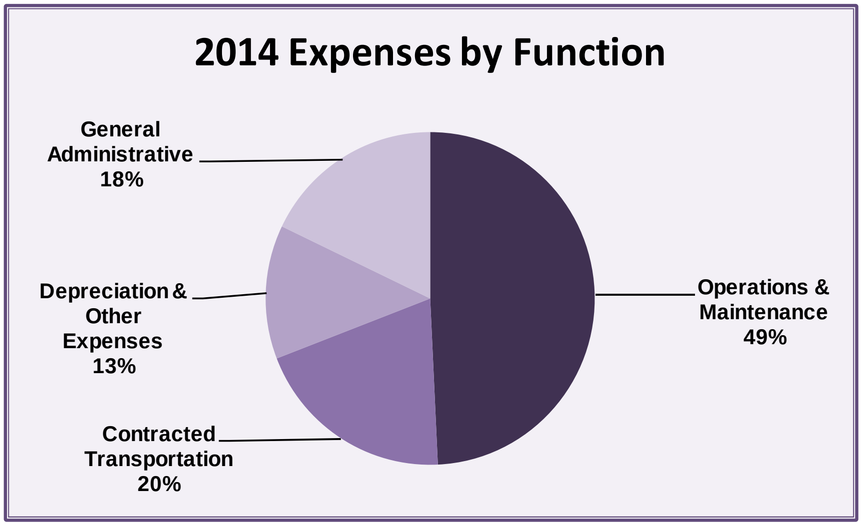
Expenses

During 2014, expenses increased by $4.8 million, or 4.2 percent. The increase is due primarily to an increase in service hours, salaries and benefits, and staffing levels. Although fuel prices continued to decline in 2014, the number of gallons consumed increased with the increase in service.

Operations and maintenance expenses in 2014 increased by $3.1 million, or 5.6 percent. The 2013 operations and maintenance expenses when compared to 2012 decreased by $0.2 million, or 0.4 percent. General and administrative expenses increased by $1.3 million, or 6.4 percent in 2014. The 2013 general and administrative expenses when compared to 2012 increased by $0.8 million, or 3.9 percent.

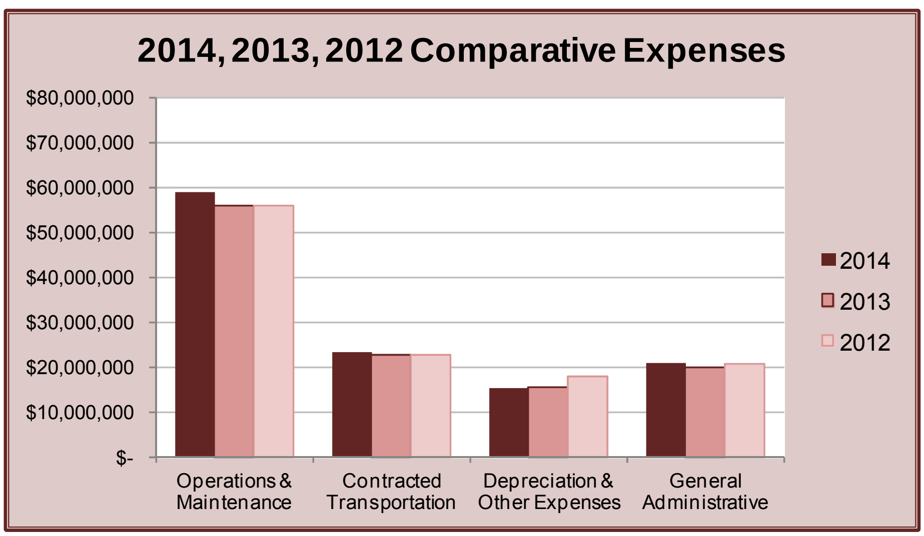
Contracted transportation expenses increased by $0.8 million, or 3.7 percent. This increase reflects an increase in service hours. The 2013 contracted transportation expenses when compared to 2012 decreased by $0.3 million, or 1.5 percent.

The next chart summarizes expenses by major function.



Depreciation and other nonoperating expenses decreased $0.4 million, or 2.8 percent. The decrease is primarily attributed to capital assets becoming fully depreciated in all major categories. The 2013 depreciation and other nonoperating expenses when compared to 2012 decreased by $2.2 million, or 12.1 percent.

The following chart compares expenses by function for 2014, 2013, and 2012.



Capital Assets

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

As of December 31, 2014, Community Transit's investment in capital assets amounted to $159.7 million, net of accumulated depreciation. Capital assets decreased by 3.2 percent during 2014.

Major acquisitions during 2014 included:

- Smokey Point Transit Center in the amount of $2.0 million.
- 15 paratransit replacement vehicles in the amount of $1.1 million.
- Transit Technologies in the amount of $1.1 million.
- 90 Vanpool replacements in the amount of $2.0 million.

For additional information on Community Transit's capital assets, please see Note 5 to the financial statements.

Debt Administration

In June 2010, Community Transit sold $5,240,000 in limited sales tax general obligation refunding bonds. The bonds were sold on a competitive bid basis and carried a rate of 3 percent. Payment of the bonds will be made from a portion of Community Transit sales tax revenue. The 2010 bond issue was rated Aa2 by Moody's Investment Services and AA+ by Standard and Poor's. The resulting funds were used to refund the 2004 bond issue outstanding and to pay the cost of issuing the 2010 bonds. The monies used to fund the bond reserve account continue to earn interest, while the funds allocated to pay for the bond issuance costs are reflected in the Statement of Net Position. For additional information on Community Transit's bonds payable, please see Note 9(A) to the financial statements.

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

Assessed valuation in 2014 for collection of taxes in 2015	$ 61,045,767,300
Maximum nonvoted debt capacity at 0.375 percent of valuation	228,921,627
Less outstanding bond issues - net	3,584,993
Nonvoted debt capacity remaining	$ 225,336,634

Economic Factors and Future Outlook

As of December 31, 2014, Snohomish County's unemployment rate was 4.6 percent, down from 5.4 percent at the beginning of the year.

Due to the economic recovery in the region, Community Transit budgeted to increase its total 2015 service hours by 28,000 hours. This increases Community Transit's total service hours by approximately 4.4 percent over the 2014 budgeted service hours. This service increase, which will occur in June 2015, includes the return of Sunday service, which was cut during the recession. Additionally, a fare increase of $.25 per trip will occur in July of 2015. These increases were approved by the Board of Directors at their February 5, 2015, board meeting.

On May 7, 2015, Community Transit and the International Association of Machinists District Lodge 160 signed a collective bargaining agreement, effective retroactively to May 1, 2013, and extending through April 30, 2017. This unit represents transportation supervisors and the transportation supervisor instructor. The agreement provides for annual pay increases of 2.5 percent, including two years of retroactive increases; an in-house supervisor pay differential of 5 percent; and medical premium cost-sharing with a 5 percent employee contribution.

More information regarding the 2015 budget can be obtained at www.commtrans.org/budget/. The 2015 original budget is summarized below:

2015 Budget	in millions	
Operating Fund Revenues	$	132.8
Capital Grants and Contributions		31.8
Other Revenues		0.1
Total Budgeted Revenues	**$**	**164.7**
Operating Fund Expenditures	$	116.2
Capital Projects		68.9
Workers' Compensation Fund		2.3
Debt Service		1.9
Total Budgeted Expenditures	**$**	**189.3**

Requests for Information

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

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

Community Transit
Statement of Net Position
December 31, 2014 and 2013

Assets	2014	2013
Current Assets:		
Cash and Cash Equivalents	$ 129,076,978	$ 111,923,414
Restricted Assets:		
Cash and Cash Equivalents	2,292,861	2,314,361
Accounts Receivable and Accrued Interest	51,050	53,033
Due from Other Governments	24,328,716	26,341,394
Maintenance Parts Inventory	1,239,442	1,094,683
Prepaid Expenses	67,655	120,891
Total Current Assets	157,056,702	141,847,776
Noncurrent Assets:		
Capital Assets:		
Land	14,212,114	14,212,114
Buildings	56,217,400	54,070,170
Site Improvements	30,984,047	30,883,461
Vehicles, Machinery, and Equipment	167,402,203	170,787,251
Intangible Property	7,370,938	6,814,931
Work in Progress	19,896,141	20,086,758
Total Capital Assets	296,082,843	296,854,685
Less Accumulated Depreciation and Amortization	(136,371,562)	(131,891,259)
Capital Assets, Net of Accumulated Depreciation	159,711,281	164,963,426
Total Assets	**316,767,983**	**306,811,202**
Deferred Outflows of Resources		
Accumulated Decrease in Fair Value of Hedging Derivatives	-	29,738
Loss on Bond Refunding	-	10,548
Total Deferred Outflows of Resources	-	40,286
Total Assets and Deferred Outflows of Resources	***$ 316,767,983***	***$ 306,851,488***

See accompanying notes to the financial statements.

Community Transit

Statement of Net Position
December 31, 2014 and 2013
(Continued)

Liabilities		2014		2013
Current Liabilities:				
Warrants, Accounts Payable, and Accrued Expenses	$	5,945,622	$	5,890,328
Accrued Payroll Liabilities		2,172,966		1,925,718
Compensated Absences Payable		2,850,888		2,666,961
Unearned Revenue		1,549,807		1,331,588
Current Liabilities Payable from Restricted Assets:				
Interest Payable		44,313		65,500
Bonds Payable - Current Portion		1,745,000		1,695,000
Provision for Workers' Compensation Claims		804,000		765,000
Total Current Liabilities		15,112,596		14,340,095
Noncurrent Liabilities:				
Compensated Absences Payable		1,171,179		1,100,853
Provision for Workers' Compensation Claims		1,621,000		1,547,000
Other Postemployment Benefits		4,708,569		4,225,937
Long-Term Debt:				
Bonds Payable - Net		1,839,993		3,631,870
Total Long-Term Debt		1,839,993		3,631,870
Total Noncurrent Liabilities		9,340,741		10,505,660
Total Liabilities		**24,453,337**		**24,845,755**
Net Position				
Net investment in capital assets		157,546,954		161,104,099
Restricted for:				
Debt Service		551,861		551,861
Workers' Compensation		1,741,000		1,762,500
Unrestricted		132,474,831		118,587,273
Total Net Position		292,314,646		282,005,733
Total Liabilities and Net Position	***$***	***316,767,983***	***$***	***306,851,488***

See accompanying notes to the financial statements.

Community Transit

Comparative Statements of Revenue, Expenses, and Changes in Net Position

For the Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Passenger Fares	$ 19,769,863	$ 19,331,239
Regional Transit Service	16,870,539	16,402,918
Advertising	836,580	784,946
Total Operating Revenues	37,476,982	36,519,103
Operating Expenses:		
Operations	34,908,009	32,837,759
Maintenance	23,893,920	22,847,341
General and Administrative	21,012,151	19,748,865
Contracted Transportation	23,370,984	22,547,152
Depreciation and Amortization	15,150,735	15,573,477
Total Operating Expenses	118,335,799	113,554,594
Operating Income (Loss)	(80,858,817)	(77,035,491)
Nonoperating Revenues (Expenses):		
Subsidies	87,315,853	83,455,798
Investment Income	51,917	85,009
Miscellaneous	323,544	492,203
Interest Expense	(99,684)	(121,103)
Environmental Expense - Net	-	559
Gain (Loss) on Sale of Capital Assets and Inventory	374,748	171,733
Total Nonoperating Revenues (Expenses)	87,966,378	84,084,199
Net Income (Loss) Before Contributions	7,107,561	7,048,708
Capital Grants and Contributions	3,201,352	9,801,132
Change in Net Position	10,308,913	16,849,840
Net Position - Beginning of Year	282,005,733	265,155,893
Net Position - End of Year	***$ 292,314,646***	***$ 282,005,733***

See accompanying notes to the financial statements.

Community Transit

Comparative Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Cash Received for Operating Revenues	$ 36,031,739	$ 36,966,209
Cash Received for Miscellaneous Income	345,420	482,854
Cash Paid to Vendors for Goods and Services	(48,666,440)	(45,708,735)
Cash Paid for Employee Services and Benefits	(53,630,110)	(50,685,178)
Net Cash Used in Operating Activities	(65,919,391)	(58,944,850)
Cash Flows from Noncapital Financing Activities:		
Operating Subsidies	88,788,008	80,007,917
Net Cash Provided by Noncapital Financing Activities	88,788,008	80,007,917
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Plant, Property, and Equipment	(9,705,309)	(16,987,872)
Capital Grants and Contributions	5,385,444	8,869,515
Interest Paid on Bonds	(157,200)	(157,200)
Principal Payment on Bonds	(1,695,000)	-
Sale of Capital Assets	383,595	171,733
Net Cash Used in Capital and Related Financing Activities	(5,788,470)	(8,103,824)
Cash Flows from Investing Activities:		
Investment Income	51,917	85,009
Net Cash Provided by Investing Activities	51,917	85,009
Net Increase (Decrease) in Cash & Cash Equivalents	17,132,064	13,044,252
Cash and Cash Equivalents - Beginning of Year	114,237,775	101,193,523
Cash and Cash Equivalents - End of Year	***$ 131,369,839***	***$ 114,237,775***

See accompanying notes to the financial statements.

Community Transit

Comparative Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

(Continued)

	2014	2013
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating Loss	$ (80,858,817)	$ (77,035,491)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operations:		
Depreciation and Amortization	15,150,735	15,573,477
Miscellaneous Revenue	323,544	492,203
Environmental Expense - Net	-	559
Change in Assets - Decrease (Increase):		
Accounts Receivable	1,983	5,397
Due from Other Governments	(1,643,569)	235,195
Maintenance Parts Inventory	(144,759)	(77,810)
Prepaid Expenses	53,236	22,383
Change in Deferred Outflows of Resources - Increase (Decrease):		
Accumulated Decrease in Fair Value of Hedging Derivative	29,738	24,184
Change in Liabilities - Increase (Decrease):		
Warrants, Accounts Payable, and Accrued Expenses	(146,834)	1,028,372
Accrued Payroll Liabilities	247,248	243,647
Compensated Absences Payable	254,253	34,789
Unearned Revenue	218,219	197,165
Provision for Workers' Compensation Claims	113,000	(200,000)
Other Postemployment Benefits	482,632	511,080
Net Cash Used in Operating Activities	***$ (65,919,391)***	***$ (58,944,850)***

Schedule of Noncash Investing, Capital, and Financing Activities

Capital Grants and Contributions contain no noncash capital contributions.

See accompanying notes to the financial statements.

Community Transit
Notes to the Financial Statements
December 31, 2014

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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

Generally accepted accounting principles require that the financial statements of the reporting entity include all component units. Based on the standards set by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, there were no component units of Community Transit as of December 31, 2014.

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

B. Basis of Accounting

The accounting policies of Community Transit conform to generally accepted accounting principles applicable to governmental units. Community Transit applies all applicable GASB pronouncements.

Community Transit uses an enterprise fund to account for its operations and prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded as soon as the benefits are received. Operating revenues and expenses generally result from providing transportation services. Community Transit's primary operating revenues include:

- Passenger Fares: Charges to customers for transportation services.
- Regional Transit Service: Reimbursements from Sound Transit for providing regional express bus service.
- Advertising: Revenues earned from advertisements posted on buses.

Operating expenses consist of:

- Transit operations: Directly operated and provided under contract.
- Vehicle and facility maintenance.

- Administration expenses.
- Depreciation and amortization of capital assets.

All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses and include:

- Subsidies: tax revenues and operating grants.
- Investment income.
- Miscellaneous revenues.
- Interest expense.
- Gains or losses on the sale of capital assets and maintenance parts inventory.

Community Transit's accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. Budget

Community Transit adopts its annual budget in December of the preceding fiscal year. The budget is based on corporate-wide goals and departmental programs and objectives. After these programs and objectives are developed, revenue for the coming year is estimated. The estimated revenue is used to determine the level of change in service to be provided the following year.

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

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

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

The schedules that follow show budgeted versus actual revenues and expenditures for the periods ended December 31, 2014, and December 31, 2013.

Revenues - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2014

	2014 Budget	2014 Actuals	Variance Over (Under) Budget
Passenger Fares	$ 19,590,000	$ 19,769,863	$ 179,863
Regional Transit Service	18,410,000	16,870,539	(1,539,461)
Advertising	790,000	836,580	46,580
Sales Tax	78,120,000	78,951,863	831,863
State and Local Grants	7,604,074	3,590,960	(4,013,114)
Federal Grants - Operating	5,333,000	4,526,912	(806,088)
Federal Grants - Capital	16,460,841	2,847,955	(13,612,886)
Investment Income	122,000	51,917	(70,083)
Miscellaneous	246,000	323,545	77,545
Sale of Capital Assets and Inventory	20,000	383,595	363,595
Total Revenues	**$ 146,695,915**	**$ 128,153,729**	**$ (18,542,186)**

Expenditures - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2014

	2014 Budget	2014 Actuals	Variance Under (Over) Budget
Salaries and Benefits	$ 57,400,584	$ 54,426,512	$ 2,974,072
Supplies and Materials	16,918,199	14,679,309	2,238,890
Services and Other Charges	38,918,301	33,016,012	5,902,289
Intergovernmental	2,358,979	2,046,505	312,474
Capital Acquisitions	58,940,388	8,070,278	50,870,110
Debt Service - Principal	1,695,000	1,695,000	-
Debt Service - Interest	157,200	157,200	-
Total Expenditures	**$ 176,388,651**	**$ 114,090,816**	**$ 62,297,835**

Revenues - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2013

	2013 Budget	2013 Actuals	Variance Over (Under) Budget
Passenger Fares	$ 18,540,000	$ 19,331,239	$ 791,239
Regional Transit Service	17,382,000	16,402,918	(979,082)
Advertising	650,000	784,946	134,946
Sales Tax	67,822,000	73,729,714	5,907,714
State and Local Grants	8,742,000	3,386,854	(5,355,146)
Federal Grants - Operating	5,407,300	5,420,276	12,976
Federal Grants - Capital	31,057,726	9,666,241	(21,391,485)
Investment Income	90,000	85,009	(4,991)
Miscellaneous	245,500	492,201	246,701
Sale of Capital Assets and Inventory	12,500	171,733	159,233
Total Revenues	**$ 149,949,026**	**$ 129,471,131**	**$ (20,477,895)**

Expenditures - Budgeted vs. Actual (Budgetary Basis)
Year Ended December 31, 2013

	2013 Budget	2013 Actuals	Variance Under (Over) Budget
Salaries and Benefits	$ 54,819,365	$ 51,300,339	$ 3,519,026
Supplies and Materials	15,061,247	14,115,865	945,382
Services and Other Charges	38,518,901	32,333,846	6,185,055
Intergovernmental	2,234,325	1,934,996	299,329
Capital Acquisitions	57,226,445	15,057,530	42,168,915
Debt Service - Interest	157,200	157,200	-
Environmental Expense - Net	-	33,134	(33,134)
Total Expenditures	**$ 168,017,483**	**$ 114,932,910**	**$ 53,084,573**

The following schedule reconciles the accrual to budgetary differences for 2014 and 2013.

	2014	2013
Revenues and Capital Grants Reported on the Accrual Basis	**$ 128,744,396**	**$ 130,524,978**
Accruals for Sales Tax	(599,514)	(1,053,847)
Net Book Value of Retired Equipment	8,847	-
Revenues Reported on the Budgetary Basis	**$ 128,153,729**	**$129,471,131**

	2014	2013
Expenses Reported on the Accrual Basis	**$ 118,435,483**	**$ 113,675,138**
Capital Projects	9,903,437	17,107,328
Accrued Interest Expense	57,516	36,097
Change in Actuarial Accrual for Workers' Compensation	(113,000)	200,000
Change in Compensated Absences Payable	(254,253)	(34,789)
Change in Actuarial Accrual for Other Postemployment Benefits	(482,632)	(511,080)
Debt Service - Principal	1,695,000	-
Accrued Environmental Expense	-	33,693
Depreciation and Amortization	(15,150,735)	(15,573,477)
Expenses Reported on the Budgetary Basis	**$ 114,090,816**	**$ 114,932,910**

D. Cash and Investments

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

- Obligations of the U.S. Treasury and AAA-rated agencies of the federal government.
- Certificates of deposit issued by public depositories in the state of Washington.
- Repurchase agreements collateralized by at least 102 percent of the repurchase price.
- Bankers’ acceptances issued by qualified banks or depositories.
- Investments through the state of Washington Local Government Investment Pool.

Throughout 2014 Community Transit’s portfolio complied with the investment policies discussed above. Investments are reported at fair value based on quoted market prices.

Changes in fair value are included as revenue in the financial statements. The State of Washington Local Government Investment Pool operates in accordance with state laws and regulations. The reported value of the pool is the same as the value of the pool shares. Management intends to hold certificates of deposits and securities until maturity.

E. Restricted Assets

Funds are classified as restricted assets when their use is limited by bond covenants, state requirements for workers' compensation, or other legally binding conditions. As of December 31, 2014, restricted assets amount to $1,741,000 for the state-required workers' compensation reserve and $551,861 for bond reserve and interest according to the bond covenant.

F. Maintenance Parts Inventory

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

G. Capital Assets and Depreciation

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

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

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

Asset Category	*Years*
Land	Not Depreciated
Intangible Property - Software	3 to 10
Buildings	30

Asset Category	Years
Intangible Property - Easements	Not Depreciated
Buses	12 to 15
Other Vehicles	5
Equipment and Furniture	5 to 8
Computer Equipment	3 to 5

H. Compensated Absences

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

I. Unearned Revenue

Revenues received in advance are recorded as unearned revenue on the Statement of Net Position. At December 31, 2014, unearned revenue amounted to $1,549,807. Of this amount, $100,000 was an advertising insurance security deposit. The remaining $1,449,807 included ORCA fare revenue amounting to $1,386,322 and payments for employer Flexpass contracts expiring in future periods in the amount of $63,485.

Note 2: Cash and Investments

As of December 31, 2014, and December 31, 2013, Community Transit had the following investments:

Investment Type	2014 Fair Value	2013 Fair Value
Demand Deposits	$ 21,004,708	$ 11,712,669
Local Government Investment Pool	110,365,131	102,525,106
Total	***$ 131,369,839***	***$ 114,237,775***

The Local Government Investment Pool (LGIP) is an investment trust fund of the State of Washington operated by the Office of the State Treasurer. The State Finance Committee provides statutory administrative oversight. A Local Government Investment Pool Advisory Committee provides advice on the operation of the pool. Eligible investments are limited only to those investments authorized by state law. The pool is subject to an annual audit by the Washington State Auditor's Office. On an annual basis, the state Treasurer is required to provide a report which summarizes the activities of the investment pool to the Governor, the state auditor, and the state legislative budget committee.

The LGIP is an unrated 2a7-like pool, as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*. Accordingly, participant balances in the LGIP are not subject to interest risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited, as most investments are either obligations of the U.S. government; government-sponsored enterprises; or insured, demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as category 1 risk-level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

Interest Rate Risk: Community Transit investment guidelines and policies state that safety of funds is the number one priority in all investment decisions. The LGIP investment policy requires a 90-day maximum on the weighted average maturity. Thus, all investments held are considered to have a low interest rate risk.

Credit Risk: Community Transit's investment policy has only one direct, credit-risk requirement. This requirement applies to bonds in which the rating must be one of the three highest credit ratings of a nationally organized rating agency. Credit risk is indirectly controlled via the kind of investment instruments allowed by the investment policy and maturity requirements. The risk ranges from minimal to none based on the investment instruments Community Transit holds. There is no credit risk for federally insured demand deposits.

Funds currently held at the LGIP have minimal to no risk. The LGIP investment policy limits the types of securities available for investment to obligations of the U.S. government or its agencies, bankers' acceptances, commercial paper, certificates of deposit, or obligations of the state of Washington. As stated above, all repurchase agreements must be rated AAA and be at least 102 percent of the value of the agreement.

Custodial Credit Risk: There is no custodial risk for Community Transit's demand deposits. Custodial risk is minimal within our investment in the LGIP. The LGIP assets are primarily allocated in U.S. government-backed obligations and federally insured demand deposits and certificates of deposit. Some exposure is present in their holdings of repurchase agreements. This exposure has been limited by restrictions that require all agreements must be rated AAA and the market value of securities utilized in repurchase agreements must be at least 102 percent of the value of the agreement.

Note 3: Receivables

As of December 31, 2014, and December 31, 2013, the following amounts were due to Community Transit:

Accounts Receivable	**2014**	**2013**
Fares and Miscellaneous	$ 43,092	$ 41,992
ORCA Fiscal Agent Receivables	7,958	11,041
Total Accounts Receivable	**$ 51,050**	**$ 53,033**
Due from Other Governments		
Sales Tax Received in January and February	$ 14,787,003	$ 14,187,489
Operating Grants and Contributions	3,249,781	5,321,451
Capital Grants and Contributions	450,537	2,634,629
Sound Transit Regional Service	4,242,449	2,742,610
Fares and Miscellaneous	306,663	251,945
ORCA Fiscal Agent Receivables	1,292,283	1,203,270
Total Due from Other Governments	**$ 24,328,716**	**$ 26,341,394**

Note 4: Fuel Hedge

The fair value and notional amounts of Community Transit's fuel hedge derivative instruments outstanding at December 31, 2013, and December 31, 2014, and the changes in fair value of the derivative instrument for the year then ended as reported in the financial statements follow:

	Changes in Fair Value		Fair Value at December 31		
Cash Flow Hedges	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Diesel Cap					
2013	Deferred Outflow	$ 29,738	Hedging Instruments	$ 73,154	1,774,000 gallons
2014	Deferred Outflow	$ -	Hedging Instruments	$ -	n/a

To protect against the potential of rising prices of diesel fuel through the fiscal year ending December 31, 2014, Community Transit purchased a forward starting cap at a cost of 5.8 cents per gallon on 1,774,000 gallons in the amount of $102,892. The fair value is included in prepaid expenses on the Statement of Net Position. Community Transit engaged an independent party to perform the valuations as of December 31, 2013, and the required effectiveness tests on the derivative instrument. There is no value at December 31, 2014; the contract expired on that date and no additional instruments were purchased as of December 31, 2014.

The cap qualifies for hedge accounting under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; therefore all changes in fair value are offset by corresponding deferred outflows of resources and deferred inflows of resources in the Statement of Net Position. The fair value of the cap was estimated using an independent proprietary pricing service.

There were no outstanding hedging derivatives as of December 31, 2014. The following table displays the objective and terms of Community Transit's hedging derivative instrument, a summary of basic terms of the cap agreement, along with the credit rating of the counterparty as of December 31, 2013:

Type	Objective	Notional	Effective Date	Maturity Date
Diesel Cap	Hedge of changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel.	1,774,000 gallons	1/1/2014	12/31/2014

Terms	Fair Value	Bank Counterparty	Counterparty Ratings Moody's/S&P/Fitch
US Gulf Coast Ultra Low Sulfur Diesel Price Cap at $3.200 per Gallon	$ 73,154	Barclays Bank PLC	A2/A/A

Credit Risk, Basis Risk, and Termination Risk: As of December 31, 2014, Community Transit has no credit risk exposure because the fuel hedge contract expired December 31, 2014, and was not replaced with a new contract.

Note 5: Capital Assets

The tables that follow summarize changes in capital assets for the years ending December 31, 2014, and December 31, 2013, respectively.

	Beginning Balance 12/31/2013	*Additions/ Adjustments*	*Retirements*	*Ending Balance 12/31/2014*
Capital Assets, Not Being Depreciated:				
Land	$ 14,212,114	$ -		$ 14,212,114
Work in Progress	20,086,758	(190,617)		19,896,141
Intangible Property	1,761,362	39,318		1,800,680
Subtotal	36,060,234	(151,299)	-	35,908,935
Capital Assets Being Depreciated:				
Buildings	54,070,170	2,153,150	(5,920)	56,217,400
Site Improvements	30,883,461	347,122	(246,536)	30,984,047
Vehicles/Machinery/Equipment	170,787,251	7,041,775	(10,426,823)	167,402,203
Intangible Property	5,053,569	516,689		5,570,258
Subtotal	260,794,451	10,058,736	(10,679,279)	260,173,908
Less Accumulated Depreciation For:				
Buildings	(18,463,230)	(1,875,834)	5,920	(20,333,144)
Site Improvements	(13,265,216)	(1,344,017)	246,536	(14,362,697)
Vehicles/Machinery/Equipment	(98,264,285)	(11,357,078)	10,417,976	(99,203,387)
Intangible Property	(1,898,528)	(573,806)		(2,472,334)
Subtotal	(131,891,259)	(15,150,735)	10,670,432	(136,371,562)
Total Capital Assets, Net of Accumulated Depreciation	**$ 164,963,426**	**$ (5,243,298)**	**$ (8,847)**	**$ 159,711,281**

	Beginning Balance 12/31/2012	Additions/ Adjustments	Retirements	Ending Balance 12/31/2013
Capital Assets, Not Being Depreciated:				
Land	$ 14,211,517	$ 597		$ 14,212,114
Work in Progress	10,030,328	10,056,430		20,086,758
Intangible Property	1,664,318	97,044		1,761,362
Subtotal	25,906,163	10,154,071	-	36,060,234
Capital Assets Being Depreciated:				
Buildings	53,677,441	392,729		54,070,170
Site Improvements	30,980,506	(97,045)		30,883,461
Vehicles/Machinery/Equipment	165,981,677	6,657,571	(1,851,997)	170,787,251
Intangible Property	5,053,569			5,053,569
Subtotal	255,693,193	6,953,255	(1,851,997)	260,794,451
Less Accumulated Depreciation For:				
Buildings	(16,603,760)	(1,859,470)		(18,463,230)
Site Improvements	(11,779,459)	(1,485,757)		(13,265,216)
Vehicles/Machinery/Equipment	(88,688,515)	(11,427,767)	1,851,997	(98,264,285)
Intangible Property	(1,098,046)	(800,482)		(1,898,528)
Subtotal	(118,169,780)	(15,573,476)	1,851,997	(131,891,259)
Total Capital Assets, Net of Accumulated Depreciation	**$ 163,429,576**	**$ 1,533,850**	**$ -**	**$ 164,963,426**

Note 6: Employee Benefits

A. Pension Plan

Substantially all Community Transit full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS). This statewide retirement system is administered by the Washington State Department of Retirement Systems as cost-sharing, multiple-employer, public-employee, defined-benefit, and defined-contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The Department of Retirement Systems' CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380, or it may be downloaded from the DRS website at www.drs.wa.gov.

Plan Description: PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes. Plans 1 and 2 are defined-benefit plans, and Plan 3 combines defined benefits and defined contributions.

Membership in the system includes elected officials; state employees; employees of the supreme, appeals, and superior courts; employees of legislative committees; higher education employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in RCWs 41.34 and 41.40 and may be amended only by the state legislature.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Local government employees who joined between October 1, 1977, and August 31, 2002, and state and higher education employees who joined between October 1, 1977, and February 28, 2002, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system thereafter have the option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined-benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined-contribution portion of benefits for Plan 3 members.

Although members can only be a member of either Plan 2 or Plan 3, the defined-benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined-benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined-benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2013, the rate was 5½ percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and nonduty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for nonduty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index) capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions; if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined-benefit component and member contributions finance a defined-contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined-contribution component range from 5 to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined-contribution component of PERS Plan 3.

PERS Plan 3 defined-contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS fiscal year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined-benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined-benefit portion of their plan after ten years of service, or after five years of service if twelve months of that service are earned after age 44, or after five service-credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined-contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service-credit years and are 55 years old, the benefit is reduced by an early reduction factor that varies with age for each year before age 65.
- If they have 30 service-credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65, or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service-credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65 and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time, duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies as a result of injuries sustained in the course of employment or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. The next table shows PERS membership as of the latest actuarial valuation date (June 30, 2013) for the plans.

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	101,191
Total Members	**368,272**

Funding Policy: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer- and employee-contribution rates for Plan 2 and the employer-contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined-benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. The required contribution rates expressed as a percentage of current year covered payroll at December 31, 2014, follows.

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer [1]	9.21% [2]	9.21% [2]	9.21% [3]
Employee	6.00% [4]	4.92% [4]	variable [5]

[1] Employer rates include the employer administrative fee currently set at 0.18%.
[2] The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plans 2 and 3.
[3] Plan 3 defined-benefit portion only.
[4] The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
[5] Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both Community Transit and its employees made the required contributions. Community Transit's required contributions for the years ended December 31 were:

Year	***PERS Plan 1***	***PERS Plan 2***	***PERS Plan 3***
2014	$ 20,691	$ 2,953,742	$ 411,684
2013	17,418	2,534,982	326,378
2012	25,261	2,273,075	284,357

B. Unemployment Insurance

Community Transit is covered under the Washington State Unemployment Insurance Program on a claims-reimbursement basis. The amount of claims paid in 2014 amounted to $86,637 compared to $122,412 in 2013.

C. State Industrial Insurance

The Washington State Department of Labor and Industries certified Community Transit to self-insure its workers' compensation benefits effective October 1, 1998. Under the term of the state certification, Community Transit has established a minimum reserve amounting to $1,741,000 for the purpose of paying future workers' compensation claims. Self-insurance claims paid in 2014 amounted to $1,053,710 compared to $1,073,061 paid during 2013. Based on hours worked and claims experience, an accrual for expected losses amounting to $1,166,710 was recorded for 2014 as compared to $873,061 for 2013.

D. Medical, Dental, and Vision Insurance

Community Transit employees and their dependents are covered by a medical insurance program which includes medical, dental, and vision insurance. Employees' share of the premium may vary. Community Transit's cost for 2014 amounted to $7,187,155. In 2013 the cost was $7,066,437.

E. Life Insurance

Community Transit provides term life insurance at levels of $32,000 or the employee's annual salary, depending on the employee's benefit plan. Costs in 2014 amounted to $83,297; in 2013, costs were $82,693.

F. Long-Term Disability

Employees are covered with long-term disability insurance at 60 percent of the employee's salary. The cost in 2014 amounted to $126,150 as compared to $121,377 in 2013.

G. Short-Term Disability

Short-term disability benefits are provided at varying levels. Costs for 2014 amounted to $274,581 as compared to $268,189 in 2013.

H. Deferred Compensation Plan

Community Transit offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available on a voluntary basis and permits employees to defer a portion of their income until future years. The deferred compensation is not available until termination, death, retirement, or unforeseen emergency. All amounts of compensation deferred under the plan and all related income is held in trust until paid or made available to the employee or other beneficiary. Effective with the adoption of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, Community Transit no longer presents the deferred compensation plan in its financial statements.

Note 7: Risk Pool

In December 1988, Community Transit signed an interlocal government agreement with seven Washington public transit systems for the joint purchase of liability insurance, joint self-insurance, and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. The agreement created an agency known as the Washington State Transit Insurance Pool (WSTIP). The purpose of the pool is stabilization of present insurance costs and reduction of costs in the long-term future.

The pool is governed by a Board of Directors consisting of a representative of each member system. Participating transit systems as of December 31, 2014, include Asotin, Ben Franklin, Clallam, Columbia, Community Transit, C-Tran, Everett, Grant, Grays Harbor, Intercity, Island, Jefferson, Kitsap, Link, Mason, Pacific, Pierce, Pullman, River Cities Transit, Skagit, Spokane, Twin, Valley, Whatcom, and Yakima.

The pool self-insures the first $1 million of all liability claims; after the first $1 million, the next $3 million is shared with Government Entities Mutual (GEM) on an 83 percent to 17 percent basis with GEM retaining 83 percent and WSTIP 17 percent. Private carriers supply the remaining liability coverages up to the $20 million limit on a per-occurrence basis for auto and general liability and on a per-claim basis for errors and omissions. In addition, the pool provides property, comprehensive, auto physical damage, and crime coverage.

A complete annual report including financial statements is available at http://www.wstip.org. The next table summarizes audited financial information for the pool as of December 31, 2013.

	2013
Assets	**$ 36,419,706**
Liabilities	768,560
Reserve for Claims	15,154,828
Net Position	20,496,318
Total Liabilities & Net Position	**36,419,706**
Operating Revenues	11,385,587
Operating Expenses	11,370,256
Operating Income (Loss)	**15,331**
Nonoperating Revenues (Expenses)	270,212
Change in Net Position	**285,543**
Net Position - Beginning of Year	**20,210,775**
Net Position - End of Year	**$ 20,496,318**

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

Note 8: Insurance

A. Liability Insurance

Community Transit joined the Washington State Transit Insurance Pool (WSTIP) in December 1988 for coverage effective January 1, 1989. Community Transit assumes the liability for claims up to the deductible amounts listed below for each type of risk. Risk of claims in excess of the deductible amount has been transferred to the Washington State Transit Insurance Pool. WSTIP provided the following coverage for 2014:

Comprehensive General Liability	$20,000,000 per occurrence with no deductible
Auto Liability, Garage Keepers, and Garage Legal Liability	$20,000,000 per occurrence with no deductible
Public Official Liability	$20,000,000 per occurrence with $5,000 deductible
Crime Coverage/Public Employee Dishonesty	$1,000,000 per occurrence with $10,000 deductible
Property Damage Insurance: Property—Building, Personal, Auto Physical (All Vehicles), Boiler, Machinery, and Cyber Liability	$1,000,000,000 blanket limit with $5,000 deductible
Pollution Liability	$5,000,000 aggregate with $100,000 self-insured retention and $5,000 deductible
Pollution Liability (Underground Fuel Storage Tanks	$1,000,000 per occurrence with $25,000 deductible

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

B. Workers' Compensation

On December 31, 2014, cash and investments set aside for self-insurance totaled $6,082,857. Community Transit reported a liability on December 31, 2014, of $2,425,000, which represents the estimated liability for workers' compensation claims for which Community Transit may ultimately be liable, including a provision for claims incurred but not yet reported. Of the $2,425,000 estimated liability, Community Transit expects to pay out $804,000 within the coming year; and the remaining $1,621,000 is expected to be paid out later than one year.

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

The following table shows changes in aggregate liabilities for the last two years:

	2014	2013
Total Claims Liability : Beginning of Year	***$ 2,312,000***	***$ 2,512,000***
Incurred Claims:		
Provision for Incurred Claims	1,374,000	1,324,000
Change in Provision for Incurred Claims, Prior Year	(203,108)	(448,144)
Total Provision for Incurred Claims	1,170,892	875,856
Total Incurred	**3,482,892**	**3,387,856**
Payments:		
Payment Made for Current-Year Claims	379,330	266,161
Payment Made for Prior-Year Claims	678,562	809,695
Total Payments	**1,057,892**	**1,075,856**
Total Claims Liability: End of Year	***$ 2,425,000***	***$ 2,312,000***

Note 9: Changes in Long-Term Liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities:

Note	Description	Beginning Balance 12/31/2013	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
9 A.	General Obligation Bonds	$ 5,240,000	$ -	$ (1,695,000)	$ 3,545,000	$ 1,745,000
	Premiums	86,870	-	(46,877)	39,993	29,136
	Total Bonds Payable	**5,326,870**	**-**	**(1,741,877)**	**3,584,993**	**1,774,136**
9 B.	Compensated Absences	3,767,814	254,253	-	4,022,067	2,850,888
	Workers' Compensation	2,312,000	113,000	-	2,425,000	804,000
9 C.	Pension/OPEB Obligations	4,225,937	482,632	-	4,708,569	-
	Total Long-Term Liabilities	***$ 15,632,621***	***$ 849,885***	***$ (1,741,877)***	***$ 14,740,629***	***$ 5,429,024***

A. Bonds Payable

Limited sales tax, general-obligation bonds were issued in 2004 for the purchase of capital assets. Of the total 2004 bond proceeds, $1,200,000 was used to fund the reserve account, and $180,673 was used to pay the bond issue costs. On June 3, 2010, Community Transit issued

$5,240,000 in limited sales tax, general-obligation refunding bonds, Series 2010, to fully refund outstanding 2004 bonds and pay for issuance costs for the Series 2010 bonds. An economic gain of $54,256 resulted from the refunding transaction. The difference between the cash flows required to service the outstanding 2004 bonds and to service the new debt was a loss that is recorded as a deferred outflow of resources and is being amortized over the remaining life of the 2004 bonds.

The Series 2010 bond interest is payable on February 1 and August 1 of each year commencing February 1, 2011. The bonds are not subject to redemption prior to their maturity. The bonds have a coupon rate of 3 percent with varying maturities ranging from 2014 to 2016. These bonds are subject to federal arbitrage rules. As of December 31, 2014, the 2010 bonds are the only outstanding issued debt held by Community Transit.

	As of 12/31/2014	As of 12/31/2013
Current Portion of Bonds Payable	$ 1,745,000	$ 1,695,000
Long-Term Portion of Bonds Payable	1,800,000	3,545,000
Total Bonds Payable	**$ 3,545,000**	**$ 5,240,000**

The table below reflects 2014 bonds payable activity.

Bond Type	*Beginning Balance 12/31/2013*	*Issuance*	*Reductions via Principal*	*Ending Balance 12/31/2014*	*Amount Due in 2015 - Principal Only*
Series 2010	$ 5,240,000	$ -	$ 1,695,000	$ 3,545,000	$ 1,745,000

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

Annual Debt Service

Year	*Rate*	*Principal*	*Interest*	*Total Debt Service*
2015	3.00%	1,745,000	106,350	1,851,350
2016	3.00%	1,800,000	54,000	1,854,000
Total		***$ 3,545,000***	***$ 160,350***	***$ 3,705,350***

B. Compensated Absences

The two categories of compensated absences are paid time off (PTO) and major sick leave (MSL). As of December 31, 2014, the PTO payable was $2,833,483 as compared to $2,641,317 for the same period in 2013. The 2014 current portion amounted to $2,720,144, which was an increase of $210,893 compared to the 2013 amount of $2,509,251. The amount classified as long term was $113,339, which was a decrease of $18,727 over the 2013 amount of $132,066.

As of December 31, 2014, the vested portion of MSL payable was $1,188,583 as compared to $1,126,496 for the same period in 2013. The 2014 current portion amounted to $130,744, which was a decrease of $26,965 compared to the 2013 amount of $157,709. The amount classified as long term was $1,057,839, which was an increase of $89,052 over the 2013 amount of $968,787. Schedules for all categories of compensated absences follow.

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

Paid Time Off (PTO)	***2014***	***2013***
Beginning Balance - Current Liability	**$ 2,509,251**	**$ 2,500,335**
PTO Earned	4,334,348	3,902,783
PTO Paid	(4,123,455)	(3,893,867)
Ending Balance - Current Liability	***2,720,144***	***2,509,251***
Beginning Balance - Long-Term Liability	**132,066**	**159,596**
PTO Earned	153,084	177,410
PTO Paid	(171,811)	(204,940)
Ending Balance - Long-Term Liability	***$ 113,339***	***$ 132,066***

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

Major Sick Leave (MSL)	***2014***	***2013***
Beginning Balance - Current Liability	**$ 157,709**	**$ 193,157**
MSL Earned	32,325	31,581
MSL Paid	(59,290)	(67,029)
Ending Balance - Current Liability	***130,744***	***157,709***
Beginning Balance - Long-Term Liability	**968,787**	**879,937**
MSL Earned	568,758	500,598
MSL Paid	(479,706)	(411,748)
Ending Balance - Long-Term Liability	***$ 1,057,839***	***$ 968,787***

C. Other Postemployment Benefits (OPEB)

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

Plan Description: During the working careers of active employees, Community Transit contributes to the state Public Employee Benefit Board (PEBB), a cost-sharing, multiple-employer, defined-benefit, healthcare program administered by the Washington State Health Care Authority (HCA), an agent. The program provides medical, prescription drug, and vision coverage. HCA issues a publicly available financial report that includes financial statements and required supplementary information for the program. That report may be obtained by writing to HCA, P.O. Box 42682, Olympia, WA 98504-2682. No stand-alone financial statements are available for the program.

Under state law, active Community Transit employees who are covered by the state public employee retirement system (PERS) are eligible upon retirement to obtain medical, prescription drug, and vision coverage through the state PEBB program at the retiree rate associated with the elected plan. Because the rate is based upon a pool of both active employees and retirees, the rate paid by pre-Medicare retirees is less than the full cost of the benefits, based on their age and other demographic factors. This creates an implicit subsidy where the "underpayment" of retiree premiums is funded through the premiums paid by Community Transit for active employees. Additionally, an explicit subsidy exists for Medicare-eligible retirees enrolled in Medicare Parts A and B. For 2014, the explicit subsidy is the lesser of 50 percent of the monthly premium or $150.00 per month. The rate was $150.00 for 2013. This explicit subsidy is also funded through premiums paid by Community Transit for active employees.

Funding Policy: The HCA calculates the premium amounts each year that are sufficient to fund the program on a pay-as-you-go basis. These costs are passed through to all participating agencies based on active employee headcount. Annual OPEB Costs and Net OPEB Obligation for 2014, 2013, and 2012 follow.

Annual OPEB Cost	***2014***	***2013***	***2012***
Annual Required Contribution (ARC)	$ 680,651	$ 680,651	$ 830,046
Interest on Net OPEB Obligation	190,167	167,169	138,000
Adjustment to ARC	(259,435)	(228,060)	(188,266)
Annual OPEB Cost	***$ 611,383***	***$ 619,760***	***$ 779,780***

Net OPEB Obligation		2014		2013		2012
Net OPEB Obligation—Beginning of Year	$	**4,225,937**	$	**3,714,857**	$	**3,066,673**
Annual OPEB Cost		611,383		619,760		779,780
Employer Contribution Made		(128,751)		(108,680)		(131,596)
Net OPEB Obligation—End of Year	$	**4,708,569**	$	**4,225,937**	$	**3,714,857**
Increase/Decrease in Net OPEB	*$*	***482,632***	*$*	***511,080***	*$*	***648,184***
Employer Percentage Contribution		***21%***		***18%***		***17%***

Funded Status and Funding Progress: The disclosures for the funded status and funding progress are presented immediately after the Notes to the Financial Statements in the required supplementary information section. The disclosures are based on a biannual basis.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment rate of return, payroll growth rate, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Community Transit performed an actuarial study as of December 31, 2013, in accordance with the parameters of GASB Statement No. 45. The actuary calculated the OPEB obligation based on individual Community Transit employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

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

The next table summarizes actuarial assumptions used:

Description	***Actuarial Assumption***
Valuation Date	December 31, 2013
Actuarial Cost Method	Projected Unit Credit
Investment Rate of Return	4.5% per year
Inflation Rate	3% per year
Projected Salary Increases	2% for 2013 adjustment of covered payroll
Health Care Cost Trend Rates	Year 1: 6%, Year 2: 5.5%, Year 3+: 5%
Post-Retirement Benefit Increases	No increases are projected.
Amortization Method	Level dollar amount on an open basis over a period of 30 years.

Note 10: Net Position

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

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

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

- Vehicle Replacement: Funds set aside for future replacement of buses, paratransit vehicles, and vanpools.
- Future Capital Improvements: Amounts designated to fund capital projects.
- Workers' Compensation: Additional funds set aside in excess of the state-required restrictions for the payment of workers' compensation claims.

The next table shows net position as reported on the Statement of Net Position, including the breakdown of designated and undesignated net position, as of December 31, 2014, and December 31, 2013.

	2014	2013
Net Investment in Capital Assets	***$ 157,546,954***	***$ 161,104,099***
Restricted Net Position		
Debt Service	551,861	551,861
Workers' Compensation	1,741,000	1,762,500
Total Restricted Net Position	**2,292,861**	**2,314,361**
Unrestricted Net Position		
Designated - Vehicle Replacement	37,636,848	34,413,279
Designated - Future Capital Improvements	39,277,694	32,015,988
Designated - Workers Compensation	1,789,450	1,202,458
Undesignated	53,770,839	50,955,548
Total Unrestricted Net Position	**132,474,831**	**118,587,273**
Net Position	***$ 292,314,646***	***$ 282,005,733***

Note 11: Commitments

A. Paratransit Service (DART)

On September 9, 2011, Community Transit entered into a five-year contract with Senior Services of Snohomish County for the provision of paratransit service. The contract terms cover the period October 1, 2011, through September 30, 2016, with renewal options for five additional one-year terms. The annual cost for 100,000 annual revenue hours over the five-year period is shown in the table at right.

The annual cost of paratransit service is within the annual budget. Contracted services with Senior Services amounted to $6,704,149 during 2014 compared to $6,539,036 in 2013. Actual annual vehicle hours amounted to 84,349 for 2014, compared to 82,833 for 2013.

100,000 Revenue Service Hours

Year	*Annual Cost*
1	$ 6,417,520
2	6,569,659
3	6,726,583
4	6,886,620
5	7,051,588

B. Commuter Service

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

First Transit operates the service from Community Transit's Kasch Park Base under the terms of the facility lease provisions of the commuter service agreement. The annual cost of the service for the five-year, seven-month period, which includes 92,560 service hours of Sound Transit express commuter service, is shown below.

Contract Period	*Revenue Service Hours*	*Annual Cost*
Jun 09, 2012 to Dec 31, 2013	196,133	$ 25,102,589
Jan 01, 2014 to Dec 31, 2014	124,040	$ 16,352,081
Jan 01, 2015 to Dec 31, 2015	124,040	$ 16,842,643
Jan 01, 2016 to Dec 31, 2016	124,040	$ 17,347,923
Jan 01, 2017 to Dec 31, 2017	124,040	$ 17,868,360

The annual cost is within the annual budget. Contract service with First Transit for Community Transit service amounted to $4,448,041 in 2014 compared to $4,265,965 in 2013. Actual annual revenue hours amounted to 36,876 in 2014 as compared to 35,777 in 2013.

Contract service with First Transit for Sound Transit service amounted to $12,218,794 in 2014 compared to $11,742,152 in 2013. Actual revenue hours amounted to 91,065 in 2014 as compared to 89,709 for 2013.

C. Central Puget Sound Regional Fare Coordination System

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

On April 14, 2009, Community Transit entered into an amended interlocal agreement with King County Metro, Pierce Transit, Sound Transit, Everett Transit, Kitsap Transit, and the Washington State Ferries to provide for joint operation of the Central Puget Sound Regional Fare Coordination System. The regional fare coordination system began a phased implementation on April 1, 2009, with substantial deployment in 2010. The system is governed by a joint board consisting of one representative from each participating agency. The participating agencies have committed to use the system for a minimum of ten years and fund a proportional share of regional shared costs.

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

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

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

		2014		2013
Current Assets				
Cash and Cash Equivalents	$	1,838,891	$	1,702,322
Accounts Receivable		2,200,205		2,018,071
Total Assets	***$***	***4,039,096***	***$***	***3,720,393***
Current Liabilities				
Accounts Payable and Accrued Liabilities		2,732,280		2,571,806
Deferred Receipts		1,306,816		1,148,587
Total Liabilities	***$***	***4,039,096***	***$***	***3,720,393***
Total Operating Revenues	***$***	***14,254,517***	***$***	***13,591,909***
Total Expenses	***$***	***504,313***	***$***	***366,427***

D. Transit Police Contract with Snohomish County

On September 1, 2011, Community Transit's Board of Directors approved a new interlocal agreement with Snohomish County to continue the police services which the Snohomish County Sheriff's Office has provided since April 2003.

Under the terms of the new agreement, the county provides one sergeant, one half-time law enforcement technician, and eight full-time, commissioned sheriff's deputies who patrol Community Transit's services and facilities on a regular basis and perform other related services.

The contract term is January 1, 2012, to December 31, 2014. The annual cost of these services over the life of the contract is summarized at right.

Costs in 2014 were slightly above the annual budget. The cost of police services provided to Community Transit amounted to $1,198,808 in 2014 as compared to $1,142,441 in 2013.

Year	*Annual Cost*
2012	$ 1,118,376
2013	1,140,744
2014	1,163,558

E. Double-Decker Coach Contract

On July 2, 2009, Community Transit entered into a five-year contract with Alexander Dennis for the purchase of up to 120 double-decker coaches over the term of the contract. Future price changes are limited to the change in the Producer Price Index for similar equipment. The actual number of future purchases depends on Community Transit's future needs and available funding. Under the terms of this contract, other transit agencies may purchase buses provided that such purchases are within the stated quantity and the participating agency assumes all purchasing responsibilities. The Board approved an initial order of 23 coaches at a cost of $21,675,238. All were delivered by the end of June 2011. No purchases were made in 2012. An order for 17 coaches was placed in 2013, with a delivery scheduled in 2015. An addition five coaches were ordered in 2014, with a delivery scheduled in 2015.

F. Transit Technologies

On February 7, 2008, Community Transit awarded a contract to INIT in the amount of $13,377,228 to develop and implement an advanced public transportation system. INIT will provide a number of new technologies which will both improve Community Transit's operations by improving on-time performances and will also provide customers with access to real-time information. These technologies will increase efficiency through improved speed and reliability as well as fleet management.

The new technologies include automatic vehicle locators, automated passenger counters, automated stop annunciation, computer-aided dispatch, advanced traveler information systems, data radio, and mobile data terminals. (In financial reports for previous years, this suite of technologies was referred to as Advanced Public Transportation Systems or APTS.) Annual project costs are within the 2014 budget. For 2014, Community Transit's transit technologies contract costs amounted to $1,072,650 as compared to $2,778,607 in 2013.

Phase I was completed in 2011 with the implementation of the system for paratransit service. The second phase, which related to the installation of the system on fixed-route service, was completed in 2013. The 10 percent retainage in the amount of $1 million should be returned to INIT in 2015.

G. Express Bus Operating Agreement with Sound Transit

Community Transit has operated Sound Transit's express bus service since September 1999. On March 6, 2010, Community Transit's Board of Directors approved a new agreement with Sound Transit to continue operating Sound Transit express bus service through March 31, 2013, with two one-year options.

Both optional years were exercised by Sound Transit, extending the contract through March 31, 2015. The agreement covers various aspects of providing the service including operations, vehicle maintenance, fare collection, and security.

In 2014, Community Transit received $16,870,539 from Sound Transit compared to $16,402,918 in 2013.

H. Five-Year Bus Purchase Contract

Community Transit entered into a five-year contract with New Flyer of America on June 4, 2010, and Gillig Corporation on June 29, 2010, for the purchase of up to 203 coaches over the term of the contracts.

Future price changes are limited to the change in the Producer Price Index for similar equipment. The actual number of future purchases depends on Community Transit's future needs and available funding. Under the terms of this contract, other transit agencies may purchase buses provided that such purchases are within the stated quantity and the participating agency assumes all purchasing responsibilities.

In 2012, thirteen 29-foot coaches were ordered from Gillig Corporation and were delivered in 2013 for the amount of $5,814,645. No orders were placed in 2014.

I. Lease Obligation

As of December 31, 2014, Community Transit had no capital leases and various operating leases. Total operating lease expense for 2014 was $299,318 compared to $319,000 in 2013. The leases consist of the park-and-pool lot program, communication sites, Pitney Bowes, and copiers. Both the park-and-pool lot program and the communication sites leases are cancellable by either party with a 30- to 90-day notice depending on the contract. The Pitney Bowes and copier leases are more than one year and noncancelable. Future minimum lease commitments for noncancelable leases of more than one year are listed here.

Year	*Annual Cost*	
2015	$	57,873
2016		33,363
2017		7,688

Note 12: Contingencies

A. Legal Proceedings

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

B. Federal Grants

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

C. Environmental Liability

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

Note 13: Subsequent Events

Community Transit has evaluated subsequent events through May 14, 2015, the date the financial statements were available to be issued.

In the adopted 2015 budget, Community Transit planned to purchase 19 coaches to address routine replacement requirements. In early 2015, the Procurement Division received a quote from New Flyer for ten 60-foot expansion coaches in an amount not to exceed $8,457,000. This purchase was determined to be necessary, due to Community Transit's planned increase in service requirements and to accommodate ever increasing ridership. Subsequently, staff obtained authorization from the Board of Directors to procure these expansion coaches via Resolution 04-15, to make the purchase under existing contract No. 06-09 with New Flyer, which is set to expire June 3, 2015. This purchase allowed for quicker procurement turnaround time and delivery of the coaches in 2015.

Note 14: Status of Active Grants

The status of Federal Transit Administration (FTA) operating grants active as of December 31, 2014, follows:

Operating Grants

FTA Grant No.	Total Grant: Federal Share	Accrued Receipts To-Date	Unexpended Grant	Accrued Receipts Current Year
WA-90-X466	$ 2,530,564	$ 2,530,564	$ -	$ 52,892
WA-90-X527	3,298,068	2,144,823	1,153,245	1,071,333
WA-90-X574	3,000,000	3,000,000	-	3,000,000
WA-95-X062	860,000	592,735	267,265	309,419
WA-95-X063	165,074	128,829	36,245	68,332
GCB1947	102,406	102,406	-	102,406

The status of FTA capital grants active as of December 31, 2014, follows:

Capital Grants

FTA Grant No.	Total Grant: Federal Share	Accrued Receipts To-Date	Unexpended Grant	Accrued Receipts Current Year
WA-04-0079	$ 6,784,000	$ 6,784,000	$ -	$ 332,257
WA-04-0083	894,578	172,894	721,684	88,456
WA-04-0096	1,337,512	1,048,459	289,053	65,650
WA-90-X466	3,451,634	3,295,862	208,664	1,547,654
WA-90-X493	500,000	282,099	217,901	39,215
WA-90-X519	1,600,000	961,174	638,826	677,702
WA-90-X520	842,368	791,916	50,452	62,535
WA-95-X046	1,685,000	1,685,000	-	34,486
WA-95-X062	1,380,000	-	1,380,000	-
WA-95-X063	379,285	379,285	-	-

Required Supplementary Information
Other Postemployment Benefits Plan (OPEB)

Schedule of Funding Progress

Actuarial Valuation Date	Actuary Value of Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2009	$0	$8,503,707	$ 8,503,707	0.0%	$38,721,133	22%
12/31/2011	$0	$6,107,919	$ 6,107,919	0.0%	$36,554,787	17%
12/31/2013	$0	$6,179,625	$ 6,179,625	0.0%	$32,900,679	19%

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

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2010	$1,291,630	$ 107,829	8%	$ 2,387,329
12/31/2011	$ 790,915	$ 111,571	14%	$ 3,066,673
12/31/2012	$ 779,780	$ 131,595	17%	$ 3,714,858
12/31/2013	$ 619,760	$ 108,680	18%	$ 4,225,937
12/31/2014	$ 611,383	$ 128,751	21%	$ 4,708,569

COMMUNITY TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	From Pass-Through Awards	From Direct Awards	Total	Footnote Reference
US Department of Transportation - Federal Transit Administration	Federal Transit Capital Investment Grants	20.500	WA-04-0079 Radio and Bus (SGR 5309)	-	332,257	332,257	1, 2,4
			WA-04-0083 Swamp Creek P&R (LIV 5309)	-	88,456	88,456	1,2
			WA-04-0096 Rehab/Renovate Kasch Park Roof (SGR 5309)	-	65,650	65,650	1,2
			Total 5309	**$ -**	**$ 486,363**	**$ 486,363**	
US Department of Transportation - Federal Transit Administration	Federal Transit Formula Grants	20.507	WA-90-X466 Mixed Marysville UZA (5307)	-	1,600,546	1,600,546	1,2,3
			WA-90-X493 Network Oper Center (5307)	-	39,215	39,215	1,2
			WA-90-X519 Rehab/Renovate Ash Way P&R (5307)	-	677,702	677,702	1,2
			WA-90-X520 Rehab/Renovate MCOB roof (5307)	-	62,535	62,535	1,2
			WA-90-X527 Mixed Marysville UZA (5307)	-	1,071,333	1,071,333	1,2,3
			WA-90-X574 Operating PM and ADA STEUZA (5307)	-	3,000,000	3,000,000	1,2,3
			WA-95-X046 Queue Jump & Operating (CMAQ Flex to 5307)	-	34,486	34,486	1,2,3,5
			WA-95-X062 Commuter Service Expand (CMAQ Flex to 5307)	-	309,419	309,419	1,2,3,5
			WA-95-X063 Vanpool Expansion (CMAQ Flex to 5307)	-	68,332	68,332	1,2,5
			Total 5307	**$ -**	**$ 6,863,568**	**$ 6,863,568**	
Subtotal Federal Transit Cluster				**$ -**	**$ 7,349,931**	**$ 7,349,931**	
US Department of Transportation - Federal Transit Administration	Job Access and Reverse Commute Programs	20.516	GCB1947 JARC Pass Through WSDOT	102,406	0	102,406	1,2,3
			Total 5316	**$ 102,406**	**$ -**	**$ 102,406**	
			Total Federal Awards Expended	**$ 102,406**	**$ 7,349,931**	**$ 7,452,337**	

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

Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - BASIS OF ACCOUNTING	The Schedule of Financial Assistance is prepared on the same basis of accounting as Community Transit's financial statements. Community Transit uses the accrual basis of accounting.
NOTE 2 - PROGRAM COSTS	The amounts shown as current expenditures represent only the federal portion of the program costs.
NOTE 3 - DIRECT EXPENSES	The amounts expended for operating projects are Direct Costs only (no Indirect is included) as per Community Transit's Operating Grant Accounting Plan
NOTE 4 - PROGRAM INCOME	Program Income generated by grant supported activity in 2014 was retained and used for allowable capital or operating expenses as permitted by 49.CFR Part 18.25(g)(5). Advertising Revenue is the only Program Income Community Transit generates. During the grant period, $156,384 was generated from bus advertising on vehicles funded under the CFDA 20.500 and 20.507 grant programs (grant #s WA-04-0079 and WA-90-X454). NOTE: Fare Revenue generated from operations is not considered Program Income by FTA. During 2014 fixed route and ADA Paratransit operations under grant #'s WA-90-X527, WA-90-X574, WA-95-X062 and GCA 1947 (CFDA 20.507 and 20.516) generated $746,956 in fare revenue.
NOTE 5 - FLEXED FUNDS	These funds were flexed from FHWA programs to FTA for obligation and administration, however, the grant may retain some aspects of the original program such as match ratio: WA-95-X046, WA-95-X062 and WA-95-X063 were all flexed from the CMAQ program CFDA #20.205 to the FTA 5307 formula program CFDA 20.507. After Flex the grant projects retained the CMAQ match ratio at 86.5% grant / 13.5% match for some capital portions and at 80% grant / 20% match for the Operating portion of the project.

ABOUT THE STATE AUDITOR'S OFFICE

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

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