



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

**Financial Statements and Federal Single Audit  
Report**

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

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

**Published August 9, 2018**

**Report No. 1021872**





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

August 9, 2018

Board of Directors  
Skagit Transit  
Burlington, Washington

**Report on Financial Statements and Federal Single Audit**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Skagit Transit**  
**Skagit County**  
**January 1, 2017 through December 31, 2017**

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

### Financial Statements

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

Internal Control over Financial Reporting:

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

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

### Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the Transit's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
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 the Uniform Guidance, was \$750,000.

The Transit qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

No findings.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See finding 2017-001.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND  
QUESTIONED COSTS**

**Skagit Transit  
Skagit County**

**January 1, 2017 through December 31, 2017**

**2017-001    The Transit did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.**

<b>CFDA Number and Title:</b>	20.507 Federal Transit Cluster – Formula Grant
<b>Federal Grantor Name:</b>	Federal Transit Administration
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Department of Transportation
<b>Pass-through Award/Contract Number:</b>	WA-90-X490
<b>Questioned Cost Amount:</b>	\$0

***Background***

During fiscal year 2017, the Transit spent \$1,753,896 in Federal Transit formula grant funding. The objective of the grant is to assist in financing the planning, acquisition, construction, preventive maintenance and improvements of facilities and equipment in public transportation services. Operating expense reimbursements are also eligible under this program.

Federal requirements prohibit contracting with or making subawards to parties that have been suspended or debarred from doing business with the federal government. The Transit is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. The verification may be accomplished by obtaining a written certification from the vendor or adding a clause to the contract where the vendor states it is not suspended or debarred. Alternatively, the Transit may check the federal Excluded Parties List (EPLS) maintained by the U.S. General Services Administration. The Transit must meet the requirement before entering into a contract with the vendor.

Federal regulations require grant recipients to establish and maintain internal controls to ensure compliance with the federal statutes, regulations, and the terms and conditions of the federal award. Federal regulations require auditors to report significant deficiencies and material weaknesses in internal control.

### ***Description of Condition***

The Transit purchased two vanpool vehicles through the state contract totaling \$68,000. Controls were not effective in ensuring its contractors had not been suspended or debarred as the Transit did not obtain a written certification or review EPLS before paying on the invoice.

We consider this deficiency in internal control to be a material weakness.

This issue was initially identified by the Federal Transit Administration during their fiscal year 2017 program review and noted in their report.

### ***Cause of Condition***

As the vanpool vehicles were purchased through a state contract, the Transit assumed the suspension and debarment requirement had been met by the state.

### ***Effect of Condition and Questioned Costs***

Any payments to contractors who are suspended or debarred would be unallowable and subject to recovery by the grantor.

We were able to determine the vendor was not suspended or debarred, therefore we are not questioning costs for these payments.

### ***Recommendation***

We recommend the District follow its policies and procedures to ensure all contractors to be paid \$25,000 or more using federal funds, including contractors selected from a state or other third-party contract, are not suspended or debarred.

### ***Transit's Response***

*The deficiency for which Skagit Transit is receiving this finding is from a procurement award issued in November 2016.*

*Skagit Transit was reviewed by the Federal Transit Administration in March 2017 and was found deficient on the same procurement in documentation of responsibility determination prior to an awarded contract.*

*FTA issued a corrective action plan, Skagit Transit concurred and complied with the plan and completed all requirements to correct the deficiency in July 2017. FTA issued a completion and close out notification for the finding in October 2017.*

*The corrective action required a revised process to conduct responsibility determinations prior to award of a contract as required by FTA C. 4220.1F and to*

*submit to the FTA regional office, documentation that responsibility determinations were made before procurement award. Skagit Transit submitted to FTA the revised procedures, Procedure 180.26 approved July 6, 2017 and documentation showing responsibility determination prior to award of the next federally funded procurement.*

*The revised procedures have been incorporated into contract checklists and have been performed since the finding in March 2017.*

*Documentation of the FTA finding, corrective action plan, agency response, corrective actions and FTA close-out notification are available for review.*

### ***Auditor's Remarks***

We appreciate the Transit's commitment to resolve this finding and thank the Transit for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 200.303 Internal Controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200, Uniform Guidance, section 200.516 Audit Findings, establishes reporting requirements for audit findings, and requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 180, OMB *Guidelines to Agencies on Government-wide Debarment and Suspension (Nonprocurement)*, establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689.



**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**

**Skagit Transit  
Skagit County  
January 1, 2017 through December 31, 2017**

Board of Directors  
Skagit Transit  
Burlington, 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 Skagit Transit, Skagit County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated July 24, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy  
State Auditor  
Olympia, WA

July 24, 2018

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

**Skagit Transit  
Skagit County  
January 1, 2017 through December 31, 2017**

Board of Directors  
Skagit Transit  
Burlington, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Transit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

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

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

### **Transit's Response to Findings**

The Transit's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Transit's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the Transit is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Transit's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal

program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Transit's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a material weakness.


### **Transit's Response to Findings**

The Transit's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Transit's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy  
State Auditor  
Olympia, WA

July 24, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Skagit Transit Skagit County

January 1, 2017 through December 31, 2017

Board of Directors  
Skagit Transit  
Burlington, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Skagit Transit, Skagit County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 18.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

## **Opinion**

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

## **Other Matters**

### ***Required Supplementary Information***

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



### *Supplementary and Other Information*

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2018 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

July 24, 2018

## **FINANCIAL SECTION**

**Skagit Transit  
Skagit County  
January 1, 2017 through December 31, 2017**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

## Skagit Transit

### *Management Discussion & Analysis*

This section of Skagit Transit's Annual Financial Report presents management's overview and analysis of the PTBA's financial performance for the fiscal year ending December 31, 2017. This section should be read in conjunction with the financial statements and notes to the financial statements that follow this section.

#### **Financial Highlights**

- The assets of Skagit Transit exceeded its liabilities at December 31, 2017, by \$40,243,023. Of this amount, \$15,612,829 may be used to meet Skagit Transit's ongoing obligations to provide services to the public, including the capital program, and to meet the obligations of creditors.
- Skagit Transit's total net position increased by \$855,318 in 2017. The overall financial condition of Skagit Transit as of December 31, 2017 was considered to have improved. At year-end, the budget was balanced with Skagit Transit projected to remain in the black for operating expenses throughout 2018.
- Passenger Fares increased by \$5,413 between 2016 and 2017.
- Skagit Transit remained free of long-term debt during the period.

#### **Summary Statement of Net Position**

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$16,337,591	\$16,426,030
Capital Assets	<u>24,630,194</u>	<u>23,568,318</u>
Total Assets	<u>40,967,785</u>	<u>39,994,349</u>
Liabilities		
Current Liabilities	481,187	377,558
Noncurrent Liabilities	<u>243,576</u>	<u>229,086</u>
Total Liabilities	<u>724,762</u>	<u>606,645</u>
Net Position		
Investment in Capital Assets	24,630,194	23,568,318
Unrestricted	<u>15,612,829</u>	<u>15,819,386</u>
Total Net Position	<u><u>40,243,023</u></u>	<u><u>\$39,387,704</u></u>

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

	2017	2016
Operating Revenues:		
Passenger Fares	\$864,584	\$859,171
Non-Operating Revenues		
Sales Tax	11,776,859	11,119,193
Interest	72,420	35,891
Grants	2,221,345	2,440,089
Gain (loss) on Disposition of Assets	24,044	12,082
Other Non-operating Revenues	56,580	41,564
Total Revenues	15,015,832	14,507,990
Operating Expenses		
Operations	7,340,228	6,464,329
Maintenance	2,492,224	2,369,025
Administration	2,910,956	2,570,331
Depreciation	2,296,560	1,805,736
Total Expenses	15,039,968	13,209,420
Net Income (loss) Before Contributions	(24,137)	1,298,570
Capital Contributions	879,456	641,071
Increase (decrease) in net position	855,318	1,939,641
Net Position - Beginning of period	39,387,704	37,448,063
Net Position - End of period	\$40,243,023	\$39,387,704

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of Skagit Transit report information about the PTBA using accounting methods similar to those used by private sector companies.

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

The Statement of Revenues, Expenses and Changes in Fund Net Position present information showing how the PTBA's net position changed during the fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some

items that will only result in cash flows in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to the PTBA, and earned but unused vacation leave).

This MD&A should be viewed along with the attached financial statements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within financial statements. The notes to the financial statements can be found in this report.

## **Financial Analysis**

### **Net Position**

For the year ending December 31, 2017, assets exceeded liabilities by \$40,243,022. Transit is a capital-intensive enterprise, and 61.20% of Skagit Transit's net assets are invested in capital assets.

Skagit Transit ended 2017 with \$24,630,194 in Capital Assets. See Note 3 for further information.

During 2017 Capital Assets increased by \$1,061,876. Skagit Transit's purchased assets includes a land purchase adjacent to the future MOA2 facility, four (4) Fixed Route buses, five (5) ParaTransit buses, two (2) Vanpool vans, seven (7) Bus Shelters, a Wiring Upgrade at Skagit Station, and a Security Camera Upgrade at March Point P&R. Inventory levels decreased by \$16,246 during 2017. It is expected that inventory levels will be maintained at appropriate levels to match our service levels.

Cash and cash equivalents were increased by \$67,040 in 2017 from 2016.

Skagit Transit was successful in receiving state and federal grants to fund some of the capital projects such as replacement and expansion transit coaches and technology upgrades to the Skagit Station. Skagit Transit continues to aggressively seek all available grants.

### **Operating Revenues**

Operating revenues for fares increased by \$5,413 during 2017. Fixed Route service had a revenue increase of \$4,580 or 1.1%, Paratransit had an increase of \$933, or 13.0% and Vanpool had a decrease of \$100, or 0.02%. Fixed Route ridership decreased by 3.9% and Vanpool by 8.4%. Paratransit declined by .8%. For all modes, there were 837,763 unlinked passenger trips in 2017. Fares are structured so that commuter routes are two times the local fixed route fare and paratransit is operated fare free.

### **Non-Operating Revenues**

Revenues from the transit portion of the sales tax increased by \$657,666 or 5.9% over 2016. In November 2008, the proposition to increase sales tax from 2/10 of 1% to 4/10 of 1% was approved by the voters and went into effect in April 2009.

Interest income was \$72,420 in 2017. It increased in 2017 by 101.8% from the \$35,891 received in 2016.

Grant revenues were derived from twelve (12) federal, state and local grants for use in capital and operating expenditures.

### **Operating Expenses**

Operating expenses increased during 2017 as a result of an increase in salaries, wages, and benefits based on the compensation study done in 2016, the union contract renewal and inflation.

Fixed Route refers to regularly scheduled buses operating on established routes.

ADA Paratransit service is scheduled through a dispatch center.

Vanpool service was initiated in June 2002. The Skagit Transit Vanpool program remained fairly consistent throughout 2017 with an average of 44 active vanpool groups. With fuel prices remaining low and shift variation at Boeing Everett, the program decreased slightly from 2016. However, 2018 is already on track to rebound from the previous slight decrease. The Vanpool program accrued a total of 981,440 revenue miles in 2017, ending the year with over 330 participants. As always, expansion is a sought after goal. Yet to sustain active groups, support and assistance remains a primary focus. The program will continue to provide an affordable and environmentally friendly option for long distance commuting.

### **Operating Expenses by Department**

Operations – \$7,340,228 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$2,492,224 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$2,910,956 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation - \$2,296,560 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total Operating Expenses were \$15,039,968.

Capital Assets are depreciated based on their actual costs spread over their useful life.

### **Economic Factors and Future Outlook**

Skagit County includes the Mount Vernon Urbanized Area (UZA). This UZA is comprised of the urban growth areas of the cities of Mount Vernon, Burlington, and Sedro-Woolley. This designation of the UZA brings to Skagit Transit the availability of receiving federal funding for

urban transit systems. It also brings the responsibility of Skagit Transit's involvement in the new Metropolitan Planning Organization.

The population of Skagit County has been growing at rates slightly less than population growth throughout the state. During the time period from April 2010 through July 2017, the county population grew at 7.5% rate compared to 10.1% for the state.

The economy had been hit hard by the layoffs by the various large employers located in Seattle and Everett. The economy has been recovering in 2017.

Skagit Transit's main source of revenue is a portion of the local sales tax, which also serves as an economic barometer. The sales tax revenue increased by 2.3% in 2014 over 2013, 6.7% in 2015 over 2014, 8.7% in 2016 over 2015, and 5.9% in 2017 over 2016.

The county's average unemployment rate in 2017 was 5.5% compare to 4.8% for the state.

Skagit Transit's revenues were severely cut in 2000 when the Motor Vehicle Excise Tax (MVET) was removed. Skagit Transit operated slightly reduced service levels for the next two years using reserve funding as authorized by our Board of Directors. When the PTBA residents soundly defeated an attempt to increase the local transit portion of sales tax in September of 2002, Skagit Transit was forced to reduce service substantially and live within its revenue flow. The budget was designed to allow minimal growth in services while staying within the revenue stream. In November 2008, the Proposition to increase sales tax by 2/10 of 1% for Skagit Transit was passed. And in April 2009, the sales tax percentage for Skagit Transit was increased to 4/10 of 1%. The increase in sales tax revenue will ensure Skagit Transit will be able to implement more services in the PTBA.

Grant applications are submitted for identified agency needs where there is a funding shortage. 2018 FTA Capital funding is actively being sought for the construction of the new Maintenance Operations and Administration Facility Project currently in the design phase.

Skagit Transit management has made a commitment to meeting the needs of the public, but in a financially sound manner.

### **Capital Assets**

Skagit Transit's investment in capital assets as of December 31, 2017 amounted to \$24,630,194 net accumulated depreciation. Capital assets consist of transit coaches and other vehicles, buildings, equipment, transit centers and park and ride lots. Capital assets increased by approximately 4.51% during the year, which includes a land purchase adjacent to the future MOA2 facility, four (4) Fixed Route buses, five (5) ParaTransit buses, two (2) Vanpool vans, seven (7) Bus Shelters, a Wiring Upgrade at Skagit Station, and a Security Camera Upgrade at March Point P&R.

Please refer to Note 3 of Notes to the Financial Statements for more information.

### **Request for Information**

This financial report is designed to provide a general overview of the PTBA's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Manager of Finance & Administration, 600 County Shop Lane, Burlington, WA 98233, telephone 360-757-8801.



**Skagit Transit**  
**Statement of Net Position**  
**December 31, 2017**

**ASSETS**

Current Assets:		
Cash	\$	5,050,699
Investments		8,631,015
Taxes receivables		2,104,531
Accounts receivable (net of allowance for uncollectibles)		51,759
Due from other governments		140,780
Inventory		358,807
Total Current Assets		16,337,591
Noncurrent Assets:		
Capital assets not being depreciated		
Land		5,915,899
Right of way		850,000
Construction in Progress		83,915
Capital assets being depreciated		
Buildings		8,771,666
Improvements other than buildings		6,192,701
Vehicles		14,595,223
Intangible Assets		1,056,529
Equipment & Furnishings		1,667,614
Less: Accumulated depreciation		
Buildings		(2,726,302)
Improvements other than buildings		(1,376,097)
Vehicles		(8,596,657)
Equipment & Furnishings		(1,125,155)
Intangible Assets		(679,142)
Total Net Capital Assets		24,630,194
Total Noncurrent Assets		24,630,194
<b>Total Assets</b>		<b>40,967,785</b>

**LIABILITIES**

Current Liabilities:		
Accounts payable		95,985
Compensated Absences		51,583
Benefit payable		81,532
Taxes and other payables		252,087
Total Current Liabilities		481,187
Noncurrent liabilities:		
Compensated Absences		243,576
Total Noncurrent Liabilities		243,576
<b>Total Liabilities</b>		<b>724,762</b>

**NET POSITION**

Net Position:		
Net Investment in Capital Assets		24,630,194
Unrestricted		15,612,829
<b>Total Net Position</b>	<b>\$</b>	<b>40,243,023</b>

The Notes to the Financial Statements are an integral part of this statement

**Skagit Transit**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For Fiscal Year Ended December 31, 2017**

Operating Revenues:	
Passenger Fares	\$ 864,584
Total Operating Revenues	864,584
Operating Expenses:	
Operations	7,340,228
Maintenance	2,492,224
Administration	2,910,956
Depreciation	2,296,560
Total Operating Expenses	15,039,968
Operating Income (Loss)	(14,175,385)
Non-Operating Revenues (Expenses):	
Sales Tax	11,776,859
Interest	72,420
Grants	2,221,345
Gain (loss) on Disposition of Assets	24,044
Other Non-operating Revenues (Expenses)	56,580
Total Non-Operating Revenues (Expenses)	14,151,248
Income(loss) before contributions, gains, losses, other revenues and expenses	(24,137)
Capital Contributions	879,456
Increase (decrease) in net position	855,318
Net Position - Beginning of period	\$ 39,387,704
Net Position - End of period	\$ 40,243,023

The Notes to the Financial Statements are an integral part of this statement.

**Skagit Transit**  
**Statement of Cash Flows**  
**For Fiscal Year Ended December 31, 2017**

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 829,184
Cash Payments to Suppliers for Good & Services	(2,827,204)
Cash Payments to Employees for Services	(9,781,841)
Other Cash Receipts	58,607
Net Cash Provided (Used) by Operating Activities	<u>(11,721,254)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	11,686,018
Federal, State and Local Assistance Received	2,401,453
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>14,087,471</u>
Cash Flows from Capital and Related Financing Activities:	
Acquistion and Construction of Capital Assets	(3,358,436)
Capital Grants and Contributions	1,035,564
Proceeds from Sale of Equipment	23,695
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,299,177)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(70,741)
Interest on Investments	70,741
Net Cash Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>67,040</u>
Cash and Cash Equivalents, Beginning	4,983,659
Cash and Cash Equivalents, Ending	<u><u>\$ 5,050,699</u></u>

The Notes to the Financial Statements are an integral part of this statement.

## Notes to Financial Statements December 31, 2017

### **Note 1: Summary of Significant Accounting Policies**

Skagit Transit Authority (Skagit Transit) was authorized on November 3, 1992 and operates under the laws of the State of Washington applicable to a Public Transportation Benefit Area (PTBA). The accounting and reporting policies of Skagit Transit conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the significant accounting policies is presented to assist the reader in interpreting the financial statements. The more significant policies are described below. These notes should be viewed as an integral part of the accompanying financial statements.

#### **a) Reporting Entity**

Skagit Transit is a special purpose government and provides public transportation to the general public and is supported primarily through local sales tax. The agency is governed by an elected nine member board. Skagit Transit has no component units. Skagit Transit's basic financial statements include the financial position and results of the operations of the PTBA. A review of other units of local government, using the criteria set forth in GAAP, indicates there are no additional entities or funds for which the PTBA has reporting responsibilities. Based on the standards set by GASB-14, there are no component units of Skagit Transit.

#### **b) Basis of Accounting & Presentation**

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

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

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

Skagit Transit distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with Skagit Transit's principal

ongoing operations. The principal operating revenues of the transit are charges to customers for fare box collections and bus pass sales. Operating expenses for Skagit Transit include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting records of Skagit Transit are maintained in accordance with the methods prescribed by the Federal Transit Administration (FTA) and the Washington State Auditor under the authority of Revised Code of Washington (R.C.W.) 43.09. The authority for the FTA to prescribe an accounting and reporting system is found in Section 15 of the Federal Transit Act of 1992, as amended.

Skagit Transit began participating in the FTA National Transit Database beginning with FY 2005. A Six-Year Planning summary report has been sent to the Washington State Department of Transportation (WSDOT), under separate cover.

**c) Assets, Liabilities, and Net Position**

**a) Cash and Cash Equivalents**

It is Skagit Transit's policy to invest all temporary cash surpluses. For purposes of the Statement of Cash Flows, the agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. State statutes permit Skagit Transit to invest in obligations of the United States, certificates of deposits issued by banks that are designated as public depositories by the Washington Public Deposit Commission, the Local Government Investment Pool of the Washington State Treasurer or authorized investments through the Skagit County Treasurer.

Investments for Skagit Transit are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. For other property and investments – See Note 2.

**b) Receivables**

Accounts receivable consist mainly of bus passes sold, vanpool charges and local sales tax collected. Total accounts receivable was \$51,759 and local sales tax receivable was \$2,104,531.

**c) Amounts Due From Other Governments**

Amounts due from other governments include grant reimbursements of \$131,267, sales tax interest of \$1,956, and fuel refunds of \$7,557.

**d) Inventories**

Inventory consists of fuel, repair parts and supplies. No general administrative expenses are included in the inventory valuation. Expenses are recorded as the materials are consumed. Inventory is valued on the average cost method. At December 31, 2017, Skagit Transit carried an inventory valued at \$358,807 for consumable parts and supplies used in the maintenance and repair of vehicles and facilities.

e) Restricted Assets and Liabilities  
 Skagit Transit has no restricted assets and liabilities.

f) Capital Assets  
 Capital Assets include property, facilities, and equipment and are capitalized at total acquisition cost provided that such costs exceed \$5,000 and the asset has a useful life of at least one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the following estimated useful lives:

Land	Not Depreciated
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	5-7 years
Shop Equipment	10 years
Route Improvements	20 years
Furniture & Fixtures	10 years
Intangible Assets	5-10 years
Computer Equipment	5 years
Vehicle Improvements	3-5 years

Capital Assets & Depreciation – See Note 3

g) Compensated Absences  
 Compensated absences are absences for which employees will be paid using general leave.

General leave, which may be accumulated up to 25 days, is payable upon resignation, retirement, or death if the employee has successfully completed their probation period.

All compensated absences that are unused at the end of each year are listed on the balance sheet as a liability. The current liability for compensated absences equaled \$51,583 as of December 31, 2017 and noncurrent liability was \$243,576.

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

	Current Liability	Noncurrent Liability	Total
Beginning Balance	\$ 50,051	\$ 229,086	\$ 279,137
Leave Earned	73,377	694,167	767,545
Leave Paid	71,846	679,678	751,524
Ending Balance	<b>51,583</b>	<b>243,575</b>	<b>295,158</b>

h) Fund Reserves & Designations – See Note 10

- i) There were no material violations of finance related legal or contractual provisions during FY 2017.

## **Note 2 – Deposits & Investments**

- a) Deposits

The Board of Directors of Skagit Transit adopted Resolution 2001-06 appointing its own treasurer. The treasurer is responsible for the management and investment decisions of the Transit's deposit and investment accounts. The Board also approved an Interlocal agreement with the Skagit County Treasurer to invest the Transit's reserve funds in an instrument authorized by law for the Treasurer of Skagit County.

Skagit Transit has established direct banking services with Skagit Bank. Skagit Transit's deposits are covered entirely by Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

### Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the LGIP and Skagit Treasurer's office. The LGIP and the Treasurer's assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

- b) Investments

State of Washington under Chapter 39.59 RCW limits the investment of public funds by local governments to the following authorized instruments: (i) bonds of the State or any local government in the State, (ii) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (iii) registered warrants of a local government in the same county as the local government making the investment, (iv) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided that at the time of investment, the United States government must be the largest shareholder of such institution, (v) obligations of the Federal Home Loan Bank, Fannie Mae and other government-sponsored enterprises whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system, (vi) bankers' acceptances purchased in the secondary market, (vii) commercial paper purchased in the secondary market, subject to

State Investment Board policies, and (viii) corporate notes purchased in the secondary market, subject to State Investment Board policies.

### Investments Measured at Amortized Cost

As of December 31, 2017, the transit held the following investments at amortized cost:

Type of Investment	Maturities	Transit's own investments	Investments held by Transit as an agent for others	Total
WA State Local Government Investment Pool	Less Than One Year	\$8,631,015	\$0	\$8,631,015
<b>Total</b>		<b>\$8,631,015</b>	<b>\$0</b>	<b>\$8,631,015</b>

#### Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of a counterparty to an investment transaction the Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. There is minimal risk within our investment in the LGIP and Skagit Treasurer's office. The LGIP and the Treasurer's assets are primarily allocated in U.S. Government-backed obligations, federally insured demand deposits, and certificates of deposit.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest will adversely affect the fair market value of an investment. Skagit County Treasurer and state pool policies state that safety of funds is the number one priority in all investment decisions. The LGIP and the County Treasurer 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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Funds currently held at the LGIP and the County Treasurer have minimal to no risk. The investment policy for those limits the types of securities available for investment to obligations of the U.S. Government or its agencies, bankers' acceptance, commercial paper, certificate of deposit, or obligations of the state of Washington.



### **Note 3 – Capital Assets & Related Depreciation**

Major expenses for Capital Assets, including major repairs to assets that increase their useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

All Capital Assets are valued at historical cost (or estimated historical cost, where historical cost is not known) or estimated market value for donated assets.

Furnishings, equipment and buildings are capitalized if they have a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Items that are sensitive in nature and whose acquisition cost is less than \$5,000 are coded to an appropriate expense category when purchased, but are assigned a capital asset number.

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

The original cost of operating property retired or otherwise disposed of and the cost of installation is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from Skagit Transit asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line basis. Depreciation expense is charged to operations to allocate the cost of Capital Assets over their estimated useful lives, using the straight-line method with useful lives of three to fifty years.

#### **Eminent Domain**

On August 25, 2017, Skagit Transit filed a condemnation action in Skagit County Superior Court seeking to obtain a fee simple interest in a portion of Skagit County Tax Parcel P127387 located at 17xx Bay Ridge Drive, Burlington, WA 98233 (the “Property”). The Property is owned by Wallace Bay Properties, LLC, and will be utilized by Skagit Transit for its future Maintenance, Operations, and Administrative base.

Pursuant to the court’s October 9, 2017, Order Granting Immediate Possession and Use, Skagit Transit deposited its initial offer of just compensation in the amount of \$785,000 into the court registry and took legal possession and use of the Property as of that date. Following a court mandated appraisal exchange; the parties settled on just compensation in the amount of \$985,000 for the taking of the property and subsequently executed a written settlement agreement on April 30, 2018, that was subject to Federal Transit Administration approval of the settlement amount.

Soon thereafter, Skagit Transit contacted FTA officials to inform the agency of the tentative settlement and seek approval of the just compensation amount. The FTA requested that Skagit Transit have its appraisal in the amount of \$985,000 formally reviewed by another appraiser.

A formal review appraisal was completed on May 17, 2018. The review appraiser concurred with the just compensation conclusion of \$985,000. A written request for approval of the settlement has been submitted and is currently pending before the FTA. Once FTA approval is received, a Stipulated Judgment and Decree of Appropriation will be presented to the Court for entry and an additional deposit of \$200,000 will be made into the Court Registry. Upon entry of the final decree and deposit of the \$200,000 in additional just compensation, title to the Property will transfer to Skagit Transit. A certified copy of the final decree will also be recorded with the Skagit County Auditor evidencing the transfer of title to the Property.

Capital Assets and accumulated depreciation are categorized at January 1, 2017, and again at December 31, 2017. Depreciation for 2017 is as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
<b>Capital Assets not Being Depreciated</b>				
Land	\$4,930,899	\$985,000	\$ -	\$5,915,899
Right of Way	850,000	-	-	850,000
Construction/Work in Progress	996,676	83,915	996,676	83,915
Total Assets not Being Depreciated	<u>6,777,575</u>	<u>1,068,915</u>	<u>996,676</u>	<u>6,849,814</u>
<b>Capital Assets Being Depreciated</b>				
Buildings	8,202,448	569,218	-	8,771,666
Improvements other than buildings	6,108,841	83,860	-	6,192,701
Vehicles	12,534,860	2,641,437	581,075	14,595,223
Equipment & Furnishings	1,601,512	68,715	2,614	1,667,614
Intangible Assets	1,038,936	17,593	-	1,056,529
Total Assets Being Depreciated	<u>29,486,598</u>	<u>3,380,822</u>	<u>583,688</u>	<u>32,283,732</u>
<b>Less Depreciation for:</b>				
Buildings	\$2,383,968	\$342,334	\$ -	\$2,726,302
Improvements other than buildings	1,221,593	154,504	-	1,376,097
Vehicles	7,512,832	1,654,328	570,503	8,596,657
Equipment & Furnishings	1,014,767	112,697	2,309	1,125,155
Intangible Assets	562,694	116,448	-	679,142
Total Assets Being Depreciated	<u>12,695,854</u>	<u>2,380,310</u>	<u>572,812</u>	<u>14,503,352</u>
Total Capital Assets, Being Depreciated, Net	\$16,790,743			\$17,780,380
Total Net Capital Assets	<u>\$23,568,318</u>			<u>\$24,630,194</u>

Individual useful lives are assigned to newly acquired or rebuilt assets as follows:

Land	Not Depreciated
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	5-7 years
Shop Equipment	10 years
Route Improvements	20 years
Furniture & Fixtures	10 years
Intangible Assets	5-10 years
Computer Equipment	5 years
Vehicle Improvements	3-5 years

**Note 4 – Prepaid Rent – Skagit Station**

Skagit Transit had no prepaid rent at year end 2017.

**Note 5 – Qualified Retirement**

Effective January 1, 1998, the Board of Directors approved Resolution No. 64 declaring Empower-Retirement (formally Great-West Retirement Services) as Skagit Transit’s third party administrator for the Skagit Transit 401(a) and 457 plans. All of Skagit Transit’s employees have the opportunity to participate in a 401(a) Defined Contribution Plan.

Effective 7/01/2002, the employees voted to participate in Social Security (OASDI/Old Age, Survivors and Disability Insurance). At that time, the Skagit Transit Board of Directors modified the contribution levels to be:

**401(a) Defined Contribution Plan (mandatory)**

5.00% by Skagit Transit

5.00% by the employee

**401(a) Defined Contribution Plan**

A defined contribution plan provides benefits in return for services rendered, provides an account for each participant, and specifies how contributions to the individual’s accounts are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant’s account, the returns earned on investments of those contributions, and forfeitures of other participants’ benefits that may be allocated to such participants’ accounts.

Skagit Transit employees begin mandatory participation in the 401(a) plan on the first day of employment. Contributions made by Skagit Transit vest over a 5-year period, upon the completion of each year of service (10%, 20%, 30%, 40%, 100%). An employee who leaves Skagit Transit is entitled to Skagit Transit contributions plus investment earnings at the vesting level attained. As of December 31, 2017, there were 137 current employees and 62 former employees participating in the plan.

Plan balances and contributions for FY 2017 and FY 2016 were as follows:

	FY 2017	FY 2016
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	5,850,747	5,248,521
Employee 401(a) Contributions	343,882	336,923
SKAGIT TRANSIT 401(a) Contributions	334,431	301,190
Loan Issuances	(124,339)	(74,714)
Loan payments	195,247	161,863
Distributions	(226,923)	(392,215)
Adjustments	477,811	170,259
Earnings	<u>94,386</u>	<u>98,920</u>
Total Ending Fund Balances	<u><u>\$6,945,242</u></u>	<u><u>\$5,850,747</u></u>

Under Current IRS rules, the 401(a) plan is held in trust for the employees. It is the opinion of Skagit Transit's legal counsel that Skagit Transit has no liability for losses under the plans, but does have the duty of due care that would be required of an ordinary prudent investor.

There are no other post-employment benefits.

### **Note 6 – Insurance**

**A. Unemployment Insurance**

Skagit Transit has elected to remain self-insured for unemployment compensation.

**B. State Industrial Insurance**

Skagit Transit is covered by State Industrial Insurance.

**C. Medical, Dental, and Vision Insurance**

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed

on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

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

Other insurances are 100% paid for by Skagit Transit.

**D. Life Insurance**

Regular employees have a \$12,000 term life insurance policy that also offers some coverage for dependents. Skagit Transit pays the premium.

**E. Short & Long-Term Disability Insurance**

Skagit Transit pays up to 2% of the gross wage of the regular employee (who works a minimum 30 hours per week) to purchase short and long-term disability insurance. The short-term disability benefit is for 180 days. The long-term disability benefits the employee for two years beyond the exhaustion of the short-term benefit.

**Note 7 – Risk Management**

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

At the end of 2017, Skagit Transit retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Skagit Transit has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto liability risks covered by WSTIP.

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

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

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

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

Here is a summary of coverage provided in 2017:

<b>RISK / EXPOSURE</b>		<b>COVERAGE</b>	<b>DEDUCTIBLE</b>
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
*Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0*
PUBLIC OFFICIALS LIABILITY	\$20 million	Per occurrence and aggregate	\$5,000
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,00

			minimum per occurrence per unit
<b>AUTO PHYSICAL DAMAGE</b> Auto Physical Damage (below \$250,000 in value)	Fair market value	Limited to \$1,250,000 any one vehicle	\$5,000
Auto Physical Damage for all vehicles with a model year of 2005 or later and valued over \$250,000	Replacement Cost	Limited to \$1,250,000 any one vehicle	\$5,000
<b>BOILER AND MACHINERY</b>	\$100 million		\$250,000 or \$350,000 depending on size of boiler
<b>CRIME / PUBLIC EMPLOYEE DISHONESTY</b> including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000
Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000
<b>CYBER LIABILITY</b>			
Third Party Liability	\$25 million	Annual policy and program aggregate of liability for all insured's combined	\$100,000*
Information Security & Privacy Liability	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Privacy Notification Costs	\$500,000	Annual aggregate – limit increases to \$1 million if carrier's vendors utilized	\$100,000*



Penalties for regulatory defense and penalties	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Including a sub-limit for PCI Fines and Penalties	\$100,000	(Sub-limit)	
Website Media Content Liability	\$2 million	Limit of Liability and annual aggregate	\$100,000*
First Party Computer Security			
Cyber Extortion Loss	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Data Protection Loss and Business Interruption Loss	\$2 million	Limit of Liability and annual aggregate	\$100,000*
Including a sub-limit for Forensic expense	\$100,000		
And Dependent business interruption	\$500,000		
Fraudulent Instruction	\$50,000		
Telecommunications Fraud	\$50,000		
Consequential reputational loss	\$50,000		
*However, if covered loss exists, WSTIP general liability policy also includes a \$50,000 limit of coverage with no deductible.			

### **Note 8 – Contingent Liabilities**

Skagit Transit has recorded in its financial statements all material liabilities, including an estimate for situations that are not yet resolved, but where, based on available information, management believes it is probable that Skagit Transit will have to make payment. In the opinion of management, Skagit Transit's insurance policies and reserves are adequate to pay all known or pending claims.

Based on the above criteria Skagit Transit has no unresolved claims against it as of December 31, 2017.

The agency participates in a number of Federally assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursement by grantor agencies for expenses disallowed under the terms of the grant. Skagit Transit management believes that such disallowance, if any, will be immaterial.

**Note 9 – Commitments & Leases**

**Commitments:**

At December 31, 2017 Skagit Transit had the following in effect:

**2017 Commitments – Contracts over \$50,000**  
**(Excluding Lease Agreements)**

<b>Contractor</b>	<b>Contract No. &amp; Title</b>	<b>Initial Contract Term</b>	<b>Final Term Expiration</b>	<b>YTD (3/27/18) Contract Amount</b>
Americaneagle.com	11-024 / Website Enhancement & Hosting Svcs	3/1/12 – 2/28/17	2019	\$115,000.00
Associated Petroleum Products	15-020-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/15 – 11/30/18	2022	\$352,831.13
Associated Petroleum Products	14-015-F / ULSD Fuel Delivery	2/1/15 – 1/31/20	2022	\$931,984.10
Blue Star Gas	16-012-F / Propane AutoGas Card Lock Services	12/1/16 – 11/30/19	11/30/21	\$22,954.56
Cummins, Inc.	16-001 / Diesel Engine Replacements	5/1/16 – 4/30/21	None	\$50,408.77
Frontline Cleaning Services Corp.	15-015-P / Janitorial Services	11/1/15 – 10/31/18	2020	\$102,077
Garner's Northwest, Inc.	17-011-P / Landscape Maintenance	9/1/17 – 8/31/20	8/31/22	\$11,242
Gillig, LLC	14-019-F / Fixed Route Transit Coaches	7/1/15 – 6/30/20	None	\$2,274,028.76
LNI Custom Manufacturing, Inc.	17-021-F / Bus Shelters	1/1/18 – 12/31/22	None	\$11,700 (Not Pd. yet)
Langabeer & Traxler	13-013 / General Counsel Legal Services	12/1/13 – 11/30/18	2 OYs in 5-YR term increments	\$76,124.22
Mortenson Signs	14-004 / Vehicle Graphics	6/1/14 – 5/31/17	2019	\$33,957.51
Les Schwab (formerly Pat Rimmer)	14-008 / Tires & Related Services	9/1/14 – 8/31/16	2019	\$372,420.29
Seaside Auto Body	14-014 / Auto Body Services	2/1/15 – 1/31/20	2022	\$94,338.71

**Operating Leases:**

As of December 31, 2017, Skagit Transit leases some office equipment. Total 2017 cost for lease expense was \$32,586. The future lease payments are as follows:

<u>Year</u>	<u>Annual Cost</u>
2018	\$28,340
2019	24,565
2020	22,709
2021	22,480
2022	10,359

**Note 10 – Reserve Accounts**

The Skagit Transit Board of Directors by Resolution No. 50 established a reserve account. In subsequent action, the Board separated the account into three distinct categories. All action within these accounts, not including usual interest receipts, is required to be Board approved. As of December 31, 2017, the account balances were:

Capital Reserve:	
Facilities	400,000
Capital Replacement	3,914,918
Undesignated Reserve	2,194,294
Operating Reserve	<u>2,121,803</u>
Total:	\$ 8,631,015

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>Federal Transit Cluster</b>								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2016-006	-	1,695,387	1,695,387	-	1,2,3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-95-X085	-	1,344	1,344	-	1,2,3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-90-X490	-	57,165	57,165	-	1,2,3
<b>Total Federal Transit Cluster:</b>				-	<b>1,753,896</b>	<b>1,753,896</b>	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas	20.509	GCB2626	18,565	-	18,565	-	1,2,3
<b>Transit Services Programs Cluster</b>								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB2111	29,778	-	29,778	-	1,2,3
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	GCB2626	33,591	-	33,591	-	1,2,3
<b>Total Transit Services Programs Cluster:</b>				<b>63,369</b>	-	<b>63,369</b>	-	
<b>Total Federal Awards Expended:</b>				<b>81,934</b>	<b>1,753,896</b>	<b>1,835,830</b>	-	

The accompanying notes are an integral part of this schedule.

**Skagit Transit, Washington**

**Notes to the Schedule of Expenditures of Federal Awards**

**NOTE 1 - BASIS OF ACCOUNTING**

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

**NOTE 2 - PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs, after program income has been removed. Entire program costs, including the Skagit Transit's portion, are more than shown.

**NOTE 3 - INDIRECT COST RATE**

The Skagit Transportation Benefit District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. All amounts expended for both capital and operating projects are direct costs only.

**NOTE 4 - STATE AND LOCAL REPORTING - 2016 NON ACCRUED REVENUES**

State Appropriations grant GCB2275 2017 revenue reports includes revenue received in 2017 for 2016 expenditures in the amount of \$33,470.  
State Special Needs Grant GCB2111 2017 revenue reports includes revenue received in 2017 for 2016 expenditures in the amount of \$1,016.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER  
 UNIFORM GUIDANCE**

**Skagit Transit  
 Skagit County**

**January 1, 2017 through December 31, 2017**

This schedule presents the corrective action planned by the Transit for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2017-001	<b>Finding caption:</b> The Transit did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements
<b>Name, address, and telephone of Transit’s contact person:</b> Motoko Pleasant, Manager of Finance and Administration 600 County Shop Lane Burlington, WA 98233 (360)757-8801	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The deficiency for which Skagit Transit is receiving this finding is from a procurement award issued in November 2016.</i> <i>Skagit Transit was reviewed by the Federal Transit Administration in March 2017 and was found deficient on the same procurement in documentation of responsibility determination prior to an awarded contract.</i> <i>FTA issued a corrective action plan, Skagit Transit concurred and complied with the plan and completed all requirements to correct the deficiency in July 2017. FTA issued a completion and close out notification for the finding in October 2017.</i> <i>The corrective action required a revised process to conduct responsibility determinations prior to award of a contract as required by FTA C. 4220.1F and to submit to the FTA regional office, documentation that responsibility determinations were made before procurement award. Skagit Transit submitted to FTA the revised procedures, Procedure 180.26 approved July 6, 2017 and documentation showing responsibility determination prior to award of the next federally funded procurement.</i>	

*The revised procedures have been incorporated into contract checklists and have been performed since the finding in March 2017.*

*Documentation of the FTA finding, corrective action plan, agency response, corrective actions and FTA close-out notification are available for review.*

**Anticipated date to complete the corrective action:** July 17, 2017

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
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