



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, 2020 through December 31, 2020

Published December 6, 2021

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

December 6, 2021

Board of Directors
Skagit Transit
Burlington, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on 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 January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of 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
20.507	Federal Transit Cluster – COVID-19 Federal Transit Formula Grants
20.526	Federal Transit Cluster – Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2020-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Skagit Transit January 1, 2020 through December 31, 2020

2020-001 The Transit lacked adequate internal controls for ensuring compliance with federal suspension and debarment requirements.

CFDA Number and Title:	20.507 Federal Transit Cluster – Formula Grants
Federal Grantor Name:	Federal Transit Administration
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	WA-2020-113
Questioned Cost Amount:	\$0

Background

The Formula Grants for Rural Transit Areas and Tribal Transit Programs provides financial assistance to rural communities for initiating, improving or continuing public transportation service. Rural communities can use grant funding for operating, planning and administrative expenses, or for acquiring, constructing and improving facilities and equipment. During fiscal year 2020, the Transit spent \$7,061,074 in Federal Transit Formula Grant program funds. Federal regulations require recipients to establish and follow internal controls that ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Federal requirements prohibit grant recipients from contracting with parties suspended or debarred from doing business with the federal government. Whenever the Transit contracts for goods or services that it expects to equal or exceed \$25,000, paid all or in part with federal funds, it must verify the contractor is not suspended or debarred. The Transit can verify a contractor's status by obtaining written certification from the contractor, or it can insert a clause into the contract stating the contractor is not suspended or debarred. Alternatively, the Transit can check the U.S. General Services Administration's Excluded Parties List System (EPLS). The Transit must meet one of these requirements before awarding the

contract, and it must keep documentation demonstrating compliance with this federal requirement.

Description of Condition

In 2020, the Transit entered into a contract for ridership data software and associated support services. The Transit paid \$60,910 to the contractor in 2020, partially funded with federal dollars. However, the Transit did not verify the contractor was not suspended or debarred before awarding the contract.

We consider this deficiency to be a material weakness, which led to material noncompliance.

The issue was not reported as a finding in the prior audit.

Cause of Condition

The Transit has an established checklist on the back of purchase orders, which includes the requirement to check suspension and debarment. A new employee hired late in 2020 was responsible for the verification process. The Transit trained the employee, however, the training was less organized than usual because the Transit's time and resources were focused on responding to the COVID-19 pandemic. As such, the employee missed completing the suspension and debarment portion of the checklist.

Effect of Condition

The Transit did not obtain written certification, insert a clause into the contract, or check the EPLS to verify its contractor was not suspended or debarred before contracting.

Without adequate internal controls, the Transit cannot ensure the contractors paid with federal funds are eligible to participate in federal programs. Any program funds the Transit used to pay contractors that have been suspended or debarred would be unallowable, and the federal grantor could potentially recover them.

We subsequently verified the contractor was not suspended or debarred. Therefore, we are not questioning costs for these payments.

Recommendation

We recommend the Transit follow its own policies and procedures to ensure all contractors it expects to pay \$25,000 or more, all or in part with federal funds, are not suspended or debarred.

We also recommend that the Transit adequately train new employees on suspension and debarment requirements.

Transit's Response

We agree with the Audit Finding. Responding and adapting to different situations that occurred during the height of the Pandemic resulted in an important procedure being missed.

We have since evaluated what went wrong and will ensure the contract checklist will be fully completed for all federal contracts to prevent this from happening in the future.

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

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 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

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

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

INDEPENDENT AUDITOR'S REPORT

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

Skagit Transit January 1, 2020 through December 31, 2020

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 audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Skagit Transit, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated November 29, 2021.

As discussed in Note 10 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Transit is unknown. Management's plans in response to this matter are also described in Note 10.

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

November 29, 2021

INDEPENDENT AUDITOR'S REPORT

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

Skagit Transit January 1, 2020 through December 31, 2020

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Skagit Transit, 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, 2020. 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, 2020.

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 2020-001. 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 2020-001 that we consider 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.



Pat McCarthy, State Auditor

Olympia, WA

November 29, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Skagit Transit **January 1, 2020 through December 31, 2020**

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Skagit Transit, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 17.

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 Skagit Transit, as of December 31, 2020, 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.

Matters of Emphasis

As discussed in Note 10 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Transit is unknown. Management's plans in response to this matter are also described in Note 10. Our opinion is not modified with respect to this matter.

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 as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2021 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

November 29, 2021

**Skagit Transit
January 1, 2020 through December 31, 2020**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

Skagit Transit

Management Discussion & Analysis

Overview

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 using accounting methods similar to those used by private sector companies.

The Statement of Net Position presents information on all 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 Transit is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position present information showing how the Transit'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 Transit, and earned but unused vacation leave).

This MD&A should be viewed along with the attached Financial Statements.

Comparative Analysis

Summary Statement of Net Position

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets	\$19,177,334	\$14,296,698
Capital Assets	<u>31,756,288</u>	<u>27,642,184</u>
Total Assets	<u>50,933,622</u>	<u>41,938,881</u>
Liabilities		
Current Liabilities	699,450	710,408
Noncurrent Liabilities	<u>342,389</u>	<u>282,029</u>
Total Liabilities	<u>1,041,839</u>	<u>992,437</u>
Net Position		
Investment in Capital Assets	31,756,288	27,642,184
Unrestricted	<u>18,135,495</u>	<u>13,304,261</u>
Total Net Position	<u>\$49,891,783</u>	<u>\$40,946,444</u>

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

	2020	2019
Operating Revenues:		
Passenger Fares	\$553,970	\$935,050
Non-Operating Revenues		
Sales Tax	13,053,082	13,092,314
Interest	41,398	169,765
Grants	7,212,612	2,217,135
Gain (loss) on Disposition of Assets	101,030	(388,056)
Other Non-operating Revenues	160,610	610,971
Total Revenues	21,122,701	16,637,179
Operating Expenses		
Operations	8,283,518	8,997,813
Maintenance	2,625,743	2,551,832
Administration	3,185,296	3,180,979
Depreciation/Amortization	2,546,190	2,283,833
Total Expenses	16,640,748	17,014,457
Net Income (loss) Before Contributions	4,481,953	(377,278)
Capital Contributions	4,463,386	707,022
Increase (decrease) in net position	8,945,339	329,744
Prior Period Adjustment		219,861
Net Position - Beginning of period	40,946,444	40,396,839
Net Position - End of period	\$49,891,783	\$40,946,444

Financial Highlights

- Total Net Position as of December 31, 2020 was \$49,891,783. This is how much Assets exceeded Liabilities. Of this total, \$18,135,495 may be used to meet ongoing obligations to provide services to the public, as well as the purchase or construction of capital assets.
- Total Net Position increased by \$8,945,339 from the prior year
- Sales tax revenues decreased by \$39,232 or .3%
- Passenger Fares decreased by \$381,080 or 40.76% as direct result of the decrease in ridership due to the COVID 19 pandemic.
- Capital Assets increased by \$4,114,104 after depreciation. Most of this increase was due to the purchase of eighteen Buses. Nine (9) for the fixed routes, and another nine (9) for Paratransit.

- The Transit received a total of \$11,675,998 in federal, state, and local grants that was used for both operating and capital expenses.
- Skagit Transit remained free of long-term debt during the period.

Financial Analysis

Skagit Transit's overall financial condition greatly improved from the prior year due to the additional federal grants received from the CARES Act. Revenues from sales taxes remained consistent in 2020. The anticipated significant decline in sales taxes as a result of the pandemic did not happen. Skagit Transit remained successful in pursuing grants in 2020, and will continue to pursue available state, federal, and local grants to supplement its operations and purchase future needed capital.

Operating Revenues

Operating revenues from fares decreased by \$381,080 during 2020. Fixed route service had a revenue decrease of \$250,719 or 56.7% and Vanpool had a decrease of \$146,840, or 31%. Paratransit service had an increase of \$16,480, or 175% as Skagit Transit began charging paratransit riders in August 2020. One-way fare for paratransit rider is \$2.00. Fares for Fixed routes are structured so that commuter routes are two times the local fixed route fare. Fixed route ridership decreased by 57.8%, Commuter bus ridership decreased by 58.4%, and Vanpool ridership decreased by 45.1%. Paratransit ridership decreased by 48.8%. For all modes, there were 398,987 unlinked passenger trips in 2020 compare to 896,230 in 2019.

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

ADA Paratransit service is scheduled through a dispatch center.

Skagit Transit's Vanpool service provides a shared ride to work for commuters. COVID has greatly reduced participation. Changes at the Boeing facility in Everett has greatly impacted the Vanpool program as most of our Vanpool groups are Boeing employees. The number of Vanpool groups decreased from 47 at the end of 2019 to 31 at the end of 2020.

In February 2020, Skagit Transit started offering on-line reloadable transit passes with TouchPass. Riders can make a purchase and reload transit passes on our website and board the bus by showing their smart phone TouchPass QR code.

Non-Operating Revenues

Revenues from the transit portion of the sales tax decreased by \$39,232 or 0.3% over 2019. Skagit Transit receives 4/10 of 1% of Sales Taxes collected within the Public Transportation Benefit Area (PTBA) from a voter approved proposition in 2008.

Interest income was \$41,398 in 2020. It decreased in 2020 by 76% compared to the \$169,765 received in 2019.

Grant revenues were derived from thirteen (13) federal, state and local grants for use in capital and operating expenditures.

Operating Expenses

Operating expenses decreased by 2.2% in 2020.

Operating Expenses by Department

Operations – \$8,283,518 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$2,625,743 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$3,185,296 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation/Amortization - \$2,546,190 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

Total Operating Expenses were \$16,640,748.

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.

Skagit County's population was estimated to be 130,450 in 2020. The county's population expanded 11.6 % from 2010 to 2020. This was lower than the statewide population growth rate of 13.9 % over the same time period.

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 5.9% in 2017 over 2016, 10.9% in 2018 over 2017, 0.29% in 2019 over 2018 but slightly decreased by 0.3% in 2020 over 2019.

Skagit County's unemployment rate in Dec 2020 was 7.6% compared to 6.3% for the state according to U.S. Bureau of Labor Statistics.

Grant applications are submitted for identified agency needs where there is a funding shortage. Federal Transit Administration (FTA) or US Department of Transportation (USDOT) Grant

capital funding is actively being sought for the phase II construction of the new Maintenance, Operations and Administrations Building (MOA2).

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

Request for Information

This financial report is designed to provide a general overview of the Transit'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, 2020

ASSETS	
Current Assets:	
Cash	\$ 4,358,333
Investments	10,925,381
Taxes receivables	2,376,809
Accounts receivable (net of allowance for uncollectibles)	19,422
Due from other governments	1,022,841
Inventory	474,548
Total Current Assets	19,177,334
Noncurrent Assets:	
Capital assets not being Depreciated	
Land	5,935,314
Right of way	850,000
Construction in Progress	2,088,136
Capital assets being Depreciated/Amortized	
Buildings	8,905,849
Improvements other than buildings	6,312,563
Vehicles	21,038,415
Intangible Assets	1,056,529
Equipment & Furnishings	2,065,160
<i>Less: Accumulated Depreciation/Amortization</i>	
Buildings	(3,617,148)
Improvements other than buildings	(1,860,730)
Vehicles	(8,640,170)
Equipment & Furnishings	(1,483,573)
Intangible Assets	(894,056)
Total Net Capital Assets	31,756,288
Total Noncurrent Assets	31,756,288
Total Assets	50,933,622
LIABILITIES	
Current Liabilities:	
Accounts payable	75,697
Compensated Absences	62,888
Wages & Leave Payable	345,577
Benefit payable	8,051
Taxes and other payables	207,236
Total Current Liabilities	699,450
Noncurrent liabilities:	
Compensated Absences	342,389
Total Noncurrent Liabilities	342,389
Total Liabilities	1,041,839
NET POSITION	
Net Position:	
Net Investment in Capital Assets	31,756,288
Unrestricted	18,135,495
Total Net Position	\$ 49,891,783

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, 2020

Operating Revenues:	
Passenger Fares	\$553,970
Total Operating Revenues	_____
Operating Expenses:	
Operations	8,283,518
Maintenance	2,625,743
Administration	3,185,296
Depreciation/Amortization	2,546,190
Total Operating Expenses	_____
Operating Income (Loss)	(16,086,778)
Non-Operating Revenues (Expenses):	
Sales Tax	13,053,082
Interest	41,398
Grants	7,212,612
Gain (loss) on Disposition of Assets	101,030
Other Non-operating Revenues (Expenses)	160,610
Total Non-Operating Revenues (Expenses)	_____
Income(loss) before contributions, gains, losses, other revenues and expenses	4,481,953
Capital Contributions	4,463,386
Increase (decrease) in net position	8,945,339
Net Position - Beginning of period	\$40,946,444
Net Position - End of period	\$49,891,783

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, 2020

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 570,053
Cash Payments to Suppliers for Good & Services	(2,751,744)
Cash Payments to Employees for Services	(11,382,743)
Other Cash Receipts	162,429
Net Cash Provided (Used) by Operating Activities	<u>(13,402,005)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	12,939,698
Federal, State and Local Assistance Received	6,405,714
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>19,345,412</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(6,660,295)
Capital Grants and Contributions	4,476,652
Proceeds from Sale of Equipment	100,814
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,082,829)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(41,398)
Proceeds from Investment Transfer to Savings	(4,615,093)
Interest on Investments	41,398
Net Cash Provided (Used) by Investing Activities	<u>(4,615,093)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(754,515)</u>
Cash and Cash Equivalents, Beginning	5,112,847
Cash and Cash Equivalents, Ending	<u><u>\$ 4,358,333</u></u>

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

Skagit Transit
Reconciliation Operating Loss / Operating Activities
For Fiscal Year Ended Deceember 31, 2020

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (16,086,778)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation/Amortization on Capital Assets	2,546,190
Nonoperating Expenses/Misc Nonoperating Revenue	162,430
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	16,083
Decrease (Increase) in Inventories	(89,332)
Increase (Decrease) in Accounts Payable	3,399
Increase (Decrease) in Wages & Benefits Payable	46,003
Total Adjustments	2,684,773
Net Cash Provided (Used) by Operating Activities	\$ (13,402,005)

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

SKAGIT TRANSIT
Notes to Financial Statements
For the Year Ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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 Agency is a special purpose government and provides public transportation to the general public within Skagit County and is supported primarily through local sales tax. The agency is governed by an elected nine member board. 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. Measurement Focus, Basis of Accounting

Skagit Transit's statements 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 the statement of net position (or balance sheet). The Statement of net position is segregated into net investment in capital assets 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 non-operating items. 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 the cost of sales and services, administrative expenses, and depreciation on capital assets, for example. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, and Net Position

1) Cash and Cash Equivalents

It is Skagit Transit's policy to invest all temporary cash surpluses. At December 31, 2020, the Agency was holding \$4,358,333 in short-term residual investments of surplus cash. This amount is classified in the financial statements as Cash and Cash Equivalents.

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.

2) Investments See Note 2 – Deposits and Investments

3) Receivables

Taxes receivable at December 31, 2020 consist of \$2,374,966 in sales tax receivable for November and December 2020. and sales tax interest receivable of \$1,843.

Total Accounts Receivable at December 31, 2020 was \$19,422, which consists of Vanpool payments, fare purchases, and customer leases/rentals.

4) Amounts Due From Other Governments

Amounts due from other governments include 4th quarter 2020 Fuel Tax refund from the Washington State Department of Licensing for \$1,620. The Fuel Tax refund is for taxes paid on fuel purchases from Skagit Transit's gas and diesel vendor, which is then refunded by the DOL after the Agency applies quarterly.

Grants receivable at December 31, 2020 consist of \$926,399 due from the Federal Transportation Administration and \$94,822 due from the Washington State Department of Transportation.

5) Inventories

Inventory consists of consumable repair parts and supplies used in the maintenance and repair of vehicles and facilities. 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, 2020, Skagit Transit carried an inventory valued at \$474,548.

6) Restricted Assets and Liabilities,

Skagit Transit has no restricted assets and liabilities.

7) Capital Assets – See Note 3 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 and Amortization is recorded on all depreciable capital assets on a straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
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

8) 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 \$62,888 as of December 31, 2020 and noncurrent liability was \$342,389.

Note 2 – Deposits & Investments

A. Deposits

Cash on hand at December 31, 2020 was \$4,358,333. The Bank Balance was \$4,606,410.

Skagit Transit has established direct banking services with Banner 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

As of December 31, 2020, 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	\$10,925,381	\$0	\$10,925,381
Total		\$10,925,381	\$0	\$10,925,381

Investments in Local Government Investment Pool (LGIP)

Skagit Transit is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Investments are subject to the following risks:

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.

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.

Note 3 – Capital Assets & Related Depreciation/Amortization

Capital Assets activity for the year ended December 31, 2020 was as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
Capital Assets not Being Depreciated				
Land	\$5,935,314	\$ -	\$ -	\$5,935,314
Right of Way	850,000	-	-	\$850,000
Construction/Work in Progress	1,855,902	\$249,501	17,267	2,088,136
Total Assets not Being Depreciated	<u>\$8,641,216</u>	<u>\$249,501</u>	<u>\$17,267</u>	<u>\$8,873,450</u>
Capital Assets Being Depreciated/Amortized				
Buildings	\$8,899,771	\$6,078	-	\$8,905,849
Improvements other than buildings	6,262,567	49,996	-	\$6,312,563
Vehicles	17,915,188	6,448,171	3,324,944	\$21,038,415
Equipment & Furnishings	2,025,914	43,708	4,462	\$2,065,160
Intangible Assets	1,056,529	-	-	1,056,529
Total Assets Being Depreciated/Amortized	<u>\$36,159,969</u>	<u>\$6,547,953</u>	<u>3,329,406</u>	<u>\$39,378,516</u>
Less Depreciation/Amortization for:				
Buildings	\$3,249,966	\$367,182	-	\$3,617,148
Improvements other than buildings	1,689,392.0	171,338.0	-	1,860,730.0
Vehicles	10,022,634.0	1,929,966.0	3,312,431	8,640,169.0
Equipment & Furnishings	1,347,118.0	140,918.0	4,462	1,483,574.0
Intangible Assets	849,891.0	44,165.0	-	894,056.0
Total Assets Being Depreciated/Amortized	<u>\$17,159,001</u>	<u>\$2,653,569</u>	<u>\$3,316,893</u>	<u>\$16,495,677</u>
Total Capital Assets, Being Depreciated/Amortized, Net	\$19,000,968			\$22,882,838
Total Net Capital Assets	<u>\$27,642,184</u>			<u>\$31,756,288</u>

Note 4 – Defined Contribution Plan

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

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, 2020, there were 138 current employees and 106 former employees participating in the plan.

Plan balances and contributions for FY 2020 and FY 2019 were as follows:

	<u>FY 2020</u>	<u>FY 2019</u>
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	7,948,069	6,828,014
Employee 401(a) Contributions	450,736	402,016
SKAGIT TRANSIT 401(a) Contributions	397,332	402,016
Loan Issuances	(139,040)	(142,995)
Loan payments	128,493	124,400
Distributions	(488,357)	(572,301)
Adjustments	663,169	828,824
Earnings	77,885	78,096

Total Ending Fund Balances

\$9,038,287

\$7,948,069

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 5 – Health and Welfare

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, 2020, 262 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.

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

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, 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 Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account.

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

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

A. Dental and Vision insurance

Skagit Transit pays 100% of the Premium for Dental and Vision insurance. Dental coverage is through Delta Dental of Washington. Vision insurance is through VSP.

B. Life Insurance

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

C. 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 6 – Risk Management

Skagit Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 26-member self-insurance program located in Olympia, Washington. WSTIP supplies Skagit Transit auto liability, general liability, public officials liability coverage, all risk property coverage,

auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2020, 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 and at the end of the fiscal year. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

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

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

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 2020:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$25 million	Per occurrence	\$0
Personal Injury and Advertising Injury Contractual liability	\$25 million	Per offense	\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0

Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0 ¹
PUBLIC OFFICIALS LIABILITY	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 1 – Per Occurrence and Annual Per Member Aggregate	\$250,000	Per occurrence	\$25,000
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	\$250,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$250,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit
AUTO PHYSICAL DAMAGE Auto Physical Damage (below \$250,000 in value)	Fair market value		\$5,000
Auto Physical Damage for all vehicles with a model year of 2010 or later and valued over \$250,000	Replacement Cost	Limited to \$1.5 million any one vehicle	\$5,000
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$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

¹ Each member selects the modes which uninsured motorist coverage is applied to. To review your selection of UIM, please refer to Exhibit attached.

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

CYBER LIABILITY INSURANCE		Coverage	Deductible
Breach Response Costs	\$500,000	Limit increases to \$1 million if carrier's nominated service providers are utilized	\$5,000
FIRST PARTY LOSS			
Business Interruption <i>Resulting from Security Breach</i> <i>Resulting from System Failure</i>	\$2 million \$500,000	Limit of Liability Limit of Liability	
Dependent Business Loss <i>Resulting from Security Breach</i> <i>Resulting from System Failure</i>	\$750,000 \$100,000	Limit of Liability Limit of Liability	
Cyber Extortion Loss	\$2 million	Limit of Liability	
Data Recovery Costs	\$2 million	Limit of Liability	
LIABILITY			
Data & Network Liability	\$2 million	Limit of Liability	
Regulatory defense and penalties	\$2 million	Limit of Liability	
Payment Card Liabilities & Costs	\$2 million	Limit of Liability	
Media Liability	\$2 million	Limit of Liability	
eCRIME			
Fraudulent Instruction	\$75,000	Limit of Liability	
Funds Transfer Fraud	\$75,000	Limit of Liability	
Telephone Fraud	\$75,000	Limit of Liability	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS			
Reputation Loss	\$50,000	Limit of Liability	
Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$75,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	
Cryptojacking	\$25,000	Limit of Liability	

Extra limits – WSTIP members were given the choice to purchase optional extra per member limits that are in addition to (or optional could replace if basic limits are exhausted). Choices are listed below:

Ben Franklin Transit	\$3 million (in excess of \$2 million)
Clallam Transit	\$3 million (in excess of \$2 million)
Columbia County Public Transportation	\$3 million (in excess of \$2 million)
C-Tran	\$2 million (in excess of \$2 million)
Grant Transit Authority	\$2 million (in excess of \$2 million)
Grays Harbor Transit	\$3 million (in excess of \$2 million)
Intercity Transit	\$2 million (in excess of \$2 million)
Kitsap Transit	\$3 million (in excess of \$2 million)
Link Transit	\$2 million (in excess of \$2 million)
Mason Transit Authority	\$2 million (in excess of \$2 million)
Pacific Transit	\$3 million (in excess of \$2 million)
Pierce Transit	\$3 million (in excess of \$2 million)
RiverCities Transit	\$3 million (in excess of \$2 million)
Skagit Transit	\$3 million (in excess of \$2 million)
Spokane Transit Authority	\$3 million (in excess of \$2 million)
Valley Transit	\$3 million (in excess of \$2 million)
Whatcom Transportation Authority	\$2 million (in excess of \$2 million)

Extra Cyber Limits

In addition to the coverage detailed in the basic Cyber Liability insurance description, Skagit Transit has chosen to purchase additional limits. This limit will be in excess to any limit of the basic cyber liability policy and increase the availability of insurance and/or drop down if the basic policy limits, which are shared with all policy holders, are exhausted. The extra limit is not shared with any other policy holder or WSTIP member. Skagit Transit elected to purchase \$3 million.

Underground Storage Tank – Pollution Liability Insurance Policy

The following members should include this description of the Underground Storage Tank - Pollution Liability Insurance Policy: Clallam, Community, Grays Harbor, Intercity, Kitsap, Link, Pacific, Valley. Limits and deductibles are the same for all Members.

Underground Storage Tank – Pollution Liability Insurance Policy

Skagit Transit purchases an Underground Storage Tank – Pollution Liability insurance policy. The policy term is October 1 and renews annually. The carrier for the 2019-2020 policy term was Great American. The carrier for the 2020-2021 policy term is Great American. Insurance provisions on each policy was essentially the same. The insuring agreement has coverage parts for bodily injury and property damage liability, government mandated cleanup costs liability, and defense and claims handling expenses. The limit of coverage is \$1 million per environmental incident with a \$1 million aggregate and a \$500,000 limit on defense per environmental incident. Skagit Transit has a \$25,000 deductible per environmental incident. Tanks must be listed to be covered.

Covered Locations Pollution Liability Insurance Policy

Skagit Transit purchases a Covered Locations Pollution Liability insurance policy. The policy term is from April 4, 2018 to April 4, 2021. The carrier is Beazley Eclipse. The insuring agreement has coverage parts for covered location pollution liability coverage – new pollution conditions, covered location pollution liability coverage – existing pollution conditions, transportation pollution liability, and non-owned disposal site pollution liability. The policy covers cleanup costs, damages, and claims expenses. The limit of coverage is \$5 million each pollution condition – includes claims expenses with a \$5 million aggregate including claims expenses. Skagit Transit has a \$100,000 deductible per pollution condition. Locations must be listed to be covered.

Note 7 – 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, 2020.

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 8 – Commitments & Leases

Commitments:

At December 31, 2020 Skagit Transit had the following in effect:

2021 Commitments – Contracts over \$50,000 **(Excluding Lease Agreements)**

Contractor	Contract No. & Title	Initial Contract Term	Final Term Expiration	Contract Amount
Delerok	19-006 / Mobile Ticketing	8/1/19 – 6/30/22	2022	\$ 223,936

Associated Petroleum Products	20-004-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/20 – 11/30/23	2023 1-year option	\$ 482,307
Associated Petroleum Products	14-015-F / ULSD Fuel Delivery	2/1/15 – 1/31/20	2022	\$1,916,046
Cummins, Inc.	20-005 / Diesel Engine Replacements	5/1/20 – 1/31/21	None	\$50,408
5 Star Services Inc.	20-003-P / Janitorial Services	11/1/20– 10/31/23	10/31/2023 Option Yr 2	\$234,000
Duo-Gard Industries	19-0001-F / Bus Shelters	2/1/19 – 1/31/22	2022	\$243,228
Langabeer & Traxler	13-013 / General Counsel Legal Services	12/1/18 – 11/30/23	2023	\$95,124
Mortenson Signs	19-005 / Vehicle Graphics	8/1/19 – 7/31/22	2022	\$125,000
Les Schwab	19-003-F / Tires & Related Services	9/1/19 – 8/31/22	2022	\$250,000
Seaside Auto Body	14-014 / Auto Body Services	2/1/15 – 1/31/22	2022	\$97,602
Ferrell Gas (DES) State of WA	Autogas Propane Services	2/1/19 – 4/30/27	2027	State Contract
KBA	19-013-F / Construction Management	1/15/20	2020 in negotiations	\$241,000

Operating Leases:

As of December 31, 2020, Skagit Transit leases some office equipment and other equipment under non-cancelable operating leases. Total 2020 cost for such leases was \$31,930. The future minimum lease payments are as follows:

<u>Year</u>	<u>Annual Cost</u>
2021	25,019
2022	12,898
2023	4,931
2024	7,667
2025	7,872

Note 9 – Reserve Accounts

The Skagit Transit Board of Directors established a reserve account by Resolution No. 50. 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, 2020, the account balances were:

Capital Reserve:	
Facilities	400,000
Capital Replacement	4,006,803
Undesignated Reserve	1,503,064
Operating Reserve	<u>5,015,515</u>
Total:	\$10,925,381

Note 10 – COVID -19 Pandemic

The pandemic emerged during the early part of fiscal year 2020 and was expected to have a material effect on the financial position of Skagit Transit for fiscal year 2020. Skagit Transit took certain actions to respond to this situation including the suspension of fares, implementation of social distancing guidelines and reducing services consistent with the decreased ridership. Skagit Transit expected a significant decrease in its sales tax collections starting in May 2020, which was expected to continue throughout the year. This did not happen. The addition of Federal Stimulus funds from the CARES ACT plus the decrease in operating costs from the reduction of Bus services resulted in a material increase in the overall financial position. Skagit Transit will utilize the federal stimulus funds to supplement its operations and pay for future capital projects.

**Skagit County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Cluster								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	WA-2020-067	-	105,646	105,646	-	1,2,4
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2020-067	-	774,562	774,562	-	1,2,4
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	WA-2020-030	-	5,882,521	5,882,521	-	1,2,4
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2019-019	-	221,611	221,611	-	1,2,4
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2020-113	-	52,687	52,687	-	1,2,4
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2019-008	-	24,047	24,047	-	1,2,4
			Total CFDA 20.507:	-	7,061,074	7,061,074	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Dept of Trans)	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	PTD0109A&B	1,583,954	-	1,583,954	-	1,2,4

The accompanying notes are an integral part of this schedule.

**Skagit County Public Transportation Benefit Area
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	WA-2019-019	-	40,736	40,736	-	1,2,4
			Total CFDA 20.526:	1,583,954	40,736	1,624,690	-	
		Total Federal Transit Cluster:		1,583,954	7,101,810	8,685,764	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0058 A	65,534	-	65,534	-	1,2,4
		Total Federal Awards Expended:		1,649,488	7,101,810	8,751,298	-	

The accompanying notes are an integral part of this schedule.

Skagit Transit

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2020

Note 1 – BASIS OF ACCOUNTING

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

Note 2 – 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 3 – NONCASH AWARDS

The amount of commodities reported on the Schedule is the value of commodities received by the district during current year and priced as prescribed by the donating agency, Federal Transit Administration. The estimated value of donated commodities from the Federal Transit Administration is \$7,100.

Note 4 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the districts portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



SKAGIT TRANSIT

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Skagit Transit
January 1, 2020 through December 31, 2020

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).

Finding ref number: 2020-001	Finding caption: The Transit lacked adequate internal controls for ensuring compliance with federal suspension and debarment requirements.
Name, address, and telephone of Transit contact person: Arden Flores Manager of Finance & Administration 600 County Shop Lane Burlington, WA 98233 (360)757-8801	
Corrective action the auditee plans to take in response to the finding: <i>As noted in the finding response, circumstances brought upon by the pandemic resulted in a procedure being missed. We have raised awareness regarding the importance of this procedure and will implement a review process to ensure the checklist has been completed prior to finalizing any federal contract.</i>	
Anticipated date to complete the corrective action: February 1, 2022	

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