Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Jefferson County Public Transportation Benefit Area (Jefferson Transit Authority)

For the period January 1, 2016 through December 31, 2016

Published August 3, 2017
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Office of the Washington State Auditor
Pat McCarthy

August 3, 2017

Board of Commissioners
Jefferson Transit Authority
Port Townsend, Washington

Report on Financial Statements

Please find attached our report on the Jefferson Transit Authority's financial statements.

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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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*

Jefferson Transit Authority
Jefferson County
January 1, 2016 through December 31, 2016

Board of Commissioners
Jefferson Transit Authority
Port Townsend, 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 Jefferson Transit Authority, Jefferson County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements, and have issued our report thereon dated July 26, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Transit Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit Authority'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 Authority'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 Authority's financial statements are free from material misstatement, we performed tests of the Transit Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

July 26, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Jefferson Transit Authority
Jefferson County
January 1, 2016 through December 31, 2016

Board of Commissioners
Jefferson Transit Authority
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Jefferson Transit Authority, Jefferson County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Transit Authority'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 Authority'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 Jefferson Transit Authority, as of December 31, 2016, 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.

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 10 through 16 and pension plan information on pages 36 through 40 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2017 on our consideration of the Transit Authority'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 Authority's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

July 26, 2017

FINANCIAL SECTION

Jefferson Transit Authority
Jefferson County
January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA/Jefferson Transit Authority

MANAGEMENT DISCUSSION & ANALYSIS
For The Year Ended December 31, 2016

The management of Jefferson Transit Authority (Jefferson Transit) offers the readers of Jefferson Transit's financial statements this narrative as an overview and analysis of the financial activities for the fiscal year ended December 31, 2016. To more fully understand the financial position of Jefferson Transit, this narrative should be considered in conjunction with the information contained in Jefferson Transit's financial statements and accompanying notes.

Jefferson Transit was established in 1980 to provide public transit services.

Current services include:

Fixed Route – Standard bus service on fixed, regularly scheduled routes.

Route Deviated – Is a normal fixed route service that will deviate up to ¾ mile off-route to provide demand response services.

Demand Response (Dial-A-Ride) – Is a shared-ride public transportation service for people with disabilities that prevent them from riding regular bus service.

Vanpool – A program that makes available to groups of 5-15 people a vehicle for commuting to work.

The primary hub of operations is located outside Port Townsend at 63 4 Corners Road, with a transit hub located at the Haines Place Park and Ride and a second satellite base located on the west side of the county in Forks known as Jefferson Transit – Olympic Connection.

FINANCIAL HIGHLIGHTS

It is our opinion that Jefferson Transit's overall future financial position is positive but we will continue to address existing fiscal challenges. 2016 versus 2015 changes and highlights include the following:

- Operating revenue increased slightly .4% to $206,864 from $205,945. There were no service changes in 2016 and ridership decreased by 455 riders or .1%.
- Operating expenses (excluding depreciation) decreased .2% to $3,914,050 from $3,922,834. There were increases in salaries and wages, however, expenses were also offset by significant fuel expenses savings due to lower fuel costs.
- Sales tax revenue increased 13% to $4,568,006 from $4,042,958. This increase is attributed to continued economic recovery and construction projects in Jefferson County.
- Operating subsidies decreased 2.9% to $1,080,087 from $1,112,564, this funding can fluctuate depending on grant awards.
- Beginning Net position had a prior period adjustment due to a pre-paid expense that was posted in the incorrect year and depreciation expense posted to prior years. Net position increased 15.7% to $13,113,082 from $11,333,408 due to favorable sales tax receipts.

Jefferson Transit began construction of an Administration and Maintenance Facility in 2014. The facility was ready for occupation in June of 2015, but there were several items on the punch list that were not completed until early 2016. The project was fully complete in April 2016.

Jefferson Transit's primary expense, as with any service industry, is Labor and Benefits. Jefferson Transit's 2016 expenses included a contractual increase to represented labor of 2%, wage increases were also granted to non-represented staff. Labor expenses increased $15,231 over 2015. Benefits increased by $35,081 over 2015.

Another major expense for the Jefferson Transit budget is fuel. For a third year in a row fuel expense decreased dramatically. The expense for fuel was $183,228, a decrease of $51,208 (or 27%) from 2015.

Overall, Jefferson Transit's management has a high degree of control over expenses. Budget versus actual expenses are reviewed by staff and reported to the Authority Board monthly.

OVERVIEW OF THE FINANCIAL STATEMENTS

Jefferson Transit's financial statements include two components: 1) financial statements and 2) notes to the financial statements. This management discussion and analysis is intended to serve as an introduction to Jefferson Transit's basic financial statements.

Financial Statements

The *Statement of Net Position* presents information on all of Jefferson 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 financial position of Jefferson Transit is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how Jefferson Transit's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused general leave).

The *Statement of Cash Flows* presents actual in and out cash activity during the fiscal period related to operating activities, noncapital financing activities, capital activities and investing activities. Additionally, a reconciliation of net cash provided (used) by operating activities to Operating Income (Loss) is included. Over time, increases or decreases in cash balances may serve as a useful indicator of the financial stability of Jefferson Transit.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information essential to fully understand the data provided in Jefferson Transit's financial statements and are located following the Statement of Cash Flows.

FINANCIAL ANALYSIS

Statement of Net Position

The following condensed financial information provides an overview of Jefferson Transit's financial position for the fiscal years ending December 31, 2016 and 2015.

In 2016, total assets were $16,535,571, an increase of $1,911,308 (or 13.1%) from 2015. In 2016 current and other assets were $6,999,455, an increase of $2,252,349 (or 47.4%) from 2015. At December 31, 2016 Jefferson Transit had total liabilities of $3,727,332, an increase of $508,141 (or 15.8%) from 2015 year-end. The increase in total liabilities is due to an increase in pension liability and an increase in Accounts Payable due to the timing of payments at year end compared to 2015.

Jefferson Transit's assets exceeded liabilities at December 31, 2016 by 13,113,083 (total net position). Invested in capital assets is $8,493,507. Unrestricted net assets are $4,534,326, an increase of $3,163,325 (or 230.7%) from year-end 2015. This increase is attributable to a favorable sales tax revenue year and fewer capital projects than in 2015. Due to a bond covenant, Jefferson Transit now has a restricted component of assets, $85,250 is restricted in a Bond Reserve Fund.

The financial position of Jefferson Transit remains strong in 2016.

Statement of Net Position (Summary) December 31, 2016 and 2015						
		2016		2015		2016 Increase (Decrease) Over 2015
Assets:						
Current and Other Assets	$	6,999,455	$	4,747,106	$	2,252,349
Capital Assets, Net		9,536,117		9,877,157		(341,040)
Total Assets	$	16,535,571	$	14,624,263	$	1,911,308
Deferred Outflow - Pension	$	365,276	$	215,342		
Total Assets & Deferred Outflows		16,900,847		14,839,605		
Liabilities:						
Current Liabilities	$	405,905	$	142,679	$	263,226
Long-Term Liabilities		3,321,426		3,076,511		244,915
Total Liabilities	$	3,727,331	$	3,219,191	$	508,140
Deferred Inflow - Pension	$	60,433	$	287,006		
Invested in Capital Assets	$	8,493,507	$	9,877,157	$	(1,383,650)
Restricted	$	85,250	$	85,250	$	-
Unrestricted		4,534,326		1,371,001		3,163,325
Total Net Position	$	13,113,083	$	11,333,408	$	1,779,675
Total NP-Liabilities-Deferred IF	$	16,900,847	$	14,839,605	$	2,061,242

Statement of Revenues, Expenses and Changes in Fund Net Position

As of December 31, 2016 total net position was $13,113,083, an increase of $1,179,675 (or 15.7%) from 2015 year-end. 2016 capital contributions were $115,923, a decrease of $1,142,853 from 2015. There were no major grant funding capital projects in 2016 resulting in lower grant funded capital contributions.

Operating revenue, operating expense and non-operating revenue variances are detailed in greater detail below.

Revenues, Expenses and Changes in Fund Net Position (Summary) For The Years Ended December 31, 2016 and 2015						
		2016		2015		2016 Change Over 2015
Operating Revenues	$	206,864	$	205,945	$	919
Operating Expense		(4,509,292)		(4,456,458)		(52,834)
Operating Income (Loss)	$	(4,302,428)	$	(4,250,513)	$	(51,916)
Nonoperating Revenues (Expenses)		6,068,980		5,175,817		893,163
Capital Contributions		115,923		1,259,776		(1,143,853)
Increases (Decreases) in Net Assets	$	1,882,475	$	2,185,081	$	(302,606)
Net Position - Beginning (January 1)	$	11,333,408	$	11,116,668	$	216,740
Prior Period Adjustment		(102,800)		(1,968,341)		1,865,541
Net Position - Ending (December 31)	$	13,113,083	$	11,333,408	$	1,779,675

Operating Revenues

Operating revenues are revenues tied directly to transit and transit related services. 2016 operating revenues for Jefferson Transit were $206,864. This is an increase of $1,699 (.8%) over the 2015 figures.

Operating revenues by category:

Passenger Fares for Transit Services – Includes fares for fixed route, Dial-a-Ride and, vanpool programs. There was little change in farebox revenue between 2016 and 2015. Jefferson Transit made no changes to service in 2016 so little or no change in revenue is an expected outcome.

Auxiliary Transportation Services – Includes services provided that are closely associated with but not directly related to transit services. For Jefferson Transit this meant a contract with the Jefferson County Library to wash their bookmobile. In late 2015 the Library purchased a new bookmobile vehicle. This vehicle does not fit in Jefferson Transit's bus wash, therefore, the contract with the Library was terminated. There was not Auxiliary Transportation Revenue in 2016.

Operating Revenues
For The Years Ended December 31, 2016 and 2015

	2016	2015	2016 Increase (Decrease) Over 2015
Passenger Fares for Transit Services	$ 206,864	$ 205,165	$ 1,699
Auxiliary Transportation Revenues	0	780	(780)
Operating Revenues	$ 206,864	$ 205,945	$ 919

Operating Expenses

Operating expenses are all expenses tied to operations and providing transit related services. Operating expense categories include operations, maintenance, administration and depreciation.

2016 operating expenses were $4,595,490, an increase of $139,032 (or 3.12%) from 2015.

Operating expenses by category:

Operations – Responsible for all on-street services including transit operators and dispatchers. 2016 expenses related to operations were $1,565,896, a decrease of $321,399 (17%) from 2015. In May 2015 JTA created a new department, the Haines Place Transit Center (HPTC). While 2016 included an increase in wages to all represented staff of 2% and step increases (generally 3%) granted to management staff, a majority of the budget reduction for Operations is because budget was transferred to the HPTC.

Haines Place Transit Center (HPTC) – 2016 was the first full year for the HPTC, the comparative date from 2015 is only from May to December. Additionally, the dispatchers were charged to operations in 2015 and transferred to the HPTC in 2016. The dispatchers will move back to Operations in 2017

Maintenance – Responsible for all vehicles including fuel, parts, cleaning, servicing, and facility upkeep. Expenses related to maintenance were $995,927 in 2016. This is a decrease of $14,692 (or 1.5%) from 2015. The decrease in 2016 is attributed to a reduction in fuel expense ($51,208, 21%), however, that decrease is offset by a significant increase ($33,747, 28%) to Maintenance and Repair Parts.

Administration – Responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, and human resources. 2016 expenses related to administration were $820,386, an increase of $41,675 (or 5.4%) from 2015. Staff step increases (approximately 3%), personnel changes, as well moving the part-time IT position to a full time, and an increase in liability insurance premiums are primarily responsible for the increases.

Depreciation – This is the estimated pro-ration of the cost of capital assets over the useful life of the asset. 2016 expenses related to depreciation were $595,243, an increase of $61,619 (or 11.5%) from 2015. Jefferson Transit began depreciating its new Administration and Maintenance facility in 2016.

Operating Expenses
For The Years Ended December 31, 2016 and 2015

	2016	2015	2016 Increase (Decrease) Over 2015
Operations	$ 1,565,896	$ 1,887,295	$ (321,399)
Haines Place Transit Center	531,840	246,209	$ 285,631
Maintenance	995,927	1,010,619	(14,692)
Administrative Expenses	820,386	778,711	41,675
Depreciation	595,243	533,624	61,619
Operating Expenses	$ 4,509,292	$ 4,456,458	$ 52,834

Non-operating Revenues

Non-operating income consists mainly of sales tax revenue, investment income, and operating grants. Non-operating revenues are all revenues that are not tied directly to an operating category such as fixed route fares.

2016 non-operating revenue was $6,068,980, an increase of $893,163 (or 17.3%) over 2015.

Non-operating Revenues by category:

Sales Tax – Consists of revenue received from local sales tax at the rate of 0.9%. 2016 sales tax was $4,568,006, an increase of $525,049 (or 13%) from 2015. The increase is due to an improving economy and construction projects in Jefferson County.

Operating Subsidies – Consist mainly of state and federal grants. 2016 operating subsidies were $1,080,087, a decrease of $32,477 (or 2.9%) from 2015. Grant funding is steady from year to year with little fluctuation.

Investment Income – Consists of revenue generated from investment interest. 2016 investment income was $16,495, an increase of $12,599 (or 323.4%) from 2015. Stronger fund balances account for the increase.

Other Non-operating Revenues (Expenses) – Consists of revenues not readily categorized to another revenue line. Other Non-operating Revenues consists of extraordinary items, special items, gain (loss) on sales disposition of capital items, public donations and other non-transportation revenues. For 2016 Non-operating Revenues largely consist of gain (loss) on sales disposition of capital items. Jefferson Transit sold the former depot property located at 1615 W. Sims Way. 2016 other non-operating revenues (expenses) were $404,391, an increase of $387,993 (or 2366.1%) from 2015.

Nonoperating Revenues (Expenses) For The Years Ended December 31, 2016 and 2015			
	2016	2015	2016 Increase (Decrease) Over 2015
Sales Tax	$ 4,568,006	$ 4,042,958	$ 525,049
Operating Subsidies	1,080,087	1,112,564	(32,477)
Investment Income	16,495	3,896	12,599
Other Nonoperating Revenues (Expenses)	404,391	16,398	387,993
Nonoperating Revenues (Expenses)	$ 6,068,980	$ 5,175,817	$ 893,163

Statement of Cash Flows

2016 year-end cash balance was $5,769,829, an increase of $2,192,892 (or 61.3%) from 2015 year-end. 2016 cash used by operating activities was $3,757,528, a decrease of $274,871 (or 6.8%) from 2015. 2016 cash provided from noncapital financing activities was $5,865,517, an increase of $779,253 (or 15.3%) from 2015. 2016 cash used by capital and related financing activities was $68,408, an increase of $1,508,762 (or 104.7%) from 2016. Cash provided by investing activities (interest earned) was $16,495, an increase of $12,599 (or 92.5%) from 2015. Jefferson Transit is focused on controlling costs, building reserves for future capital purchases and expanding service options, and sustaining current operations.

Statement of Cash Flows (Summary) For The Years Ended December 31, 2015 and 2014			
	2016	2015	2016 Increase (Decrease) Over 2015
Net Cash Provided (Used) by:			
Operating Activities	$ (3,757,528)	$ (4,032,399)	$ 274,871
Noncapital Financing Activities	5,865,517	5,086,263	779,253
Capital and Related Financing Activities	68,408	(1,440,354)	1,508,762
Investing Activities	16,495	3,896	12,599
Net Increase (Decrease) in Cash and Equivalents	$ 2,192,892	$ (382,593)	$ 2,575,485
Cash Balances - Beginning of Year	$ 3,576,937	$ 3,959,530	$ (382,593)
Prior Year Adjustment			0
Cash Balances - End of Year	$ 5,769,829	$ 3,576,937	$ 2,192,892

Capital Assets

Jefferson Transit’s investment in capital assets as of year-end 2016 was $8,493,507 (net of related debt), a decrease of $1,383,650 (or 14%) from year-end 2015. Jefferson Transit’s investment in capital assets includes land, buildings, shelters, vehicles & equipment and construction in progress. Depreciation expense was $681,440; and $852,782 in fully depreciated assets were retired. Jefferson Transit’s asset decrease was due to sale of property at 1615 W Sims Way and the retirement of several assets. Jefferson Transit did not purchase new vehicles in 2016. Capital Equipment purchases were in the form of new computers, a photocopier, a trailer, and a parking lot sweeper/vacuum.

Additional information concerning capital assets may be obtained from Note 2 in the Notes to the Financial Statements.

ECONOMIC OUTLOOK

Jefferson Transit management has been and continues to be focused on controlling expenses. Jefferson Transit management has taken several measured steps to hold expenses in check and minimize the impact of inflationary pressures, but is keenly aware that the sales tax rate is at the maximum allowable by law. Any future actions taken by management will carefully consider the impact of service to the public and continued ability to comply with regulatory compliance expected of any government entity.

Given that costs increase in the long run, maintaining revenues coupled with the need to maintain Operating and Capital reserves, management must continue to ensure sound fiscal operation of Jefferson Transit.

Major issues which could impact the future financial condition of Jefferson Transit include:

- Maintaining grant and sales tax revenue streams with a focus on sustaining existing and developing new ones in order to address cost increases due to inflationary pressures.
- Review of community growth patterns and adjustment of routes as needed to address various county population centers.

Requests for Information

This financial report is designed to provide a general overview of Jefferson Transit Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

General Manager
Jefferson Transit Authority
63 Four Corners Road
Port Townsend, WA 98368

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
STATEMENT OF NET POSITION
December 31, 2016

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	$	5,769,829
Taxes Receivable	$	789,420
Accounts Receivable (Net)	$	6,455
Due To (From) Other Governments	$	314,107
Inventory	$	115,188
Prepaid Expenses	$	4,457
TOTAL CURRENT ASSETS	$	6,999,455
NONCURRENT ASSETS		
Capital Assets Not Being Depreciated:		
Land	$	1,103,423
Construction in Progress		193,290
Capital Assets Being Depreciated:		
Facility		6,483,368
Other Buildings & Structures		1,801,360
Revenue Vehicles		5,398,447
Service Vehicles		410,071
Service Equipment		517,277
Office Furniture & Equipment		384,021
Less: Accumulated Depreciation		(6,755,140)
TOTAL NONCURRENT ASSETS	$	9,536,117
TOTAL ASSETS	$	16,535,571
DEFERRED OUTFLOW OF RESOURCES		
Pension		365,276
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$	16,900,847

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable	$	336,189
Accrued Expenses	$	24,716
GO Bond Payable Current Year	$	45,000
TOTAL CURRENT LIABILITIES	$	405,905
NONCURRENT LIABILITIES		
Deposits and Other Payables	$	435
GO Bonds Payable	$	970,000
Unamortized Premium on Bonds Sold	$	27,610
Employee Leave Benefits	$	193,361
Pension Liability	$	2,130,020
TOTAL NONCURRENT LIABILITIES	$	3,321,426
TOTAL LIABILITIES	$	3,727,332
DEFERRED INFLOW OF RESOURCES		
Pension	$	60,433
NET POSITION		
Invested in Capital Assets, Net of Related Debt	$	8,538,507
Restricted for Bond Covenant	$	85,250
Unrestricted	$	4,489,326
TOTAL NET POSITION	$	13,113,083
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$	16,900,847

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

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2016

OPERATING REVENUES		
Passenger Fares	$	206,864
Other Operating Revenue		0
Total Operating Revenues	$	206,864
OPERATING EXPENSES		
Operations	$	1,565,896
HPTC	$	531,840
Maintenance		995,927
Administrative Expenses		820,386
Depreciation		595,243
Total Operating Expenses	$	4,509,292
Operating Income (Loss)	$	(4,302,428)
NONOPERATING REVENUES (EXPENSES)		
Sales Tax	$	4,568,006
External Operating Subsidies		1,080,087
Investment Income		16,495
Other Nonoperating Revenues (Expenses)		404,391
Total Nonoperating Revenues (Expenses)	$	6,068,980
Income (Loss) Before Capital Contributions, Extraordinary and Special Items	$	1,766,551
Capital Contributions	$	115,923
Increase (Decrease) In Net Position	$	1,882,474
Net Position - Beginning of Period	$	11,333,408
Prior Period Adjustment		(102,800)
Net Position - End of Period	$	13,113,083

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

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$	(61,618)
Payments to Suppliers		(542,829)
Payments to Employees		(3,102,650)
Change in accounting method for GASB 68		(50,430)
Net Cash Provided (Used) by Operating Activities	$	(3,757,528)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Sales Tax Receipts	$	4,508,423
Other Nonoperating Receipts		8,952
Operating Grant Receipts		1,326,891
Local Government Assistance Fund Receipts		21,250
Net Cash Provided (Used) by Noncapital Financing Activities	$	5,865,517
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	$	29,146
Purchases of Capital Assets		(542,442)
Sale of Capital Assets		581,704
Net Cash Provided (Used) by Capital and Related Financing Activities	$	68,408
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends	$	16,495
Net Cash Provided by Investing Activities	$	16,495
Net Increase (Decrease) in Cash and Cash Equivalents	$	2,192,892
Balances - Beginning of the Year	$	3,576,937
Balances - End of the Year	$	5,769,829
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$	(4,388,626)
Adjustments to Reconcile Operating Income to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense		681,440
Change in accounting method for GASB 68		(50,430)
Change in Assets and Liabilities:		
Receivables, Net		(267,868)
Inventories		32,945
Prepaid Expenses		8,093
Prepaid Revenue		150
Accounts and Other Payables		261,524
Accrued Payroll and Benefit Expenses		(34,757)
Net Cash Provided by Operating Activities	$	(3,757,528)

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

JEFFERSON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA/JEFFERSON TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Jefferson County Public Transportation Benefit Area was incorporated on July 11, 1980 and operates under the laws of the State of Washington applicable to a transit district. The financial statements of the Jefferson County P.T.B.A., DBA/Jefferson Transit Authority (Jefferson Transit) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

Jefferson Transit is a special purpose government entity and provides Fixed Route, Route Deviated, Demand Response (Dial-A-Ride) and Vanpool Programs to the general public. Jefferson Transit is supported through passenger and other transit charges, sales tax revenue and various local, state and federal contributions and grant programs.

Jefferson Transit is governed by an elected five-member board which consists of two City of Port Townsend councilors and the three Jefferson County commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Jefferson Transit has no component units.

B. Basis of Accounting and Reporting

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

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

Jefferson 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.

Jefferson Transit distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services in connection with Jefferson Transit's principal ongoing operations. The principal operating revenues of Jefferson Transit are charges to customers for passenger fares and charges collected for the use of the Vanpool program. Operating expenses result from those expenses incurred to provide transit services such as fixed route, route deviated, demand response and other services such as the Vanpool program. Operating expenses consist of direct expenses including driver wages and fuel, and indirect expenses such as administration costs and depreciation of capital assets. All revenues and expenses not meeting the definition of operating are classified as non-operating revenues and expenses.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents and Investments

It is Jefferson Transit's policy to invest all temporary cash surpluses. As of December 31, 2016 the treasurer was holding $5,769,829 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*, Jefferson Transit considers all highly liquid investments (including restricted assets) with a maturity of less than three months when purchased, to be cash equivalents.

Jefferson Transit's deposits 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 (WPDPC) and thus not subject to custodial credit risk.

Investments Measured at Amortized Cost

As of December 31, 2016, the District held $3,046,148 in the State Investment Pool, which is valued at amortized cost.

2. Receivables

As of December 31, 2016, Jefferson Transit had $789,420 in Taxes Receivable.

Taxes Receivable consists of sales tax receivable. Sales tax revenue is accrued in the period earned and received two months later.

As of December 31, 2016, Jefferson Transit had the following sales tax amounts accrued:

November 2016 Sales Tax Received January 2017	$	313,967
December 2016 Sales Tax Received February 2017		475,453
TOTAL	$	789,420

As of December 31, 2016, Jefferson Transit had $6,455 in Accounts Receivable (Net).

Accounts receivable consists of amounts owed from employees, private individuals or organizations for goods and services.

Due to the type and amount of receivables, no estimation is made for uncollectible accounts. When accounts are deemed uncollectible following all methods of collection efforts and, if necessary, reviewed by legal counsel, they are written off to appropriate categories.

As of December 31, 2016, Jefferson Transit had the following receivables:

Accounts Receivable	$	5,819
Accounts Receivable - Other		636
TOTAL	$	6,455

3. Due to (From) Other Governments

As of December 31, 2016, Jefferson Transit had a net $314,107 Due From Other Governments.

Amounts included in Due to (From) Other Governments consist primarily of local, state and federal grant funds.

As of December 31, 2016, Jefferson Transit had the following due from other governments:

Federal and State Governments - Operating		$	264,304
State Grants - Operating			4,657
Federal and State Grants - Capital			45,145
	TOTAL	$	314,107

4. Inventory

As of December 31, 2016, Jefferson Transit had $115,188 in Inventory.

Inventories consist of fuel on hand and vehicle maintenance parts and supplies and are valued using the first-in/first-out (FIFO) method. Jefferson Transit Authority values Maintenance Parts Inventory on a cost basis monthly, while fuel is valued on the lower of cost or market. Fuel value is determined utilizing the Washington State Department of Enterprise Services Fuel Price Update website.

As of December 31, 2016 Jefferson Transit had the following inventories:

Maintenance Parts Inventory		$	98,327
Fuel Inventory			16,861
	TOTAL	$	115,188

5. Restricted Assets and Liabilities

See Note 5 for Long Term Debt explanation and Note 7 for Restricted Component of Net Position.

6. Other Assets and Debits

As of December 31, 2016, Jefferson Transit had $4,457 in Prepaid Expenses.

Prepaid expenses consist of services that will be provided in a future period but paid as of the close of current period.

As of December 31, 2016, Jefferson Transit had the following prepaid expenses:

Prepaid Expenses	$	4,310
Employee Travel Advance	$	147
	$	4,457

7. Capital Assets and Depreciation - See Note 2.

8. Compensated Absences

As of December 31, 2016, Jefferson Transit had $193,361 in Employee Leave Benefits. This represents an increase of $8,687 from 2015.

Employee leave (general leave) benefits are for absences for which employees will be paid. Jefferson Transit records unpaid leave for compensated absences as an expense and liability when earned. Jefferson Transit’s employee general leave policy as of December 31, 2016 for both represented and non-represented staff allowed for the accumulation of general leave benefits at the rate of twenty-five days per year. Additional general leave benefits accrue after five and ten years continuous service at the rate of five additional days per year, respectively. The maximum amount of general leave hours represented employees may carry over from year to year is 520 hours and non-represented is 280 hours. Employees' general leave balances as of December 31st in excess of allowed balances are cashed-out and the funds are placed into employee HRA VEBA accounts.

9. Other Accrued Liabilities

As of December 31, 2016, Jefferson Transit had $336,189 in Accounts Payable.

Accounts payable are expenses unrelated to wages and employee-related liabilities recognized in the current period and paid in a future period.

As of December 31, 2016 Jefferson Transit had the following accounts payable:

Accounts Payable	$	336,189
TOTAL	$	336,189

As of December 31, 2016, Jefferson Transit had $24,716 in Accrued Expenses.

Accrued expenses consist mainly of accrued wages and employee-related liabilities.

As of December 31, 2016, Jefferson Transit had the following accrued expenses:

Accrued Employee Payroll & Related Liabilities		24,716
TOTAL	$	24,716

As of December 31, 2016, Jefferson Transit had $435 in Deposits and Other Payables.

Deposits and Other Payables consist of liabilities for deposits made by passengers for bike lockers.

10. Long Term Debt

Jefferson Transit issued general obligation bonds to finance the construction of a new Administration and Maintenance Facility at 63 Four Corners Road, Port Townsend. General obligation bonds have been issued for general government activities and are being repaid through sales tax revenue.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Date	Interest Rate	Original Amount	Amount of Installment
Construct Administration and Maintenance Facility	12/1/2033	2.5468%	1,090,000	80,755

The Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2017	$45,000	$35,350
2018	$50,000	$34,900
2019	$50,000	$34,250
2020	$50,000	$33,000
2021	$50,000	$31,750
2022-2026	$285,000	$133,750
2027-2031	$330,000	$77,225
2032-2033	$155,000	$10,575
TOTAL	**$1,015,000**	**$390,800**

At December 31, 2016, Jefferson Transit has $13,759 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $85,250 in sinking funds and reserves as required by bond indentures.

Jefferson Transit has pledged future sales tax revenue, net of operating expenses and reserve obligations, to repay $1,090,000 in general obligation bonds issued in June 2014. Proceeds from the bonds provided financing for the construction of an Administration and Maintenance Facility. The bonds are payable solely from sales tax revenue and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 2.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,405,800.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – CAPITAL ASSETS AND DEPRECIATION

A. Capital Assets

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. All capital assets are valued at historical cost or estimated historical cost where historical cost is not known. Jefferson Transit has acquired certain assets with funding provided by Washington State Department of Transportation (WSDOT) and federal financial assistance programs. Depending on the terms of the agreements involved, WSDOT and the federal government could retain an equity interest in these assets. However, Jefferson Transit has sufficient legal interest to accomplish the purposes for which the assets were acquired and has included such assets within the applicable account.

The original cost of capital 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 an asset, the original cost is removed from Jefferson Transit asset accounts. Accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income via Other Non-operating Revenue on the *Statement of Revenues, Expenses and Changes in Net Position*.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method with useful lives of three to thirty years. WSDOT provides guidance on the depreciation of all vehicles due to grant funding and financial reporting requirements.

- Facilities
  - Administration Building – 30 years,
  - Building Improvements – 5 to 10 years (based on type of improvement)
- Buildings and Structures
  - Park and Ride Structures – 30 years
  - Bus Stops and Shelters – 10 years
  - Improvements – 5 to 10 (based on type of improvement)
- Revenue Vehicles, Service Vehicles
  - Heavy Duty Small Buses 28ft-35ft – 10 years
  - Medium Duty Bus/Cutaway – 7 years
  - Light Duty Bus – 5 years
  - Light Duty Small Van – 4 years
- Service Equipment
  - 2 – 12 years dependent upon type of equipment
- Office Furniture & Equipment
  - 3 – 12 years dependent upon furniture or equipment

B. Capital Asset Schedule

In 2016 $100,000 in land and $852,782 in service vehicle, equipment and facility capital assets were retired (sold). In 2016 $6,746,305 were transferred from construction in progress to facilities, service equipment, and office furniture and equipment. This transfer represents the completion of the Maintenance and Administration Facility at 63 4 Corners Road. Jefferson Transit also began the design process for an extension to the existing park and ride lot at 63 4 Corners Road, Construction will begin in early 2017 and be complete by June 2017. Additionally, several capital purchases were made including a LED parking lot lighting upgrade, several computers; an office copier/printer/fax, a 7’x22’ vehicle trailer, and an articulating lift.

Capital assets activity for the year ended December 31, 2016 was as follows:

	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Capital assets, not being depreciated				
Land	$ 1,203,423		$ 100,000	$ 1,103,423
Construction in Progress	6,530,648	408,947	6,746,305	193,290
Total capital assets not being depreciated	$ 7,734,071	$ 408,947	$ 6,846,305	$ 1,296,713
Capital assets, being depreciated:				
Facility	$ 694,265	$ 6,473,754	$ 684,650	$ 6,483,368
Other Buildings & Structures	1,782,397	18,963		1,801,360
Revenue Vehicles	5,379,035	19,412		5,398,447
Service Vehicles	446,475		36,404	410,071
Service Equipment	390,015	149,391	22,129	517,277
Office Furniture & Equipment	276,287	217,333	109,599	384,021
Total capital assets being depreciated	$ 8,968,474	$ 6,878,852	$ 852,782	$ 14,994,544
Less accumulated depreciation for:				
Facility	$ 592,732	$ 209,329	$ 684,650	$ 117,411
Other Buildings & Structures	1,170,128	61,093		1,231,221
Revenue Vehicles	4,074,139	332,421		4,406,559
Service Vehicles	427,350	10,656	36,404	401,602
Service Equipment	338,482	30,739	22,129	347,092
Office Furniture & Equipment	222,558	138,296	109,599	251,256
Total accumulated depreciation	$ 6,825,388	$ 782,534	$ 852,782	$ 6,755,140
Total capital assets, being depreciated, net	$ 2,143,086	$ 6,096,317	$ (0)	$ 8,239,404
Total capital assets	**$ 9,877,157**	**$ 6,505,264**	**$ 6,846,304**	**$ 9,536,117**

NOTE 3 - CONTINGENCIES AND LITIGATION

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

Jefferson Transit 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. Jefferson Transit's management believes that such disallowance, if any, will be immaterial.

NOTE 4 – CHANGES LONG TERM LIABILITIES

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
Liability					
2014 General Obligation Bonds	$1,060,000	$0.00	$45,000	$1,015,000	$45,000
Compensated Absences	$184,674	$8,687.09	$0.00	$193,361.43	$23,141
Pension obligations	$1,803,943	$326,077	$0.00	$2,130,020	

NOTE 5 - 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 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$2,130,020
Pension assets	$ -
Deferred outflows of resources	$365,277
Deferred inflows of resources	$60,433
Pension expense	$188,569

State Sponsored Pension Plans

Substantially all Jefferson Transit 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 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 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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

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

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and 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 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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**

PERS Plan 2/3 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 for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. 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 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three 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 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. 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. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

<u>Contributions</u>

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 Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**

Jefferson Transit's actual contributions to PERS Plan 1 were $104,845; Jefferson Transit's actual contributions to the PERS Plan 2/3 were $134,154 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.
There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these 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 7.5 percent 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 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of Net Pension Liability (Asset)

The table below presents Jefferson Transit's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Jefferson 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$1,194,220	$990,315	$814,842
PERS 2/3	$2,098,401	$1,139,705	$(593,282)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, Jefferson Transit reported a total pension liability of $2,130,020 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$990,315
PERS 2/3	$1,139,705

At June 30, Jefferson Transit's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.018736%	.018440%	.000296%
PERS 2/3	.023058%	.022636%	.000422%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, Jefferson Transit recognized pension expense as follows:

	Pension Expense
PERS 1	$36,299
PERS 2/3	$152,269
TOTAL	$188,569

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, Jefferson Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 0
Net difference between projected and actual investment earnings on pension plan investments	$24,935	$ 0
Changes of assumptions	$ 0.00	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 0.00	$ 0
Contributions subsequent to the measurement date	$56,411	$ 0
TOTAL	$81,346	$ 0
PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$60,688	($37,624)
Net difference between projected and actual investment earnings on pension plan investments	$139,467	$ 0
Changes of assumptions	$11,780	$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	$ 0	($22,809)
Contributions subsequent to the measurement date	$71,996	$ 0.00
TOTAL	$283,931	($60,433)

Deferred outflows of resources related to pensions resulting from the Jefferson Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2017	($6,139)
2018	($6,139)
2019	$22,900
2020	$14,314

Year ended December 31:	PERS 2/3
2017	($7,330)
2018	($7,330)
2019	$100,895
2020	$ 65,267

NOTE 6 - PRIOR PERIOD ADJUSTMENTS-CHANGE IN ACCOUNTING PRINCIPLE

In 2016 Jefferson Transit had two prior period adjustments.

- A prepaid expense of $756.96 for the Department of Ecology was overstated in 2016 and should have been posted to 2015, the error was discovered in late 2016.
- In prior years it was a common practice for Jefferson Transit to delay depreciation of grant funded capital purchases until all grants funds were expended. This worked well when all items were purchased within year or two. Jefferson Transit no longer delays depreciating an asset, they begin depreciating when the asset is placed into service. A prior period adjustment was made in Accumulated Depreciation/Amortization of $102,043 for Zonar Equipment, a Server Project, and Software purchased on a grant that closed in early 2017. The items in question were purchased between 2007 and 2010.

NOTE 7 – RESTRICTED COMPONENT OF NET POSITION

The Statement of Net Position reports $85,250 of restricted component of net position, of which $85,250 is restricted by enabling legislation. Resolution 14-13 enabled Jefferson Transit to enter into indebtedness in the form of the issuance of general obligation bonds to support the construction of an Administration and Maintenance Facility. The resolution also requires the set-up of Reserve Account. These restricted funds satisfy that requirement.

NOTE 8 – RISK MANANGEMENT

Public Entity Risk Pool

Jefferson Transit is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25 member self-insurance program located in Olympia, Washington. WSTIP supplies Jefferson Transit automobile liability, general liability, public official's liability coverage, auto physical damage coverage, 1st property coverage, boiler and machinery coverage and employee fidelity coverage.

At the end of 2016, Jefferson Transit retained a $5,000 deductible for its auto physical damage coverage and a $5,000 deductible for its 1st party property coverage through WSTIP. Jefferson Transit has a $5,000 deductible for public official's liability coverage and maintains first dollar coverage for its auto and general 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 Systems programs of joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12-months notice. Any member who withdraws will not be allowed to rejoin the Pool for a period of 36 months.

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

Jefferson Transit has not presented any claims to WSTIP in the last three years that exceeded its current coverage limits through WSTIP.

A complete annual report, including financial statements, may be obtained by writing to:

WSTIP
2629 12th Ct SW
Olympia, WA 98502

Here is a summary of coverage provided in 2016:

RISK / EXPOSURE		**COVERAGE**	**DEDUCTIBLE**
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	$20 million	Per occurrence	$0
Personal Injury and Advertising Injury	$20 million	Per offense	$0
Contractual liability			$0
Vanpool Driver Medical Expense Protection	$35,000	Per occurrence	$0
Underinsured Motorist Coverage	$60,000	Per occurrence	$0
PUBLIC OFFICIALS LIABILITY	$20 million	Per occurrence and aggregate	$5,000

PROPERTY COVERAGE All perils subject to the following sublimits:	$500 million	Per occurrence, all perils and insureds/ members combined	$5,000
Flood zones A & V – annual aggregate	$10 million	Per occurrence, annual aggregate	$500,000
All flood zones except A & V – annual aggregate	$50 million	Per occurrence, annual aggregate	$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	$25 million	Per occurrence, annual aggregate	5% subject to $500,00 minimum per occurrence per unit
Auto Physical Damage	Fair market value	Limited to $1 million any one vehicle	$5,000
Auto Physical Damage if the vehicle is less than 10 years old and valued over $250,000	Replacement Cost		$5,000
Information Security and Privacy with electronic media (Cyber Liability) with the following sublimits:	$2 million	Annual aggregate	$50,000
Privacy Notification costs	$500,000		
Regulatory Defense and Penalties	$2 million		
PCI Fines and Penalties	$100,000		
Website Media Liability	$2 million		
Data Protection Loss	$2 million		
BOILER AND MACHINERY	$100 million		$250,000 or $350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	$1 million	Per occurrence	$10,000
Employee theft	$1 million	Per occurrence	$10,000
Forgery or alteration	$1 million	Per occurrence	$10,000
Theft, disappearance and destruction (inside premises)	$1 million	Per occurrence	$10,000
Robbery and safe burglary (inside premises)	$1 million	Per occurrence	$10,000
Robbery and safe burglary (outside premises)	$1 million	Per occurrence	$10,000
Computer fraud	$1 million	Per occurrence	$10,000
Funds Transfer Fraud	$1 million	Per occurrence	$10,000
Money orders and counterfeit money	$1 million	Per occurrence	$10,000

B. Unemployment Insurance

Jefferson Transit maintains insurance against most normal hazards except for unemployment insurance, where it has elected to become self-insured as a "reimbursable employer" as allowed by the State of Washington Employment Security Department.

Claims are processed by the Employment Security Department and billed to Jefferson Transit quarterly. Jefferson Transit had $28,202 in claims during 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson Transit
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last 3 Fiscal Years*

		2014	2015	2016
Employer's proportion of the net pension liability (asset)	%	0.019155%	0.018736%	0.018440%
Employer's proportionate share of the net pension liability	$	964,942	980,067	990,315
TOTAL	$			
Employer's covered employee payroll	$	2,056,075	2,011,382	2,156,613
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	46.93%	48.73%	45.92%
Plan fiduciary net position as a percentage of the total pension liability	%	61.19%	59.10%	57.03%

See Notes to Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson Transit
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016
Last 3 Fiscal Years*

		2014	2015	2016
Employer's proportion of the net pension liability (asset)	%	0.023476%	0.023058%	0.022636%
Employer's proportionate share of the net pension liability	$	474,535	823,875	1,139,705
TOTAL	$			
Employer's covered employee payroll	$	2,010,524	1,968,342	2,116,447
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	23.60%	41.86%	53.85%
Plan fiduciary net position as a percentage of the total pension liability	%	93.29%	89.20%	85.82%

See Notes to Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson Transit Authority
Schedule of Employer Contributions
PERS 1
As of December 31, 2016
Last 3 Fiscal Years*

		2014	2015	2016
Statutorily or contractually required contributions	$	85,530	95,725	104,571
Contributions in relation to the statutorily or contractually required contributions	$	(85,530)	(95,725)	(104,571)
Contribution deficiency (excess)	$	0	0	0
Covered employer payroll	$	2,065,248	2,128,866	2,137,742
Contributions as a percentage of covered employee payroll	%	4.14%	4.50%	4.89%

See Notes to Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson Transit Authority
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2016
Last 3 Fiscal Years*

		2014	2015	2016
Statutorily or contractually required contributions	$	100,962	117,530	130,677
Contributions in relation to the statutorily or contractually required contributions	$	(100,962)	(117,530)	(130,677)
Contribution deficiency (excess)	$	0	0	0
Covered employer payroll	$	2,021,431	2,086,425	2,092,895
Contributions as a percentage of covered employee payroll	%	4.99%	5.63%	6.24%

See Notes to Required Supplementary Information

Notes to Required Supplementary Information – Pensions
Year Ended December 31, 2016

Note 1 – Information Provided
Jefferson Transit implemented GASB Nos. 68/71 for the year ended December 31, 2015, therefore there is no data available for years prior to 2014. PERS 1 employer contributions include the PERS 1 employer contributions of PERS 2 and PERS 3, which are required to fund the unfunded actuarially accrued liability pursuant to RCW 41.45.060.

Note 2 – Significant Errors
There were no changes in benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3 – Employer Contribution Rate Changes
The employer contribution rates for both the PERS 1 and PERS 2/3 plans increased from 9.21% to 11.18% for pay periods beginning July 2015.

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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov