



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, 2021 through December 31, 2021

Published October 31, 2022

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

October 31, 2022

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

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Skagit Transit January 1, 2021 through December 31, 2021

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 no deficiencies that we consider to be material weaknesses.

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>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 did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Skagit Transit January 1, 2021 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2020 – December 31, 2020	Report Reference No.: 1029457	Finding Ref. No.: 2020-001	CFDA Number(s): 20.507 Federal Transit Cluster – Formula Grants
Federal Program Name and Granting Agency: Federal Transit Administration		Pass-Through Agency Name: Washington State Department of Transportation	
Finding Caption: The Transit lacked adequate internal controls for ensuring compliance with federal suspension and debarment requirements.			
Background: 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. 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.			
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			

Corrective Action Taken:

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. As a result, ALL Grants, not just federal grants, go through our Contract Compliance Checklist which includes a section (check box) for the Debarment & Suspension Clause for contracts over \$25,000. Our Finance Manager, Contracts & Procurement Specialist, and Grants Coordinator are all aware of the importance of this procedure and will ensure this does not occur again.

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, 2021 through December 31, 2021

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 Skagit Transit, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated October 25, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or

significant deficiencies. 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 or significant deficiencies may exist that were not identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

Olympia, WA

October 25, 2022

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, 2021 through December 31, 2021

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Skagit Transit, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Transit's major federal programs for the year ended December 31, 2021. The Transit's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the 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, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Transit and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the Transit's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Transit's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Transit's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control over compliance. Accordingly, no such opinion is expressed; and

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

October 25, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Skagit Transit January 1, 2021 through December 31, 2021

Board of Directors
Skagit Transit
Burlington, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Skagit Transit, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Skagit Transit, as of December 31, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transit's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our 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 supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

October 25, 2022

**Skagit Transit
January 1, 2021 through December 31, 2021**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Revenues, Expenses and Changes in Net Position – 2021

Statement of Cash Flows – 2021

Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2021

Notes to the Schedule of Expenditures of Federal Awards – 2021

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 Skagit Transit is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position present information showing how 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 Skagit 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>2021</u>	<u>2020</u>
Assets		
Current Assets	\$25,697,749	\$19,177,334
Capital Assets	<u>31,738,181</u>	<u>31,756,288</u>
Total Assets	57,435,930	50,933,622
Liabilities		
Current Liabilities	1,079,043	699,450
Noncurrent Liabilities	<u>390,107</u>	<u>342,389</u>
Total Liabilities	1,469,150	1,041,839
Net Position		
Investment in Capital Assets	31,738,181	31,756,288
Unrestricted	<u>24,228,599</u>	<u>18,135,495</u>
Total Net Position	<u>\$55,966,780</u>	<u>\$49,891,783</u>

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

	2021	2020
Operating Revenues:		
Passenger Fares	\$591,780	\$553,970
Non-Operating Revenues		
Sales Tax	15,271,069	13,053,082
Interest	11,777	41,398
Grants	6,317,407	7,212,612
Gain (loss) on Disposition of Assets	221,160	101,030
Other Non-operating Revenues	121,698	160,610
Total Revenues	22,534,891	21,122,701
Operating Expenses		
Operations	9,210,640	8,283,518
Maintenance	2,921,732	2,625,743
Administration	3,148,675	3,185,296
Depreciation/Amortization	2,702,745	2,546,190
Total Expenses	17,983,792	16,640,748
Net Income (loss) Before Contributions	4,551,098	4,481,953
Capital Contributions	1,523,899	4,463,386
Increase (decrease) in net position	6,074,997	8,945,339
Net Position - Beginning of period	49,891,783	40,946,444
Net Position - End of period	\$55,966,780	\$49,891,783

Financial Highlights

- Total Net Position as of December 31, 2021 was \$55,966,780. This is how much Assets exceeded Liabilities. Of this total, \$24,228,599 is classified as Unrestricted, meaning this amount 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 \$6,074,997 or 12.1% from the prior year
- Sales tax revenues increased by \$2,217,987 or 17%
- Passenger Fare revenues increased by \$37,810.
- Capital Assets decreased by \$18,107 after depreciation.
- Skagit Transit received a total of \$7,841,306 in federal, state, and local grants that were 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 continued to improve from the prior year due to the additional federal grants received resulting from the federal stimulus packages. This was further supplemented by a relatively significant increase in Sales Tax revenues as compared with prior year increases. Skagit Transit remained consistent in pursuing other grants in 2021, 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 increased by \$37,810 during 2021. Fixed route service had a revenue increase of \$29,716 or 15% and Vanpool had a decrease of \$36,902, or 13%. Paratransit service had an increase of \$44,995 or 173%. Skagit Transit began charging Paratransit riders a \$2.00 one way fare in 2020. Fares for Fixed routes are structured so that commuter routes are two times the local fixed route fare. Skagit Transit reduced the frequency of its routes during the Pandemic. As of July 2021, Skagit Transit has resumed normal operations and all its fixed and commuter routes are back to normal schedules.

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 vanpool 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 29 at the end of 2021.

In February 2020, Skagit Transit started offering on-line reloadable transit passes with the TouchPass System. Riders can make a purchase and reload transit passes on our website and board the bus by showing their smart phone TouchPass QR code. In 2021, TouchPass became known as UMO.

Non-Operating Revenues

Revenues from the transit portion of the sales tax increased by \$2,217,987 over the prior year. 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 \$11,777 in 2021 as compared to \$41,398 in 2020.

Grant revenues were derived from several federal, state and local grants for use in capital and operating expenditures.

Operating Expenses

Operating expenses increased by 8.1% in 2021.

Operating Expenses by Department

Operations – \$9,210,640 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$2,921,732 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$3,148,675 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation/Amortization - \$2,702,745 - This is the estimated pro-ration of the cost of capital assets over the useful life of the asset.

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 130,696 in 2021 according to the US Census Bureau. The county's population expanded 11.8 % from 2010 to 2021. This was lower than the statewide population growth rate of 15.1 % 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. Sales Tax revenues showed a decrease during the first few months of COVID but started to recover during the second half of 2020. Fiscal year 2021 Sales Tax collections were \$2.2 million higher compared to 2020.

Skagit County's unemployment rate in Dec 2021 was 4.8% compared to 4.5% 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 III 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, 2021

ASSETS

Current Assets:	
Cash	\$ 4,329,513
Investments	16,937,156
Taxes receivables	2,598,126
Accounts receivable (net of allowance for uncollectibles)	25,967
Due from other governments	1,303,948
Inventory	499,469
Prepays	3,569
Total Current Assets	25,697,749
Noncurrent Assets:	
Capital assets not being Depreciated	
Land	5,935,314
Right of way	850,000
Construction in Progress	4,000,001
Capital assets being Depreciated/Amortized	
Buildings	8,905,849
Improvements other than buildings	6,581,372
Vehicles	20,014,846
Intangible Assets	1,219,245
Equipment & Furnishings	2,384,727
<i>Less: Accumulated Depreciation/Amortization</i>	
Buildings	(3,983,616)
Improvements other than buildings	(2,034,063)
Vehicles	(9,534,844)
Equipment & Furnishings	(1,645,452)
Intangible Assets	(955,200)
Total Net Capital Assets	31,738,181
Total Noncurrent Assets	31,738,181
Total Assets	57,435,930

LIABILITIES

Current Liabilities:	
Accounts payable	210,434
Compensated Absences	67,810
Wages & Leave payable	376,985
Benefits and Taxes payable	27,982
Other payables	395,831
Total Current Liabilities	1,079,043
Noncurrent liabilities:	
Compensated Absences	390,107
Total Noncurrent Liabilities	390,107
Total Liabilities	1,469,150

NET POSITION

Net Position:	
Net Investment in Capital Assets	31,738,181
Unrestricted	24,228,599
Total Net Position	55,966,780

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, 2021

Operating Revenues:		
Passenger Fares		\$591,780
	Total Operating Revenues	_____
Operating Expenses:		
Operations		9,210,640
Maintenance		2,921,732
Administration		3,148,675
Depreciation/Amortization		2,702,745
	Total Operating Expenses	_____
	Operating Income (Loss)	(17,392,013)
Non-Operating Revenues (Expenses):		
Sales Tax		15,271,069
Interest		11,777
Grants		6,317,407
Gain (loss) on Disposition of Assets		221,160
Other Non-operating Revenues (Expenses)		121,698
	Total Non-Operating Revenues (Expenses)	_____
	Income(loss) before contributions, gains, losses, other revenues and expenses	_____
	Capital Contributions	1,523,899
	Increase (decrease) in net position	6,074,997
	Net Position - Beginning of period	\$49,891,783
	Net Position - End of period	\$55,966,780

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, 2021

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 584,168
Cash Payments to Suppliers for Good & Services	(3,093,083)
Cash Payments to Employees for Services	(11,789,143)
Other Cash Receipts	121,697
Net Cash Provided (Used) by Operating Activities	<u>(14,176,361)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	15,047,908
Federal, State and Local Assistance Received	6,234,143
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>21,282,051</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(2,684,637)
Capital Grants and Contributions	1,328,966
Proceeds from Sale of Equipment	221,160
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,134,511)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(11,777)
Proceeds from Investment Transfer to Savings	(6,000,000)
Interest on Investments	11,777
Net Cash Provided (Used) by Investing Activities	<u>(6,000,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(28,821)</u>
Cash and Cash Equivalents, Beginning	4,358,333
Cash and Cash Equivalents, Ending	<u><u>\$ 4,329,513</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, 2021

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (17,392,013)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation/Amortization on Capital Assets	2,702,745
Nonoperating Expenses/Misc Nonoperating Revenue	121,698
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(7,612)
Decrease (Increase) in Inventories	(24,922)
Decrease (Increase) in Other Prepaid	(3,567)
Increase (Decrease) in Accounts Payable	313,890
Increase (Decrease) in Wages & Benefits Payable	113,420
Total Adjustments	<u>3,215,652</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (14,176,361)</u></u>

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, 2021

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, 2021, the Agency was holding \$4,329,513 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, 2021 consist of \$2,598,126 in sales tax receivable for November and December 2021, and sales tax interest receivable of \$868.

Total Accounts Receivable at December 31, 2021 was \$25,099, 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 2021 Fuel Tax refund from the Washington State Department of Licensing for \$4,530. 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, 2021 consist of \$1,299,418 due from the Federal Transportation Administration.

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, 2021, Skagit Transit carried an inventory valued at \$499,469.

6) Restricted Assets and Liabilities.

Skagit Transit has no restricted assets and liabilities.

7) Capital Assets – See Note 3 Capital Assets

Capital Assets, which include property, plant, and equipment and infrastructure assets are reported in the financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life of at least one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions to improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the 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 \$67,810 as of December 31, 2021 and noncurrent liability is \$390,107.

Note 2 – Deposits & Investments

A. Deposits

Cash on hand at December 31, 2021 was \$4,329,513. The Bank Balance was \$4,327,818.

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).

B. Investments

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.

As of December 31, 2021, 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	\$16,937,158	\$0	\$16,937,158
Total		\$16,937,158	\$0	\$16,937,158

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.

Note 3 – Capital Assets & Related Depreciation/Amortization

Capital Assets activity for the year ended December 31, 2021 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	2,088,136	\$2,098,235	186,370	4,000,001
Total Assets not Being Depreciated	<u>\$8,873,450</u>	<u>\$2,098,235</u>	<u>\$186,370</u>	<u>\$10,785,315</u>
Capital Assets Being Depreciated/Amortized				
Buildings	\$8,905,849	-	-	\$8,905,849
Improvements other than buildings	6,312,563	268,810	-	\$6,581,372
Vehicles	21,038,415	196,728	1,220,297	\$20,014,846
Equipment & Furnishings	2,065,160	327,902	8,334	\$2,384,727
Intangible Assets	1,056,529	162,717	-	1,219,245
Total Assets Being Depreciated/Amortized	<u>\$39,378,516</u>	<u>\$956,157</u>	<u>1,228,631</u>	<u>\$39,106,040</u>
Less Depreciation/Amortization for:				
Buildings	\$3,617,148	\$366,468	-	\$3,983,616
Improvements other than buildings	1,860,730	173,333	-	2,034,063
Vehicles	8,640,169	2,030,011	1,135,337	9,534,844
Equipment & Furnishings	1,483,574	170,213	8,334	1,645,452
Intangible Assets	894,056	61,144	-	955,200
Total Assets Being Depreciated/Amortized	<u>\$16,495,677</u>	<u>\$2,801,169</u>	<u>\$1,143,671</u>	<u>\$18,153,175</u>
Total Capital Assets, Being Depreciated/Amortized, Net	\$22,882,838			\$20,952,866
Total Net Capital Assets	<u>\$31,756,288</u>			<u>\$31,738,181</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 2021 and FY 2020 were as follows:

	FY 2021	FY 2020
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	9,038,287	7,948,069
Employee 401(a) Contributions	415,170	450,736
SKAGIT TRANSIT 401(a) Contributions	415,170	397,332
Loan Issuances	(95,659)	(139,040)
Loan payments	113,821	128,493
Distributions	(1,497,626)	(488,357)
Adjustments	743,768	663,169
Earnings	<u>72,418</u>	<u>77,885</u>
Total Ending Fund Balances	<u><u>\$9,205,349</u></u>	<u><u>\$9,038,287</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 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, 2021, 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.

Note 6 – Risk Management

Skagit Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25-member governmental risk pool located in Olympia, Washington. WSTIP supplies Skagit Transit's 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 2021, 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 2021:

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	\$25 million	Per offense	\$0
Contractual liability	\$25 million	Per occurrence	\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage (by mode)	\$60,000	Per occurrence	\$0
Permissive Use of a Member-Owned Motor Vehicle	\$100,000 for property damage and \$300,000 for bodily injury	Per occurrence	\$0
Endorsement 1: COMMUNICABLE DISEASE LIABILITY	\$500,000	Per occurrence	\$0
Annual aggregate for all members or Additional covered parties	\$2 million		
PUBLIC OFFICIALS LIABILITY	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 1: VIOLATIONS OF WAGE & HOUR LAWS	\$250,000	Per occurrence	\$25,000
Annual aggregate per Member	\$250,000		
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/	\$5,000

		members combined	
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 \$500,000 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
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
Annual Policy and Program Aggregate Limit of Liability for all policy holders (not just WSTIP members)	\$40 million		
Insured/Member Annual Aggregate Limit of Liability	\$2 million		\$5,000
BREACH RESPONSE COSTS	\$500,000	Aggregate for each insured/member	

		(limit is increased to \$1 million if Beazley Nominated Service Providers are used)	
FIRST PARTY LOSS			
Business Interruption			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$500,000	Aggregate limit	
Dependent Business Loss			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$100,000	Aggregate limit	
Cyber Extortion Loss	\$750,000	Aggregate limit	
Data Recovery Costs	\$750,000	Aggregate limit	
LIABILITY			
Data & Network Liability	\$2 million	Aggregate limit	
Regulatory defense and penalties	\$2 million	Aggregate limit	
Payment Card Liabilities & Costs	\$2 million	Aggregate limit	
Media Liability	\$2 million	Aggregate limit	
eCRIME			
Fraudulent Instruction	\$75,000	Aggregate limit	
Funds Transfer Fraud	\$75,000	Aggregate limit	
Telephone Fraud	\$75,000	Aggregate limit	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS			
Reputation Loss	\$100,000	Limit of Liability	
Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$100,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	

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>	\$2 million	Limit of Liability	
<i>Resulting from System Failure</i>	\$500,000	Limit of Liability	

Dependent Business Loss <i>Resulting from Security Breach</i>	\$750,000	Limit of Liability	
<i>Resulting from System Failure</i>	\$100,000	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 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 \$2 million. The carrier is Great American Fidelity Insurance Company. Skagit Transit has a \$50,000 deductible per cyber incident.

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, 2021.

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, 2021 Skagit Transit had the following in effect (Contracts over \$50,000 excluding lease agreements).

Contractor	Contract No. & Title	Initial Contract Term	Final Term Expiration	Amount Spent 2021
Delerrok/UMO	19-006 / Mobile Ticketing	8/1/19 – 6/30/22	2022	\$ 10,754
Associated Petroleum Products	20-004-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/20 – 11/30/23	2023	\$ 127,078
Associated Petroleum Products	ULSD Fuel Delivery (DES 8721)	1/01/2022 – 1/31/25	2025	\$351,347
Cummins, Inc.	20-005 / Diesel Engine Replacements	5/1/2020– 1/31/21	None	\$33,191
5 Star Services Inc.	20-003-P / Janitorial Services	11/1/20– 10/31/25	10/31/2025 2 Year Options	\$51,499
Pertee	18-007 / On Call Engineering	11/1/2018- 10/31/2022	10/31/2023 Option yr 1	\$144,329
Langabeer & Traxler	13-013 / General Counsel Legal Services	12/1/18 – 11/30/28	2028	\$3,124
Mortenson Signs	19-005 / Vehicle Graphics	8/1/19 – 7/31/22	2023 Option yr 1	\$11,721
Les Schwab	19-003-F / Tires & Related Services	9/1/19 – 8/31/22	2023 Option yr 1	\$108,732
Ferrell Gas State of WA (DES 02318)	Autogas Propane Services	2/1/19 – 4/30/27	2027	\$109,196
KBA	19-013-F / Construction Management (MOA 2)	5/31/2022	In negotiations	\$198,690
TCF	17-013-F / A&E Design Services (MOA 2)	3/2018	12/31/2022	\$180,295
Dons Group Attire	18-009 / Uniforms and Related Services	2/1/2019 – 1/31/2023	1/31/2023 1 yr option	\$20,085
Kaeka Group	20-001-F / Security Guard Services	5/01/2020- 4/30/2026	04/30/2026 1 yr option of 3	\$205,037

Operating Leases:

As of December 31, 2021, Skagit Transit leases some office equipment and other equipment under non-cancelable operating leases. Total 2021 cost for such leases was \$40,478. The future minimum lease payments are as follows:

<u>Year</u>	<u>Annual Cost</u>
2022	21,759
2023	18,649
2024	18,846
2025	19,393
2026	16,725

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, 2021, the account balances were:

Capital Reserve:	
Facilities	6,400,000
Capital Replacement	4,011,760
Undesignated Reserve	1,504,636
Operating Reserve	<u>5,020,762</u>
Total:	\$16,937,158

Note 10 – COVID -19 Pandemic

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

Skagit Transit continues to monitor the situation to ensure the continuity of providing important services to the Community while maintaining the safety of its staff and the general public. The addition of federal stimulus funds in 2021, together with the relatively significant increase in sales taxes as compared to prior years, again 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, 2021**

Federal Agency (Pass-Through Agency)	Expenditures						Passed through to Subrecipients	Note
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Cluster								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2018-009	-	176,124	176,124	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2020-067	-	1,108,094	1,108,094	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	WA-2020-067	-	98,854	98,854	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	WA-2020-050	-	114,749	114,749	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	WA-2021-024	-	3,785,187	3,785,187	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507	WA-2021-062	-	734,666	734,666	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2019-008	-	4,368	4,368	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507	WA-2020-113	-	87,043	87,043	-	127

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, 2021**

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	Federal Transit Formula Grants	20.507	WA-2021-006	-	102,246	102,246	-	127
			Total CFDA 20.507:	-	6,211,331	6,211,331	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	WA-2019-079	-	1,294,280	1,294,280	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	WA-2021-057	35,962	-	35,962	-	127
			Total CFDA 20.526:	35,962	1,294,280	1,330,242	-	
			Total Federal Transit Cluster:	35,962	7,505,611	7,541,573	-	
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0058	20,907	-	20,907	-	127
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0286	24,801	-	24,801	-	127

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, 2021**

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 (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0367	65,637	-	65,637	-	127
				111,345	-	111,345	-	
				147,307	7,505,611	7,652,918	-	
				Total CFDA 20.509:				
				Total Federal Awards Expended:				

The accompanying notes are an integral part of this schedule.

Skagit Transportation Benefit District, Washington

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2021

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 7 - 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.

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

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

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

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

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