Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Pacific County Public Transportation Benefit Area

(Pacific Transit System)

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

Published September 8, 2015

Report No. 1014981

Washington State Auditor's Office

September 8, 2015

Board of Directors
Pacific Transit System
Raymond, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Pacific Transit System
Pacific County
January 1, 2014 through December 31, 2014

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

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

We noted no instances of noncompliance that were material to the financial statements of the 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 under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.509	Formula Grants for Rural Areas

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

The Transit did not qualify as a low-risk auditee under OMB Circular A-133.

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

Pacific Transit System
Pacific County
January 1, 2013 through December 31, 2014

Board of Directors
Pacific Transit System
Raymond, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pacific Transit System, Pacific County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated September 1, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 1, 2015

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

Pacific Transit System
Pacific County
January 1, 2014 through December 31, 2014

Board of Directors
Pacific Transit System
Raymond, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

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

occurred. An audit includes examining, on a test basis, evidence about the Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 1, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pacific Transit System
Pacific County
January 1, 2013 through December 31, 2014

Board of Directors
Pacific Transit System
Raymond, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Pacific Transit System, Pacific County, Washington, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit's basic financial statements. The accompanying Schedule of

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2015 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

September 1, 2015

FINANCIAL SECTION

Pacific Transit System
Pacific County
January 1, 2013 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Following is management's overview and analysis of Pacific Transit's financial activities for the year ended December 31, 2014. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

Financial Highlights

Net loss for 2014 was $221,653 a decrease of $79,379 from the net loss in 2013. This decreased loss was primarily a result of an increase in sales tax collections, and an increase in the external operating subsidies received for 2014.

Pacific Transit's assets exceeded its liabilities at December 31, 2014 by $4,351,703 which is a decrease of $221,653 over 2013. Of this amount $1,699,164 may be used to meet the ongoing obligation to provide services to the public and meet future obligations of creditors.

The Transit's total assets decreased by $221,447 from 2013. The transit does not carry any debt. This decrease in total assets was mainly due to the depreciation of capital assets. Current assets increased by $56,109 due to an increase in the cash position. The decrease in assets indicates a contraction in the financial position.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Transit's basic financial statements. The notes to the financial statements contain more detail on the information presented in the financial statements. The financial statements report information about the Transit using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Comparative Statement of Net Position presents information on all of the Transit's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Transit's financial position is improving or deteriorating.

The Comparative Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the Transit's net position changed during the current and prior fiscal periods. All changes to net position 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 reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g.., earned but unused vacation leave).

The Comparative Statement of Cash Flows presents information on cash receipts, cash payments and net changes in cash and cash equivalents from the prior year. Generally Accepted Accounting Principles require that cash flows be classified into one of four categories:

Cash flows from operating activities
Cash flows from non-capital financing activities
Cash flows from capital and related financing activities
Cash flows from investing activities

Pacific Transit's financial statements follow this section of the report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided with the financial statements. These notes follow the financial statements in this report.

Financial Statement Analysis

For the year ended December 31, 2014, assets exceeded liabilities by $4.40 million which is less than 2013. Unrestricted assets increased due to an increase in cash position and investments in capital assets decreased due to the depreciation.

Pacific Transit
Summary Statement for Net Position
For the years ending December 31, 2014, 2013 and 2012

	2014	2013	2012
ASSETS:			
Current Assets	$ 1,931,344	$ 1,875,235	$ 1,695,438
Capital Assets (net)	2,652,539	2,930,095	3,235,078
Total Assets	4,583,883	4,805,330	4,930,516
LIABILITIES:			
Current Liabilities	104,489	111,675	126,373
Noncurrent Liabilities	127,692	120,299	106,507
Total Liabilities	232,181	231,974	232,880
NET POSITION:			
Investment in capital assets	2,652,539	2,930,095	3,235,078
Unrestricted	1,699,164	1,643,261	1,462,558
Total Net Position	$ 4,351,703	$ 4,573,356	$ 4,697,636

Sixty-one percent (61%) of the Transit's assets reflect its investments in capital assets (e.g. revenue vehicles , passenger facilities and shop equipment). The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the asset balance is not available for future spending. The remainder is available to support future obligations for transportation operations. The transit currently does not have any assets designated as restricted.

The Transit's net position decreased by $221,653 (4.8%) over 2013. The following summary Statement of Revenues, Expenses and Changes in Fund Net Position for the last three years summarizes how this change in net assets occurred.

Pacific Transit
Summary Statement of Revenues, Expenses and Changes in Net Position
For the years ending December 31, 2014, 2013 and 2012

	2014	2013	2012
Operating Revenue	$ 37,125	$ 40,813	$ 36,301
Nonoperating Revenue	1,552,985	1,447,709	1,441,217
Total Revenues	1,590,110	1,488,522	1,477,518
Operating Expenses	1,811,763	1,789,554	1,848,391
Nonoperating Expense	-	-	83,408
Total Expense	1,811,763	1,789,554	1,931,799
Excess/(Deficiency)	(221,653)	(301,032)	(454,281)
Capital Contributions	-	176,752	-
Change in Net Position	$ (221,653)	$ (124,280)	$ (454,281)
Ending Net Position	$ 4,351,703	$ 4,573,356	$ 4,697,636

REVENUE BY SOURCE

	2014	2013	2012
Passenger Fares	$ 36,211	$ 39,396	$ 35,559
Sales Tax	790,561	765,617	674,014
Operating Grants	760,728	679,596	754,772
Investment Income	1,696	2,496	3,423
Miscellaneous Income	914	1,417	742
Gain/(Loss) on retired assets	-	-	9,008
Revenues before contributions	1,590,110	1,488,522	1,477,518
Capital Contributions	-	176,752	-
Total Revenues	$ 1,590,110	$ 1,665,274	$ 1,477,518

Pacific Transit's fares consist of revenues from the sale of passes and tokens as well as cash fares collected on-board revenue vehicles. There was a decrease in passenger fares from 2013 to 2014 of $3,185 (8%) indicating that the number of passengers has decreased .

In 2014 sales tax revenue increased by 3.26% over 2013. The increase in revenue was due to an increase of sales in Pacific County which indicates that the local economy was improving from the 2013 level of activity.

Operating grants increased $81,132 over 2013 an increase of 11.9%. The transit received a capital contribution of $176,752 in 2012. This year they did not receive a capital contribution.

Sales tax and operating grants account for the majority (97.6%) of the revenue received by the transit.

Investment income was down $800 a decrease of 32.1% from 2013 investment earnings. This was due primarily to the continuing decline in interest rates.

EXPENSES BY DEPARTMENT

	Expenses by Department		
	2014	**2013**	**2012**
Operations	$ 1,095,019	$ 1,104,971	$ 1,150,256
Maintenance	415,955	406,664	408,512
Administration	300,789	277,919	289,623
Total Expenses	$ 1,811,763	$ 1,789,554	$ 1,848,391

EXPENSES BY OBJECT

	Expenses by Object		
	2014	**2013**	**2012**
Wages and Benefits	$ 1,092,253	$ 1,066,459	$ 1,040,880
Supplies	251,517	264,081	271,814
Other Charges and Services	190,437	154,031	170,346
Depreciation	277,556	304,983	365,351
Total Expenses	$ 1,811,763	$ 1,789,554	$ 1,848,391

Expenses were up by $22,209 an increase of 1.2% over 2013. Operations expenses were down $9,952 from 2013 mostly from the decrease in depreciation expense. Maintenance expenses increased $9,291 over 2013 and administrative expenses increased $22,870 over 2013.Wages and benefits increased $25,794 over 2013. Supplies decreased $12,564 from 2013. Other charges and services increased by $36,406 from 2013. Depreciation decreased $27,427 from 2013.

INVESTMENT IN CAPITAL ASSETS

There was a no change in Pacific Transit's investment in capital assets from 2014 to 2013. Capital assets include land, buildings, revenue vehicles, shop equipment and other assets having a life of more than one year.

See Note 3 of the Notes to Financial Statements for further discussion on capital assets.

ECONOMIC FACTORS AND FUTURE OUTLOOK

County-wide retail sales, which Pacific Transit relies on for its sales tax, are expected to hold steady this year as the nationwide economy continues to stabilize. Economic forecasts show consumer confidence, purchasing habits and the tourist industry are looking up slightly but the economy is still rather stagnate. As a result of the slow economic growth, inflation, and continued high fuel costs, Pacific Transit revenues are excepted to experience minimal growth over the coming year.

The 2015 budget plan anticipates the continued use of state and federal grants to maintain the current service levels. If there were a reduction in the grants because of the weak economy, there would have to be a reduction in services. There are no plans for fare increases.

The Pacific Transit has developed a financial plan that anticipates very little change from its current operations. The transit is hoping to maintain it's cost per hour of operations as one of the lowest in the state.

Throughout the next five years, capital spending will focus on maintaining existing equipment and facilities in a good state of repair. To accomplish this, Pacific Transit will purchase replacement vehicles and use new technologies to provide better customer service and information. Over the next five years, starting in 2015, Pacific Transit intends to replace two (2) Dial-A-Ride vans and two (2) 30ft buses and two (2) mid-size buses.

PACIFIC TRANSIT SYSTEM
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2014 and 2013

ASSETS

		2014		2013
CURRENT ASSETS:				
Cash and Cash Equivalents	$	1,724,629	$	1,667,629
Accounts Receivable (net of allowance for uncollectible)	$	220	$	1,066
Due from other governments	$	124,673	$	125,282
Inventory	$	81,823	$	81,258
Total Current Assets	$	1,931,344	$	1,875,235
NONCURRENT ASSETS:				
Capital Assets not being depreciated:				
Land	$	30,365	$	30,365
Capital Assets being depreciated				
Buildings & Shelters	$	1,631,153	$	1,631,153
Equipment	$	3,682,529	$	3,682,529
Less: Accumulated depreciation	$	(2,691,508)	$	(2,413,952)
Total Noncurrent Assets	$	2,652,539	$	2,930,095
TOTAL ASSETS	$	4,583,883	$	4,805,330

The notes to financial statements are an integral part of this statement.

PACIFIC TRANSIT SYSTEM
COMPARATIVE STATEMENTS OF NET POSITION
December 31, 2014 and 2013

LIABILITIES

	2014	2013
CURRENT LIABILITIES:		
Accounts/Warrants payable	$ 97,434	$ 104,615
Accrued expenses	$ 6,801	$ 6,846
Customer prepayments	$ 254	$ 215
Total Current Liabilities	$ 104,489	$ 111,675
NONCURRENT LIABILITIES:		
Employee leave benefits	$ 127,692	$ 120,299
Total Noncurrent Liabilities	$ 127,692	$ 120,299
TOTAL LIABILITIES	$ 232,180	$ 231,974

NET POSITION

NET POSITION:		
Investment in capital assets	$ 2,652,539	$ 2,930,095
Unrestricted	$ 1,699,164	$ 1,643,261
TOTAL NET POSITION	$ 4,351,703	$ 4,573,356

The notes to financial statements are an integral part of this statement.

PACIFIC TRANSIT SYSTEM
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Passenger fares	$ 36,211	$ 39,396
Other operating revenue	$ 914	$ 1,417
Total Operating Revenues	$ 37,125	$ 40,813
OPERATING EXPENSES:		
Operations	$ 817,463	$ 799,988
Maintenance	$ 415,955	$ 406,664
Administrative expenses	$ 300,789	$ 277,919
Depreciation/Amortization/Depletion	$ 277,556	$ 304,983
Total Operating Expenses	$ 1,811,763	$ 1,789,554
Operating Income (Loss)	$ (1,774,638)	$ (1,748,741)
NONOPERATING REVENUES (EXPENSES):		
Sales tax	$ 790,561	$ 765,617
External operating subsidies	$ 760,728	$ 679,596
Investment income	$ 1,697	$ 2,496
Total Nonoperating Revenues (Expenses)	$ 1,552,985	$ 1,447,709
Income (loss) before contributions	$ (221,653)	$ (301,032)
Capital Contributions	$ -	$ 176,752
Increase (decrease) in net position	$ (221,653)	$ (124,280)
Net position - January 1	$ 4,573,356	$ 4,697,636
Net position - December 31	$ 4,351,703	$ 4,573,356

The notes to financial statements are an integral part of this statement.

PACIFIC TRANSIT SYSTEM
COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES*		
Receipts from customers	$ 37,056	$ 39,626
Payments to suppliers	$ (449,700)	$ (439,708)
Payments to employees	$ (1,084,905)	$ (1,052,798)
Other receipts (payments)	$ 955	$ 1,386
Net cash provided (used) by operating activities	$ (1,496,594)	$ (1,451,494)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from sales tax	$ 791,169	$ 753,351
Proceeds from operating subsidies	$ 760,728	$ 679,596
Proceeds from sales tax interest	$ 154	$ 233
Net cash provided by noncapital financing activities	$ 1,552,051	$ 1,433,181
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions	$ -	$ 176,752
Net cash used for capital and related financing activities	$ -	$ 176,752
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends on investments	$ 1,543	$ 2,263
Net cash used for investing activities	$ 1,543	$ 2,263
Net increase (decrease) in cash and cash equivalents	$ 57,000	$ 160,702
Balances - beginning of the year	$ 1,667,629	$ 1,506,927
Balances - end of the year	$ 1,724,629	$ 1,667,629

***Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities**

Operating income (loss)	$ (1,774,638)	$ (1,748,741)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:		
Depreciation expense	$ 277,556	$ 304,983
Change in assets and liabilities:		
Receivables, net	$ 846	$ 230
Inventories	$ (565)	$ (7,059)
Accounts/Warrants payables	$ (7,181)	$ (14,536)
Employee benefits	$ 7,347	$ 13,661
Customer prepayments	$ 41	$ (31)
Total adjustments	$ 278,044	$ 297,247
Net cash provided by operating activities	$ (1,496,594)	$ (1,451,494)

The notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pacific Transit System was incorporated in August 1979 and operates under the laws of the state of Washington applicable to a transit agency. The financial statements of the Pacific Transit System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

The Pacific Transit is a special purpose government and provides public transportation services to the general public and is supported primarily through user charges, sales tax and operating grants.

The Pacific Transit Authority Board (PTAB) is governed by an elected seven member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. (The Pacific Transit System has no component units.)

B. Basis of Accounting And Reporting

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

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

The Pacific Transit System 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).

The transit distinguishes between operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a transit's principal ongoing operations. The principal operating revenues of the transit are charges to customers for passenger fares. The transit also recognizes as operating revenue charter and freight service and other special fares. Operating expenses for the transit include the cost of sales and services, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is the Pacific Transit System's policy to invest all temporary cash surpluses. At December 31, 2014 and 2013, the Pacific Transit System was holding $1,724,629 and $1,667,629 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

For purposes of the statement of cash flows, the transit considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Short-Term Investments

See Note 2, *Deposits and Investments.*

3. Receivables

Taxes receivable consist of amounts owed from governmental agencies and related interest and penalties. Accrued interest receivable consists of amount earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Receivables are considered to be 100% collectable, so no allowance for uncollectibles is recognized. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

4. Amounts Due To and From Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

5. Inventories

Inventories are valued at lower of cost or market using the weighted average method.

6. Capital Assets and Depreciation

See Note 3, *Capital Assets and Depreciation.*

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The transit records unpaid leave for compensated absences as an expense and liability when incurred.

The Pacific Transit System allows up to 1,440 hours accumulation of sick leave. Part time employees accumulate four hours sick leave for 80 hours worked. Full time employees (140 hours or more per month) accumulate eight hours sick leave per month. Upon separation, employees receive payment of 50% of their unused sick leave, up to 720 hours.

Vacation pay, which may be accumulated up to 200 hours depending on length of service, is payable upon resignation, retirement, or death. Excess vacation over 200 hours is cashed out at year-end.

8. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

NOTE 2 – INVESTMENTS

DEPOSITS

The Pacific Transit's deposits and certificates of deposit are entirely covered 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).

INVESTMENTS

As of December 31 the Pacific Transit System had the following investments:

Investment	Value 2014	Value 2013
County investment pool	$1,716,552	$1,661,662
Total	$1,716,552	$1,661,662

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the Pacific Transit System would not be able to recover the value of the investment or collateral securities. Of the Transit's total position $-0- is exposed to custodial risk because the investments are held in the county investment pool.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Furnishings and equipment are capitalized if they have individual values of at least $5,000 and the useful life extends over more than one fiscal year. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost.

The Pacific Transit System has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Pacific Transit System has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account. The Pacific Transit System amortizes contributed capital from grant funds by amounts that equal the annual depreciation of the portion of those assets acquired with that capital.

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

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives. This allocation is done using the straight line method of depreciation based on depreciable lives as indicated below:

Buildings and structures	5 – 40 years
Buses, accessories and vehicles	5 – 15 years
Other Equipment	3 – 10 years

Capital assets activity for the year ended December 31, 2014 was as follows:

Governmental Activities	**Beginning Balance 01/01/2014**	**Increase**	**Decrease**	**Ending Balance 12/31/2014**
Capital assets, not being depreciated				
Land	$30,365.00			$30,365.00
Total capital assets, not being depreciated	$30,365.00			$30,365.00
Capital assets, being depreciated:				
Buildings and structures	$1,631,153.18			$1,631,153.18
Buses, accessories and vehicles	3,595,584.43			3,595,584.43
Other equipment	86,944.41			86,944.41
Total capital assets being depreciated	$5,313,682.02			$5,313,682.02
Total capital assets	$5,344,047.02			$5,344,047.02
Less accumulated depreciation for:				
Buildings and structures	$ 995,290.00	$ 46,006.00		$1,041,296.00
Buses, accessories and vehicles	1,331,717.00	231,550.00		1,563,267.00
Other equipment	86,945.00			86,945.00
Total accumulated depreciation	$2,413,952.00	$277,556.00		$2,691508.00
Governmental activities capital assets, net	$2,930,095.02	($277,556.00)	-0-	$2,652,539.02

Capital assets activity for the year ended December 31, 2013 was as follows:

Governmental Activities	Beginning Balance 01/01/2013	Increase	Decrease	Ending Balance 12/31/2013
Capital assets, not being depreciated				
Land	$30,365.00			$30,365.00
Total capital assets, not being depreciated	$30,365.00			$30,365.00
Capital assets, being depreciated:				
Buildings and structures	$1,631,153.18			$1,631,153.18
Buses, accessories and vehicles	3,767,955.43		($172,371.00)	3,595,584.43
Other equipment	87,459.41		(515.00)	86,944.41
Total capital assets being depreciated	$5,486,568.02		($172,886.00)	$5,313,682.02
Total capital assets	$5,516,933.02		($172,886.00)	$5,344,047.02
Less accumulated depreciation for:				
Buildings and structures	$ 949,284.00	$ 46,006.00		$ 995,290.00
Buses, accessories and vehicles	1,247,731.00	256,357.00	($172,371.00)	1,331,717.00
Other equipment	84,840.00	2,620.00	(515.00)	86,945.00
Total accumulated depreciation	$2,281,885.00	$304,983.00	($172,886.00)	$2,413,952.00
Governmental activities capital assets, net	$3,235,078.02	($304,983.00)	-0-	$2,930,095.02

NOTE 4 – PENSION PLANS

Substantially all Pacific Transit System's full-time and qualifying part-time employees 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 retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov

Public Employee's Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits of Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

PERS Plan 1 members are vested after the completion of five years of eligible service. PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at the age of 60 with five years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. The monthly benefit is two (2) percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three (3) percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

PERS Plan 2 members who have at least 20 years of service-credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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

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

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

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

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

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

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

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

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

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

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

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

From January 1, 2007 through December 31, 2007 judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

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

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates and PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer *	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	****

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

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Government*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Government	12.26%	12.3%	7.50%***

*The employer rates include the employer administrative expense fee currently set at 0.18%.
**Plan 3 defined benefit portion only.
***Minimum rate.

Both Pacific Transit System and the employees made the required contributions. The Pacific Transit System's required contributions for the years ended December 31 were:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2014	$ 0	$ 22,736	$ 11,960
2013	$ 0	$ 22,921	$ 10,570
2012	$ 0	$ 23,300	$ 9,748

NOTE 5 – DEFERRED COMPENSATION PLAN

The Pacific Transit System offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code section 457. The first plan is with ICMA Retirement Trust, a retirement corporation who administers deferred compensation and qualified money purchase plans for state and local governments and their instrumentalities (public employees) throughout the United States. The second plan is with the State of Washington Department of Retirement Systems Deferred Compensation Program (DCP). The plans, available to eligible employees, permit them to defer a portion of their salary until termination, retirement, death or unforeseeable emergency.

Deferred compensation and all income attributable to the ICMA plan are the sole property of the Pacific Transit System. The transit's rights to this property are subject only to claims of the Pacific Transit System's general creditors until paid to the employee or other beneficiary, and are not restricted to the benefit provisions under the plan. The DCP plan is administered by the State of Washington and all amounts deferred are held in trust by the Washington State Investment Board for the exclusive benefit of the program participants and their beneficiaries.

In the opinion of the Pacific Transit System's legal counsel, the transit has no liability for losses in the retirement trust. However, the Pacific Transit System does have the duty of due care that is required of an ordinarily prudent investor. The Pacific Transit System believes that it is highly unlikely that it will use the assets in the retirement trust to satisfy the claims of general creditors in the future.

The total assets in the ICMA plan at December 31, 2014 and 2013 were $17,551 and $15,661.

NOTE 6 – CONTINGENCIES AND LITIGATION

The Pacific Transit System participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The Pacific Transit System management believes that such disallowances, if any, will be immaterial.

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NOTE 7 – RISK MANAGEMENT

In December 1988, Pacific Transit System signed an inter-local governmental agreement per Chapter 48.62 and 29.34 of Washington State RCW's with seven Washington public transit systems for the joint purchase of liability, collision and errors omissions insurance, joint self-insurance, and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. The agreement created an agency known as the Washington State Transit Insurance Pool (WSTIP). Pacific Transit System's commitment to the Insurance Pool was for a minimum of four years.

Today the WSTIP has a membership of 25 public transit organizations. The WSTIP is governed by a board of directors consisting of representatives from the following transits: Asotin, Ben Franklin, Clallam, Columbia, Community, C-Tran, River Cities, Everett, Grant, Grays Harbor, Intercity, Island County, Jefferson, Kitsap, Link, Mason, Pacific, Pierce, City of Pullman, Skagit, Spokane, Twin, Valley, Whatcom and Yakima.

The purpose of the pool is stabilization of present insurance costs and reduction of costs in the long-term future.

Additional information on the WSTIP, including their financial statements, may be obtained by writing to WSTIP, 2629 12th Crt SW, Olympia, WA 98502 or online at www.wsitp.org.

The Pacific Transit does not have any retained risk(s).

MCAG NO. 0434 PACIFIC TRANSIT SYSTEM **Schedule 16**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended December 31, 2014

1	2	3	4	5			6
				Expenditures			
Federal Agency Name/ Pass-Through Agency Name	**Federal Program Name**	**CFDA Number**	**Other Award Number**	**From Pass-Through Awards**	**From Direct Awards**	**Total**	**Foot-note Ref.**
Federal Transit Administration, Department of Transportation	Formula Grants for Rural Areas	20.509	GCB1627	585,780		585,780	2
Total Federal Awards Expended				585,780		585,780	

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For Year Ended December 31, 2014

NOTE 1 - BASIS OF ACCOUNTING

The schedule of financial assistance is prepared on the same basis of accounting as the Transit's financial statements. The Transit uses the full-accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenses represent only the federal grant portions of the program costs. Entire program costs, including the Transit's portion, are more than shown.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office

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