



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, 2023 through December 31, 2023

*Published November 25, 2024*

Report No. 1036039



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

November 25, 2024

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 activities and 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, 2023 through December 31, 2023

### 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 identified 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 its major federal program.

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>ALN</u>	<u>Program or Cluster Title</u>
20.507	Federal Transit Cluster - Federal Transit Formula Grants
20.507	COVID 19 – Federal Transit Cluster - 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

See Finding 2023-001.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Skagit Transit January 1, 2023 through December 31, 2023

#### **2023-001 The Transit did not have adequate internal controls ensuring accurate reporting of its financial statements.**

##### *Background*

State and federal agencies, Transit directors and the public rely on the information included in the financial statements and reports to make decisions. Management is responsible for designing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable and the financial statements are accurate.

The Transit prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

In accordance with GASB Statement. 68, Accounting and Financial Reporting for Pensions, the Transit must report a net pension asset or liability to reflect whether the government's postemployment benefits are adequately funded. The Transit should report liabilities separately from aggregated assets. When reported as an asset, the Transit should report a portion of its net position as restricted, as it is set aside for potential future payment.

In accordance with GASB Statement. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, amounts that the Transit is required to report as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Likewise, amounts that the Transit is required to report as deferred inflows of resources should be reported in a separate section following liabilities. Similar to pension assets and liabilities, deferred outflows and deferred inflows for pensions must be displayed separately, and not netted for reporting.

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the Transit's ability to produce reliable financial statements. Government Auditing Standards requires the State Auditor's Office to communicate significant deficiencies as a finding.

### *Description of Condition*

The Transit began participating in state sponsored pension plans in 2023, which required the implementation of pension accounting standards.

Although the Transit has a financial statement preparation and review process, its controls were inadequate for ensuring financial reporting for pensions was complete, accurate and in accordance with GAAP.

### *Cause of Condition*

This was the first year of implementation of the GASB 68 standard for the Transit.

Managers responsible for preparing the financial statements sought guidance for the proper way to report pensions associated with implementing pension accounting principles. However, managers incorrectly interpreted reporting requirements and did not have an adequate preparation and review process over pension reporting to identify the errors.

### *Effect of Condition*

Our audit identified the following errors:

- Unrestricted net position was overstated by \$1,540,777 as this amount should instead have been reported as restricted net position for pensions.
- Deferred outflows and deferred inflows for pensions were incorrectly netted and reported within the liabilities section of the Statement of Net Position. As a result, deferred outflows was understated by \$1,888,748 and \$1,507,661 should have been reported as deferred inflows.
- Net pension asset and net pension liability were incorrectly netted and reported within the liabilities section of the Statement of Net Position. The Transit should not have combined the amounts. The original amount reported was a negative \$829,615; however, Net Pension Asset should have been \$1,540,777 and net pension liability should have been \$711,162.
- The Transit did not prepare the 10-Year Schedules of Employer Contributions and Proportionate Share of Net Pension Liability, which are Required Supplementary Information for these types of pensions.

The Transit subsequently corrected the financial statements as a result of our audit.

## ***Recommendation***

We recommend the Transit strengthen internal controls over its processes for preparing and reviewing the financial statements to ensure the statements submitted for audit are accurate, complete and comply with GAAP.

We also recommend the Transit dedicate sufficient resources and provide adequate training, especially when implementing new accounting standards.

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

*Skagit Transit agrees that the pension reporting was an error, and we have fixed the issue. The Agency does want to point out that the presentation of the pension plan was not grossed up on the Statement of Net Position and the detail was accurately presented in the notes to the financial statements with no errors.*

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

We thank the Transit for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the Transit's corrective action during our next audit.

Our office recognizes for implementation of complex accounting principles such as this, it can be difficult to implement all aspects of the standard in the first year. We appreciate the Transits efforts to correct the issue timely and provide updated financial statements.

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

*Government Auditing Standards*, July 2018 Revision paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200, Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.



The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

*Budgeting, Accounting and Reporting System* (BARS Manual), 4.7.3, reporting required supplementary information for pension plan information.

Governmental Accounting Standards Board (GASB) Statement. 68, *Accounting and Financial Reporting for Pensions*.

Governmental Accounting Standards Board (GASB) Statement. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

## 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, 2023 through December 31, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated November 19, 2024.

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2023-001, that we consider to be significant deficiencies.

## **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*.

## **TRANSIT'S RESPONSE TO FINDINGS**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Transit's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The Transit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Transit's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this

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

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

Pat McCarthy, State Auditor

Olympia, WA

November 19, 2024

# 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, 2023 through December 31, 2023

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, 2023. 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, 2023.

### 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 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. 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 over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### 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, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

November 19, 2024



# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### Skagit Transit January 1, 2023 through December 31, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Skagit Transit, as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Matters of Emphasis

As discussed in Note 2 to the financial statements, the Transit joined the public employees retirement system in 2023 and is now reporting a net pension asset, net pension liability, restricted net position and related deferred outflows and deferred inflows for participation in these plans. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Transit's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

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

### **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 as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2024 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.

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Pat McCarthy, State Auditor

Olympia, WA

November 19, 2024

**Skagit Transit  
January 1, 2023 through December 31, 2023**

**REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2023

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2023

Statement of Revenues, Expenses and Changes in Fund Net Position – 2023

Statement of Cash Flows – 2023

Notes to Financial Statements – 2023

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2023

Notes to the Schedule of Expenditures of Federal Awards – 2023

## 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

	2023	2022
Assets		
Current Assets	\$34,131,386	\$31,444,490
Noncurrent Assets	35,258,208	32,340,006
Total Assets	<u>69,389,594</u>	<u>63,784,496</u>
Deferred Outflows	<u>1,507,661</u>	<u>-</u>
Liabilities		
Current Liabilities	1,777,590	1,543,920
Noncurrent Liabilities	1,221,567	559,760
Total Liabilities	<u>2,999,157</u>	<u>2,103,680</u>
Deferred Inflows	<u>1,888,749</u>	<u>-</u>
Net Position		
Investment in Capital Assets	33,717,431	32,340,006
Error Correction	-	204,731

Restricted Net Pension Asset	1,540,777	-
Restricted	123,839	-
Unrestricted	30,627,302	29,340,810
Total Net Position	<u>\$66,009,349</u>	<u>\$61,885,547</u>

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

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Passenger Fares	\$715,809	\$674,632
Non-Operating Revenues		
Sales Tax	17,168,881	16,797,225
Interest	1,068,486	269,617
Grants	8,770,718	8,153,912
Gain (loss) on Disposition of Assets	(8,932)	3,650
Other Non-operating Revenues	113,128	45,012
Total Revenues	<u>27,112,282</u>	<u>25,944,048</u>
Operating Expenses		
Operations	13,160,540	10,998,934
Maintenance	4,415,910	3,423,658
Administration	4,602,496	3,888,446
Depreciation/Amortization	2,433,741	2,498,063
Total Expenses	<u>24,612,687</u>	<u>20,809,101</u>
Net Income (loss) Before Contributions	3,215,404	5,134,947
Capital Contributions	908,367	579,089
Increase (decrease) in net position	<u>4,123,771</u>	<u>5,714,036</u>
Net Position - Beginning of period	<u>61,885,578</u>	<u>55,966,780</u>
Prior Period Adjustment	<u>-</u>	<u>204,762</u>
Net Position - End of period	<u>\$66,009,349</u>	<u>\$61,885,578</u>

### Financial Highlights

- Total Net Position as of December 31, 2023 was \$66,009,349. This is how much Assets exceeded Liabilities. Of this total, \$30,627,302, 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. \$123,839 is Restricted for the construction of new Bus Shelters. Additionally, \$1,540,777 is restrict towards Skagit's Net Pension Asset.

- Total Net Position increased by \$4,123,771 or 6.7% from the prior year
- Sales tax revenues increased by \$371,656 or 2.2%
- Passenger Fare revenues increased by \$41,098 or 6.09%.
- Capital Assets increased by \$1,377,425 after depreciation.
- Skagit Transit received a total of \$9,679,085 in federal, state, and local grants that were used for both operating and capital expenses. 10.8% increase from the prior year.
- 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. This was further supplemented by another annual increase in Sales Tax revenues and investment revenues as compared with prior year increases. Skagit Transit remained consistent in pursuing other grants in 2023, 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 \$41,098 during 2023. Fixed route service had a revenue increase of \$18,559 or 5.42% and Vanpool had an increase of \$7,718, or 2.59%. Paratransit service had an increase of \$14,900 or 16.72%. Skagit Transit began charging Paratransit riders a \$2.00 one-way fare in 2020. Additionally, Paratransit riders have the option to ride Fixed routes for free. Fares for Fixed routes are structured so that commuter routes are two times the local fixed route fare. As required under the Climate Commitment Act in June 2022, youth riders 18 and under ride fare free. This change provided an additional \$2,716,052 in revenue.

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

ADA Paratransit service is scheduled through the Skagit Transit dispatch center .

Skagit Transit's Rideshare 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 Rideshare program as most of our Rideshare groups are Boeing employees. The number of Rideshare groups decreased from 47 at the end of 2019 to 29 at the end of 2023. As the impacts of the COVID-19 pandemic subside and riders began returning to the office, the need for rideshare groups is increasing. We expect additional Rideshare groups going forward in either 2024 or 2025 or both depending on need.

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 \$371,656 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 \$1,059,415 in 2023 as compared to \$269,617 in 2022. A roughly 393% increase from the prior year.

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

### **Operating Expenses**

Operating expenses increased by 18.69% in 2023.

#### Operating Expenses by Department

Operations – \$13,160,540 - The department is responsible for all on-street services, including operators, dispatchers, and scheduling for bus service to the public.

Maintenance - \$4,415,910 – The department is responsible for all vehicles including fueling, parts, cleaning, servicing, and facility upkeep.

Administration - \$4,602,496 – The department is responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resource, and safety.

Depreciation/Amortization - \$2,433,741 - 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 131,417 in 2023 according to the US Census Bureau. The county's population expanded 12.42% from 2010 to 2023. This was lower than the statewide population growth rate of 16.18% 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. Fiscal year 2023 Sales Tax collections were \$371,656 million higher compared to 2022.

Skagit County's unemployment rate in Dec 2023 was 5.6% 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 phases II & III construction of the new Maintenance, Operations and Administrations Building (MOA2) and various vehicle, equipment, and information technology purchases.

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 Public Information Officer, 600 County Shop Lane, Burlington, WA 98233, telephone 360-757-8801.

**Skagit Transit**  
**Statement of Net Position**  
**December 31, 2023**

<b>ASSETS</b>	
Current Assets:	
Cash	4,161,912
Investments	22,264,695
Taxes receivables Accounts receivable (net of allowance for uncollectibles)	2,884,859 26,271
Due from other governments	3,815,851
Inventory	783,062
Prepays	194,736
<b>Total Current Assets</b>	<b>34,131,386</b>
Noncurrent Assets:	
Pension Asset	1,540,777
Capital assets not being Depreciated	
Land	5,935,314
Right of way	850,000
Construction in Progress	8,023,505
Capital assets being Depreciated/Amortized	
Buildings	8,945,417
Improvements other than buildings	7,349,784
Vehicles	21,175,718
Intangible Assets - Software	1,347,863
Intangible Assets - Right-to-Use	114,589
Equipment & Furnishings	2,649,654
<i>Less: Accumulated Depreciation/Amortization</i>	
Buildings	(4,550,229)
Improvements other than buildings	(2,421,235)
Vehicles	(12,550,852)
Equipment & Furnishings	(2,001,024)
Intangible Assets	(1,088,146)
Intangible Assets - Right-to-Use	(62,927)
<b>Total Net Capital Assets</b>	<b>33,717,431</b>
<b>Total Noncurrent Assets</b>	<b>35,258,208</b>
<b>Total Assets</b>	<b>69,389,594</b>
<b>Deferred Outflows</b>	
	<b>1,507,661</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	361,009
Compensated Absences	92,645
Wages & Leave payable	359,605
Benefits and Taxes payable	357,207
Lease Payable - Current	24,996
Other payables	582,128
<b>Total Current Liabilities</b>	<b>1,777,590</b>
Noncurrent liabilities:	
Compensated Absences	482,257
Lease Payable	28,148
Pension Liability	711,162
<b>Total Noncurrent Liabilities</b>	<b>1,221,567</b>
<b>Total Liabilities</b>	<b>2,999,157</b>
<b>Deferred Inflows</b>	
	<b>1,888,749</b>
<b>NET POSITION</b>	
Net Position:	
Net Investment in Capital Assets	33,717,431
Restricted Net Pension Asset	1,540,777
Restricted	123,839
Unrestricted	30,627,302
<b>Total Net Position</b>	<b>66,009,349</b>

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

**Skagit Transit**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For Fiscal Year Ended December 31, 2023**

Operating Revenues:		
Passenger Fares		\$715,809
	Total Operating Revenues	_____
Operating Expenses:		
Operations		13,160,540
Maintenance		4,415,910
Administration		4,602,496
Depreciation/Amortization		2,433,741
	Total Operating Expenses	_____
	Operating Income (Loss)	(23,896,878)
Non-Operating Revenues (Expenses):		
Sales Tax		17,168,881
Interest		1,068,486
Grants		8,770,719
Gain (loss) on Disposition of Assets		(8,932)
Other Non-operating Revenues (Expenses)		113,128
	Total Non-Operating Revenues (Expenses)	_____
	Income(loss) before contributions, gains, losses, other revenues and expenses	_____
	Capital Contributions	908,367
	Increase (decrease) in net position	4,123,771
	Net Position - Beginning of period	\$61,680,816
	Change for Prior Period Error	\$204,762
	Net Position - End of period	\$66,009,349

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, 2023**

Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 718,928
Cash Payments to Suppliers for Good & Services	(5,271,732)
Cash Payments to Employees for Services	(17,378,311)
Other Cash Receipts	113,128
Net Cash Provided (Used) by Operating Activities	<u>(21,817,987)</u>
Cash Flows from Noncapital Financing Activities:	
Sales Tax Received	17,073,835
Federal, State and Local Assistance Received	5,812,897
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>22,886,732</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(3,798,108)
Capital Grants and Contributions	977,047
Proceeds from Sale of Equipment	(8,932)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,829,993)</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	(1,068,486)
Proceeds from Investment Transfer to Savings	-
Interest on Investments	1,068,486
Net Cash Provided (Used) by Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,761,248)</u>
Cash and Cash Equivalents, Beginning	5,923,159
Cash and Cash Equivalents, Ending	<u><u>\$ 4,161,912</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 December 31, 2023**

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (23,896,878)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation/Amortization on Capital Assets	2,433,741
Nonoperating Expenses/Misc Nonoperating Revenue	113,128
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	3,119
Decrease (Increase) in Other Prepaid	(191,166)
Decrease (Increase) in Inventories	(15,720)
Increase (Decrease) in Accounts Payable	(469,132)
Increase (Decrease) in Wages & Benefits Payable	204,921
Total Adjustments	<u>2,078,891</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (21,817,987)</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, 2023**

**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. As of December 31, 2023, the Agency was holding \$4,161,912 in short-term residual investments of surplus cash. This amount is classified in the financial statements as Cash and Cash Equivalents.

For the 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 as of December 31, 2023, consist of \$2,875,788 in sales tax receivable for November and December 2023, and sales tax interest receivable of \$9,071.

Total Accounts Receivable as of December 31, 2023, was \$26,271, which consists of Vanpool payments, fare purchases, and customer leases/rentals.

### 4) Amounts Due From Other Governments

Amounts due from other governments include 4<sup>th</sup> quarter 2023 Fuel Tax refund from the Washington State Department of Licensing for \$5,344. 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 as of December 31, 2023, consist of \$3,815,851 due from the Federal Transportation Administration and 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. As of December 31, 2023, Skagit Transit carried an inventory valued at \$783,062.

### 6) Restricted Assets and Liabilities,

As of December 31, 2023, Skagit Transit had \$123,839 in restricted assets. The restriction is a result of federally held funds for the use in Bus Shelters.



7) Capital Assets – See Note 4 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
Land Improvements	15 years
Buildings	30 -50 years
Buses	5 -12 years
Other Vehicles	4-7 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) Leases – See Note 4 Capital Assets

Lessee: Skagit Transit is a lessee for noncancelable leases. Skagit Transit recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. Skagit Transit recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, Skagit Transit initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis over its useful life.

Key estimates and judgements related to lease include how Skagit Transit determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- Skagit Transit uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, Skagit Transit generally uses its incremental borrowing rate or U.S. Prime rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that Skagit Transit is reasonably certain to exercise.

Skagit transit monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

#### 9) 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 \$92,645 as of December 31, 2023, and noncurrent liability is \$482,257.

### **Note 2 – Accounting and Reporting Changes**

Skagit Transit implemented GASB Statement No. 96, “Subscription-Based Information Technology Arrangements” (SBITA) for the year ending December 31, 2023. This statement changed the accounting and financial reporting for subscription-based information technology arrangements and applies to contracts that convey the right to use an underlying subscription asset in an exchange or exchange-like transaction for a term exceeding 12 months. SBITA arrangements now recognize a right to use subscription assets related to subscription liability.

Skagit Transit is early implementing GASB Statement No. 100, “Accounting Changes and Error Corrections” for the year ending December 31, 2023. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Skagit Transit implemented GASB Statement No. 68, “Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27” for the year ending December 31, 2023. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial

reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

**Note 3 – Deposits & Investments**

**A. Deposits**

Cash on hand as of December 31, 2023, was \$4,161,912. The Bank Balance was \$4,397,113.

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 that Transit will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. As of October 2023 the Board of Skagit Transit approved the move of investment funds to the Skagit County Investment Pool (SKIP). There is minimal risk within our investment in the SKIP and Skagit County’s Treasurer’s office. The SKIP and the Treasurer’s assets are allocated in but not limited to U.S. Government-backed obligations, federally insured demand deposits, Washington State’s LGIP, municipal debt obligations, and certificates of deposit.

As of December 31, 2023, the transit held the following investments at amortized cost:

<b>Type of Investment</b>	<b>Maturities</b>	<b>Transit’s own investments</b>	<b>Investments held by Transit as an agent for others</b>	<b>Total</b>
WA State Skagit County Investment Pool	Less Than One Year	\$22,264,695	\$0	\$22,264,695
<b>Total</b>		<b>\$22,264,695</b>	<b>\$0</b>	<b>\$22,264,695</b>

Investments in Skagit County Investment Pool (SKIP).

Skagit Transit is a voluntary participant in the Skagit County Investment Pool, an external investment pool operated by the Skagit County Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by Skagit County’s Treasurer in accordance with RCW’s 36.29.020, 36.29.022, and 36.29.024. Investments in the SKIP are reported at amortized cost, which is the same as the value of the pool per share. The SKIP does not impose any restrictions on participant withdrawals.

The Office of the Skagit County Treasurer prepares a stand-alone quarterly financial report for the pool. A copy of the report is available from the Skagit County Treasurer at Skagit County Treasurer, PO Box 518, Mount Vernon, Washington 98273, and online at [www.skagitcounty.net/departments/treasurer/](http://www.skagitcounty.net/departments/treasurer/).

**Note 4 – Capital Assets & Related Depreciation/Amortization**

Capital Assets activity for the year ended December 31, 2023, was as follows:

Asset Type	Beginning Bal	Increase	Decrease	Ending Bal
<b>Capital Assets not Being Depreciated</b>				
Land	\$5,935,314	\$ -	\$ -	\$5,935,314
Right of Way	850,000	-	-	\$850,000
Construction/Work in Progress	6,129,505	2,375,423	481,423	8,023,505
<b>Total Assets not Being Depreciated</b>	<b>\$12,914,819</b>	<b>\$2,375,423</b>	<b>\$481,423</b>	<b>\$14,808,819</b>
<b>Capital Assets Being Depreciated/Amortized</b>				
Buildings	\$8,932,049	13,367	-	\$8,945,417
Improvements other than buildings	6,652,699	697,085	-	\$7,349,784
Vehicles	20,261,502	941,074	26,858	\$21,175,718
Equipment & Furnishings	2,502,025	147,630	-	\$2,649,654
Intangible Assets	1,359,025	122,665	19,238	1,462,452
<b>Total Assets Being Depreciated/Amortized</b>	<b>\$39,707,300</b>	<b>\$1,921,821</b>	<b>46,096</b>	<b>\$41,583,025</b>
<b>Less Depreciation/Amortization for:</b>				
Buildings	\$4,279,182	\$271,047		\$4,550,229
Improvements other than buildings	2,219,286	201,949		2,421,235
Vehicles	10,903,212	1,667,597	19,957	12,550,852
Equipment & Furnishings	1,820,732	180,292		2,001,024
Intangible Assets	1,059,701	91,372		1,151,073
<b>Total Assets Being Depreciated/Amortized</b>	<b>\$20,282,113</b>	<b>\$2,412,257</b>	<b>\$19,957</b>	<b>\$22,674,413</b>
<b>Total Capital Assets, Being Depreciated/Amortized, Net</b>	<b>\$19,425,187</b>			<b>\$18,908,612</b>
<b>Total Net Capital Assets</b>	<b>\$32,340,006</b>			<b>\$33,717,431</b>

**Note 5 – Leases**

Skagit Transit leases copier and other equipment and modular buildings under a variety of long term, noncancelable agreements. In accordance with GASB statement NO. 87, right to use assets and lease liabilities are recorded based on the present value of expected payments over the lease terms.

Asset	Vendor	Term(month)	Monthly Payment
Copier Equipment (Finance Dept)	Great America Financial Services	60	\$195.00
Copier Equipment (Operations Dept)	Great America Financial Services	60	\$197.00
Solar Waste Compactor	BigBelly	60	\$864.00
Modular Building (New Maint. Oper & Admin Bldg.)	Pacific Mobile Structures	24	\$382.73
Modular Building (New Maint. Oper & Admin Bldg.)	Pacific Mobile Structures	24	\$1,232.00

Skagit Transit’s right to use lease asset and related accumulated amortization for fiscal year ending December 31, 2023, are as follows:

	Beginning Bal	Adjustment	Increases	Decreases	Ending Bal
Leased Bldgs	\$69,524	\$(3,379)	\$-	\$18,212	\$47,934
Leased Equipment	64,303	2,352	-	-	66,655
<b>Total Capital Lease assets</b>	<b>133,827</b>	<b>(1027)</b>	<b>-</b>	<b>18,212</b>	<b>114,589</b>
Accum. Amortization. Leased Bldgs.	32,636	(4,975)	27,661	18,212	37,110
Accum. Amortization. Leased Equipment	10,212	1,704	13,901		25,817
<b>Total Accumulated Amortization</b>	<b>\$42,848</b>	<b>\$(3,271)</b>	<b>\$41,562</b>	<b>\$18,212</b>	<b>\$62,927</b>

As of December 31, 2023, the principal and interest requirements to maturity are as follow:

	Principal	Interest	Total
2024	24,995	1,380	26,375
2025	11,937	795	12,732
2026	12,362	370	12,732
2027	3,850	45	3,895
2028	0	0	0
<b>Total</b>	<b>53,144</b>	<b>2,590</b>	<b>101,396</b>

**Note 6 – Subscription Based Information Technology Arrangements**

Effective January 1, 2023, the Government Accounting Standards Board (GASB) issued Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA). GASB Statement No. 96 (GASB 96) establishes uniform accounting and financial reporting requirements for SBITAs; improves the comparability of government’s financial statements; and enhances the understandability, reliability, relevance, and consistency of information about SBITAs.

Skagit Transit has elected to disclose any SBITA with a present value greater than \$100,000 and is longer than one year. Currently Skagit Transit does not have a SBITA that meets this criteria.

**Note 7 – Defined Contribution Plan**

On 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. In 2022 Skagit Transit’s Board of Directors voted to replace this retirement system with the PERS and 457 plan offered by DRS. Skagit Transit’s employees no longer contribute to these plans effective January 2023.

On July 1, 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.

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.

Plan balances and contributions for FY 2023 and FY 2022 were as follows:

	FY 2023	FY 2022
	<u>401(a)</u>	<u>401(a)</u>
Beginning Balance	8,182,359	9,205,349
Employee 401(a) Contributions	48,191	487,361
SKAGIT TRANSIT 401(a) Contributions	-	487,570
Loan Issuances	(73,130)	(69,974)

Loan payments	98,878	104,183
Distributions	(2,529,964)	(1,196,446)
Adjustments	451,511	(909,733)
Earnings	<u>73,548</u>	<u>74,049</u>
Total Ending Fund Balances	<u><u>\$6,251,393</u></u>	<u><u>\$8,182,359</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.

As of January 2023, Skagit Transit offers its employees a new 457 defined contribution plan created in accordance with Internal Revenue Code Section 457.

This plan is administered by the Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**Note 8 – Pension Plans**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2023:

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	(711,162)
Pension assets	1,540,777
Deferred outflows of resources	1,507,661
Deferred inflows of resources	(1,888,749)
Pension expense/expenditures	641,215

Skagit Transit recently enrolled into the PERS system. Full-time and qualifying part-time employees may participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual financial report (AFR) that includes financial statements and required supplementary information for each plan. The DRS AFR may be obtained at:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Also, the DRS AFR may be downloaded from the DRS website at [www.drs.wa.gov/annual-report/](http://www.drs.wa.gov/annual-report/).

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

### **Public Employees' Retirement System (PERS)**

PERS members include elected officials, state employees, employees of the Supreme / Appeals / Superior Courts, employees of the legislature, employees of district / municipal courts, employees of local governments, and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### **Contributions**

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:



<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee*</b>
January – June		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.00%</b>
July – August		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>9.39%</b>	<b>6.00%</b>
September – December		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
<b>Total</b>	<b>9.53%</b>	<b>6.00%</b>

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

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plan 2/3 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

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

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

\*\* For employees participating in JBM, the minimum contribution rate was 7.50%.

Skagit County PTBA actual PERS plan contributions were \$387,923 to PERS Plan 1 and \$701,820 to PERS Plan 2/3 for the year ended December 31, 2023.

## Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

## Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience

data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

### **Estimated Rates of Return by Asset Class**

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	<b>100%</b>	

### Sensitivity of the Net Pension Liability/(Asset)

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

<b>Sensitivity of Net Pension Liability (Asset)</b>			
	<b>1% Decrease 6.00%</b>	<b>Current Rate 7.00%</b>	<b>1% Increase 8.00%</b>
PERS 1	993,547	711,162	464,706
PERS 2/3	1,675,780	(1,540,777)	(4,183,381)
<b>Total NPLA</b>	<b>2,669,327</b>	<b>(829,615)</b>	<b>(3,718,675)</b>

At June 30, 2023 Skagit Transit proportionate share of the collective net pension liabilities was as follows:

**PERS 1:** 0.031154%

**PERS 2/3:** 0.037592%

### Pension Expense

For the year ended December 31, 2023, Skagit Transit recognized pension expense as follows:

<b>Plan</b>	<b>Pension Expense</b>
PERS 1	1,003,677
PERS 2/3	(362,461)
<b>Total</b>	<b>641,216</b>

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, Skagit Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

<b>Ending Deferred Outflows:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
Differences between expected and actual experience	-	313,855
Net difference between projected and actual investment earnings	-	-
Changes of assumptions	-	646,871
Changes in proportionate share	-	-
Contributions subsequent to the measurement date	175,630	371,305
<b>Total Deferred Outflows (DR)</b>	<b>175,630</b>	<b>1,332,031</b>

<b>Ending Deferred Inflows:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
Differences between expected and actual experience	-	(17,215.00)
Net difference between projected and actual investment earnings	(80,222.00)	(580,658.00)
Changes of assumptions	-	(140,993.00)
Changes in proportionate share	-	(1,069,661.00)
<b>Total Deferred Inflows (CR)</b>	<b>(80,222.00)</b>	<b>(1,808,527.00)</b>

Deferred outflows of resources related to pensions resulting from Skagit Transit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	PERS 1	PERS 2/3
2024	(54,580)	(455,962)
2025	(68,641)	(516,611)
2026	42,323	299,003
2027	675	(7,503)
2028	-	(10,458)
Thereafter	-	(156,268)
<b>Total (DI) / DO</b>	<b>(80,222)</b>	<b>(847,801)</b>

**Note 9 – 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, 2023, 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 10 – 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 2023, 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 2023:

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

Endorsement 1: <b>COMMUNICABLE DISEASE LIABILITY:</b>	\$500,000	Per occurrence	\$0
Annual aggregate for all Members or Additional Covered Parties	\$2 million		
<b>PUBLIC OFFICIALS LIABILITY</b>	\$25 million	Per occurrence and aggregate	\$5,000
Endorsement 1: <b>VIOLATIONS OF WAGE &amp; HOUR LAWS</b>	\$250,000	Per occurrence	\$25,000
Annual aggregate per Member	\$250,000		
<b>PROPERTY COVERAGE</b> All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$35 million	Per occurrence, annual aggregate	5% subject to \$500,000 minimum per occurrence per unit
<b>AUTO PHYSICAL DAMAGE</b> Auto Physical Damage (below \$250,000 in value)	Fair market value		\$5,000
Auto Physical Damage for all vehicles valued over \$250,000 and less than 10 years old	Replacement Cost	Limited to \$1.6 million any one vehicle	\$5,000
<b>BOILER AND MACHINERY</b>	\$100 million		\$250,000 or \$350,000 depending on size of boiler
<b>CRIME / PUBLIC EMPLOYEE DISHONESTY</b> including faithful performance. Also includes:	\$2 million	Per occurrence	\$10,000
Employee theft	\$2 million	Per occurrence	\$10,000
Forgery or alteration	\$2 million	Per occurrence	\$10,000
Inside the premises – theft of money and securities	\$2 million	Per occurrence	\$10,000
Inside the premises – robbery or safe burglary of other property	\$2 million	Per occurrence	\$10,000

Outside premises	\$2 million	Per occurrence	\$10,000
Computer fraud	\$2 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$2 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$2 million	Per occurrence	\$10,000

<b>CYBER LIABILITY INSURANCE</b>		<b>Coverage</b>	<b>Deductible</b>
Annual Policy and Program Aggregate Limit of Liability for all policy holders (not just WSTIP members)	\$45 million		
Insured/Member Annual Aggregate Limit of Liability	\$2 million		\$5,000
BREACH RESPONSE COSTS	\$500,000	Aggregate for each insured/member (limit is increased to \$1 million if Beazley Nominated Service Providers are used)	
FIRST PARTY LOSS			
Business Interruption			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$500,000	Aggregate limit	
Dependent Business Loss			
<i>Resulting from Security Breach</i>	\$750,000	Aggregate limit	
<i>Resulting from System Failure</i>	\$100,000	Aggregate limit	
Cyber Extortion Loss	\$750,000	Aggregate limit	
Data Recovery Costs	\$750,000	Aggregate limit	
LIABILITY			
Data & Network Liability	\$2 million	Aggregate limit	
Regulatory defense and penalties	\$2 million	Aggregate limit	
Payment Card Liabilities & Costs	\$2 million	Aggregate limit	
Media Liability	\$2 million	Aggregate limit	
eCRIME			
Fraudulent Instruction	\$75,000	Aggregate limit	
Funds Transfer Fraud	\$75,000	Aggregate limit	
Telephone Fraud	\$75,000	Aggregate limit	
CRIMINAL REWARD	\$25,000	Limit	
COVERAGE ENDORSEMENTS			
Reputation Loss	\$100,000	Limit of Liability	

Claims Preparation Costs for Reputation Loss Claims Only	\$50,000	Limit of Liability	
Computer Hardware Replacement Costs	\$100,000	Limit of Liability	
Invoice Manipulation	\$100,000	Limit of Liability	
Cryptojacking	\$25,000	Limit of Liability	

### **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 increases 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 (in excess of \$2 million). The carrier is Palomar Excess & Surplus Insurance Co.

### **Note 11 – 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, 2023.

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 12 – Commitments**

#### **Commitments:**

At December 31, 2023 Skagit Transit had the following in effect (Contracts over \$50,000 excluding lease agreements).

<b>Contractor</b>	<b>Contract No. &amp; Title</b>	<b>Initial Contract Term</b>	<b>Final Term Expiration</b>	<b>Amount Spent 2023</b>
Associated Petroleum Products	20-004-F / Card Lock Fueling (VP & Staff/Svc Vehicles)	12/1/20 – 11/30/23	2023	\$ 182,948

Ferrell Gas	Propane (DES 02318)	2/1/2019 – 4/30/2027	4/30/2027	\$160,820
5 Star Services Inc.	20-003-P / Janitorial Services	11/1/20–10/31/25	10/31/2025 2 Year Options	\$44,300
Les Schwab	19-003-F / Tires & Related Services	9/1/19 – 8/31/23	8/31/2024	\$72,766
Ferrell Gas State of WA (DES 02318)	Autogas Propane Services	2/1/19 – 4/30/27	4/30/2027	\$160,820
KBA	19-013-F / Construction Management (MOA 2)	12/30/2020	In negotiations	\$186,353
TCF	17-013-F / A&E Design Services (MOA 2)	3/2018	In negotiations	\$74,390
HB Hansen	19-014-F/ Construction MOA2 Phase 1	6/1/2021 (180 days)	In negotiations	\$1,894,828

**Note 13 – 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, 2023, the account balances were:

Capital Reserve:	
Facilities	10,400,000
Capital Replacement	4,924,279
Undesignated Reserve	1,599,919
Operating Reserve	<u>5,340,497</u>
Total:	\$22,264,695

**Note 14 – Prior Period Adjustment**

During the review of inventory accounts an oversight came to the attention of Skagit Transit Management. As a result of this review a prior period adjustment was deemed necessary to Skagit Transit' inventory line item. The adjustment totaled 204,762 and is reported in the opening balance on the 2023 Statement of Revenues, Expenses and Changes in Fund Net Position. The net effect to equity for the affected years is as follows:

	As Reported	Change	Net
<b>2021</b>	55,966,780	201,997	56,168,777
<b>2022</b>	61,680,816	204,762	61,885,578

**Skagit Transit Public Transportation Benefit Area  
Schedule of Employer Pension Contributions  
PERS Pension Plans 1, 2, and 3  
As of June 30 (plan's measurement date)  
For the Year Ended 2023**

<b>PERS 1</b>	<b>2023</b>
Statutorily or contractually required contributions	\$ 12,432
Contributions in relation to the statutorily or contractually required contributions	<u>12,432</u>
Contribution deficiency (excess)	<u><u>0</u></u>
 Covered payroll	 \$ 5,359,679
 Contributions as a percentage of covered payroll	 0.23%

<b>PERS 2/3</b>	<b>2023</b>
Statutorily or contractually required contributions	\$ 539,945
Contributions in relation to the statutorily or contractually required contributions	<u>539,945</u>
Contribution deficiency (excess)	<u><u>0</u></u>
 Covered payroll	 \$ 5,359,679
 Contributions as a percentage of covered payroll	 10.07%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

**Skagit Transit Public Transportation Benefit Area  
Schedule of Proportionate Share of the Net Pension Liability (Asset)  
PERS Pension Plans 1, 2, and 3  
As of June 30 (plan's measurement date)  
For the Year Ended 2023**

<b>PERS 1</b>	<b>2023</b>
Employer's proportion of the net pension liability (asset)	0.031154%
Employer's proportionate share of the net pension liability (asset)	\$ 867,442
Covered payroll	\$ 5,359,679
Employer's proportionate share of the net pension liability as a percentage of covered payroll	16.18%
Plan fiduciary net position as a percentage of the total pension liability	80.16%

<b>PERS 2/3</b>	<b>2023</b>
Employer's proportion of the net pension liability (asset)	-0.037592%
Employer's proportionate share of the net pension liability (asset)	\$ (1,394,205)
Covered payroll	\$ 5,359,679
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-26.01%
Plan fiduciary net position as a percentage of the total pension liability	107.02%

**Note 1. Method of Presentation**

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

**Note 2. Fiscal Year**

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

**Skagit County Public Transportation Benefit Area  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2023**

Federal Agency (Pass-Through Agency)	Expenditures						Passed through to Subrecipients	Note
	Federal Program	ALN Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
<b>Federal Transit Cluster</b>								
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507		-	701,886	701,886	-	1,2,7
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	COVID 19 - Federal Transit Formula Grants	20.507		-	56,364	56,364	-	1,2,7
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507		-	5,493,955	5,493,955	-	1,2,7
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Federal Transit Formula Grants	20.507		-	9,581	9,581	-	1,2,7
			<b>Total ALN 20.507:</b>		<b>6,261,786</b>	<b>6,261,786</b>		
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF	Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526		-	13,486	13,486	-	1,2,7
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	PTD0719	144,491	-	144,491	-	
			<b>Total ALN 20.526:</b>		<b>13,486</b>	<b>157,977</b>		
			<b>Total Federal Transit Cluster:</b>		<b>6,275,272</b>	<b>6,419,763</b>		

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, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN 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	PTD0286	31,644	-	31,644	-	1,2,7
FEDERAL TRANSIT ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Washington State Department of Transportation)	Formula Grants for Rural Areas and Tribal Transit Program	20.509	PTD0367	217,142	-	217,142	-	
<b>Total ALN 20.509:</b>				<b>248,786</b>	<b>-</b>	<b>248,786</b>	<b>-</b>	
<b>Total Federal Awards Expended:</b>				<b>393,277</b>	<b>6,275,272</b>	<b>6,668,549</b>	<b>-</b>	

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, 2023**

#### **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

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

**Skagit Transit  
January 1, 2023 through December 31, 2023**

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

<b>Finding ref number:</b> 2023-001	<b>Finding caption:</b> The Transit did not have adequate internal controls ensuring accurate reporting of its financial statements.
<b>Name, address, and telephone of Transit contact person:</b> Chris Arkle, 600 County Shop Lane Burlington, WA 98233, (360) 757-8801	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>The Transit plans to correct the errors surrounding pension reporting and establish improved internal controls to ensure accurate reporting of its financial statements for pensions.</i>	
<b>Anticipated date to complete the corrective action:</b> May 30, 2025	

## ABOUT THE STATE AUDITOR'S OFFICE

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