



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Spokane Transit Authority

For the period January 1, 2018 through December 31, 2018

Published May 28, 2019

Report No. 1023919





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

May 28, 2019

Board of Directors
Spokane Transit Authority
Spokane, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

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

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Spokane Transit Authority January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Spokane Transit Authority are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

We noted no instances of noncompliance that were material to the financial statements of the Authority.

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 Authority's compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Federal Programs:

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

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.500	Federal Transit Cluster – Federal Transit Capital Investment Grants
20.507	Federal Transit Cluster – Federal Transit Formula Grants

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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**

**Spokane Transit Authority
January 1, 2018 through December 31, 2018**

Board of Directors
Spokane Transit Authority
Spokane, 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 Spokane Transit Authority, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 8, 2019. The prior year comparative information has been derived from the Authority's 2017 basic financial statements, on which we issued our report dated May 9, 2018. As discussed in Note 14 to the financial statements, during the year ended December 31, 2018, the Authority implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 Authority's financial statements are free from material misstatement, we performed tests of the 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 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 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.

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

Pat McCarthy

State Auditor

Olympia, WA

May 8, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Spokane Transit Authority
January 1, 2018 through December 31, 2018**

Board of Directors
Spokane Transit Authority
Spokane, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Spokane Transit Authority, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2018. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority'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 Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority 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, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy
State Auditor
Olympia, WA

May 8, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Spokane Transit Authority January 1, 2018 through December 31, 2018

Board of Directors
Spokane Transit Authority
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Spokane Transit Authority, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 16.

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 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 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 Spokane Transit Authority, as of December 31, 2018, 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.

Matters of Emphasis

As discussed in Note 14 to the financial statements, in 2018, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Report of Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2017, from which such partial information was derived. We have previously audited the Authority's 2017 financial statements and we express unmodified opinions on the respective financial statements in our report dated May 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This 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 May 8, 2019 on our consideration of the 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 Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

May 8, 2019

FINANCIAL SECTION

Spokane Transit Authority January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to the Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – (PERS 1, PERS 2/3) – 2018

Schedule of Employer Contributions – (PERS 1, PERS 2/3) – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018

Notes to Schedule of Expenditures of Federal Awards – 2018

Spokane Transit Authority For the Year Ended December 31, 2018

Management Discussion and Analysis

This section of Spokane Transit Authority's (STA's) Annual Financial Report presents management's discussion and analysis (MD&A) of the financial performance for the year ended December 31, 2018. This section should be read in conjunction with the financial statements and accompanying notes to the financial statements.

Spokane Transit is a Public Transportation Benefit Area (PTBA) providing public transportation services within its boundaries. Services include:

- Local fixed route bus services within Spokane County, City of Spokane, City of Spokane Valley, City of Liberty Lake, City of Millwood, City of Airway Heights, City of Medical Lake, and City of Cheney;
- Paratransit services for those who live within $\frac{3}{4}$ mile of a bus route and who, because of their disability, are unable to use the regular bus service;
- A vanpool program and ride match services.

Financial Highlights

- The assets of STA exceeded its liabilities at December 31, 2018 by \$158,513,138. Of this amount, \$66,373,118 represents STA's net position not invested in capital assets or restricted by regulation (unrestricted). In the unrestricted amount, the STA Board has designated reserves of \$21,830,743 for catastrophic self-insurance exposure protection, operating reserves, and cash designated for future right of way acquisition.
- STA's total net position increased by \$24,936,481 (excluding prior period adjustments). The federal and state portions of capital grant revenue totaling \$8,414,845 is not included in the \$16,521,636 gain before capital contributions.
- STA continues to operate on a "pay-as-you-go" basis and remained free of debt during the period. Cash balances, less designated reserves, are planned for future operating and capital expenses.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to STA's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements.

The financial statements of STA report information using accounting methods similar to those used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. These statements offer short and long term financial information about STA activities.

The Statement of Net Position presents information on all of STA's assets and deferred outflows compared to liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of the financial health of STA and whether its financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the net position changed during the fiscal year. All changes in 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 recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to STA and earned but unused employee leave).

The Statement of Cash Flows presents information on STA's cash receipts, cash payments, and net changes in cash and cash equivalents for the most recent two fiscal years. Generally Accepted Accounting Principles (GAAP) 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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements.

Financial Analysis

Overall, the financial position of STA improved in 2018. For the year ended December 31, 2018, assets exceeded liabilities by \$158,513,138. STA is a capital-intensive enterprise and over one-half of its net position is invested in capital assets. The following is a comparative summary of STA's net position.

SUMMARY STATEMENT OF NET POSITION

	2018	2017	2016
Assets:			
Current Assets	\$100,693,603	\$92,735,536	\$75,572,467
Capital Assets (Net)	91,783,020	78,063,862	74,700,423
Total Assets	192,476,623	170,799,398	150,272,890
Deferred Outflows	4,260,928	3,617,389	5,524,271
Total Assets and Deferred Outflows	196,737,551	174,416,787	155,797,161
Liabilities:			
Current Liabilities	12,847,048	14,201,492	10,461,347
Long Term Liabilities	18,245,945	20,827,617	28,741,936
Total Liabilities	31,092,993	35,029,109	39,203,283
Deferred Inflows	7,131,420	4,675,258	1,268,217
Net Position:			
Invested in Capital Assets	91,783,020	78,063,862	74,700,422
Restricted Reserves	357,000	357,000	357,000
Unrestricted Reserves	66,373,118	56,291,558	40,268,239
Total Net Position	158,513,138	134,712,420	115,325,661
Total Liabilities, Deferred Inflows, and Net Position	\$196,737,551	\$174,416,787	\$155,797,161

During 2018, STA's net position increased by \$24,936,481. The following is a summary Statement of Revenues, Expenses and Changes in Net Position. Also shown are the comparatives for the years ended December 31, 2017 and 2016. Public transportation is a capital-intensive enterprise. Because these capital assets are used to provide services to citizens, they are not available for future spending.

Summary Statement of Revenues, Expenses, and Change in Net Position

	2018	2017	2016
Operating Revenue			
Passenger fares	\$10,658,762	\$9,553,029	\$8,735,266
Other transit revenue	365,875	428,457	392,018
Non-operating Revenue			
Sales tax	73,305,787	65,491,245	54,131,543
Grants - non-capital	10,647,105	9,394,355	9,300,964
Other non-operating revenue	1,329,618	885,189	668,030
Total Revenue (before capital contributions)	96,307,147	85,752,275	73,227,821
Operating Expenses	67,781,409	63,930,589	59,803,003
Depreciation	10,522,378	10,360,730	10,126,015
Non-operating Expenses			
Other non-operating Expenses	1,481,724	193,907	254,445
Total Expenses	79,785,511	74,485,226	70,183,463
Gain before Contributions and Special Items	16,521,636	11,267,050	3,044,358
Contributions			
Capital grants	8,414,845	8,119,709	1,828,841
Change in Net Position	24,936,481	19,386,759	4,873,199
Beginning Net Position	134,712,420	115,325,661	110,576,967
Prior period adjustments	(1,135,763)	0	(124,505)
Ending Net Position	<u>\$158,513,138</u>	<u>\$134,712,420</u>	<u>\$115,325,661</u>

Revenues

Passenger fares are the major source of operating revenues. The STA Board approved a new Tariff Policy for Fixed Route and Paratransit at the July 2016 Board meeting. This new policy provided for fare increases on July 1, 2017 and July 1, 2018. The previous Board-adopted Tariff Policy was in 2012. The following table shows the amount for selected classifications of fares effective during 2018:

Fare Examples:

	Cash Fares:		Monthly Pass:	
	1/1/2018- 6/30/2018	7/1/2018- 12/31/2018	1/1/2018- 6/30/2018	7/1/2018- 12/31/2018
Adult	\$1.75	\$2.00	\$50.00	\$60.00
Student	\$1.75	\$2.00	\$42.00	\$52.00
Youth	\$1.75	\$2.00	\$35.00	\$40.00
Reduced Fare	\$0.75	\$1.00	\$25.00	\$30.00
Paratransit	\$1.75	\$2.00	\$50.00	\$60.00

Additional fare information can be obtained at the STA website or by contacting STA.

Operating revenues also include other small miscellaneous items. The advertising program was suspended in 2017.

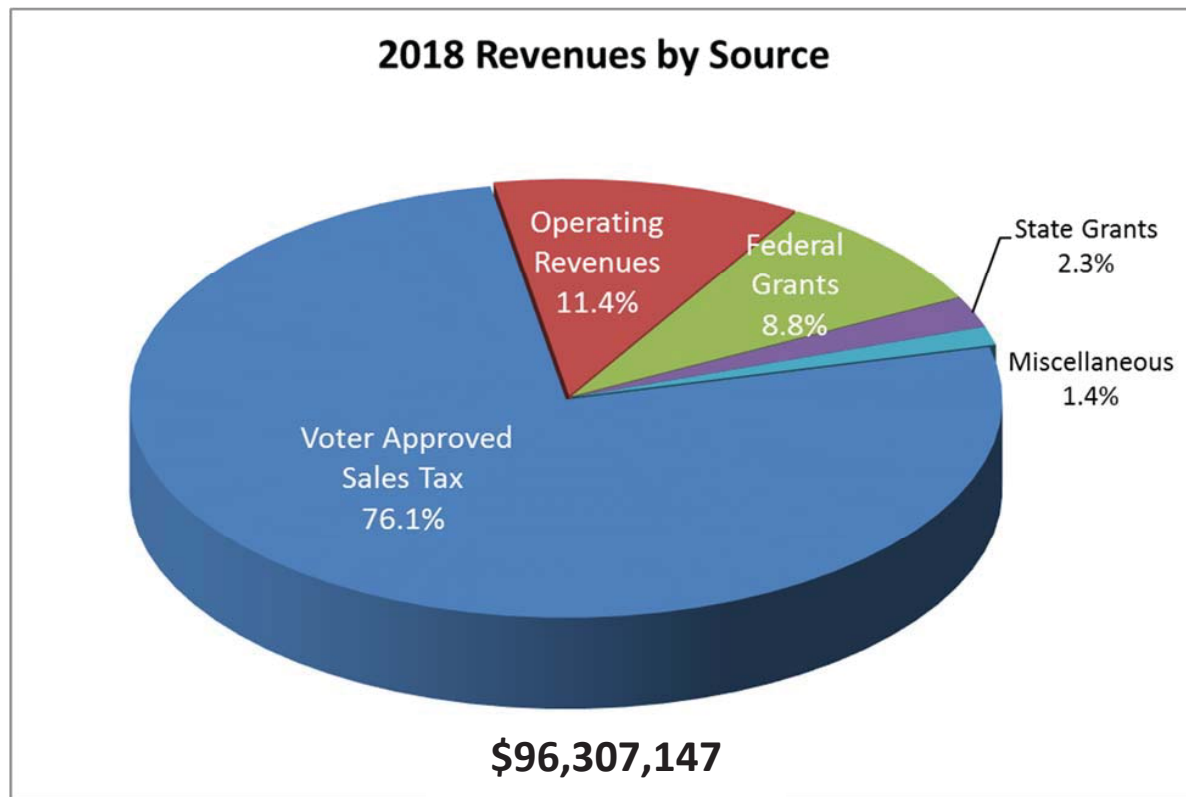
Funding for STA's services is largely provided by a local voter approved sales tax, 0.7 percent, levied within the Public Transportation Benefit Area (PTBA). By state law, public funding for the majority of transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Since 1981, 0.3 percent of the sales tax authority has been in existence. To replace the motor vehicle excise tax, an additional 0.3 percent was added with a five-year sunset clause in 2004. With voter approval, the additional 0.3 percent was made permanent in 2008. On November 8, 2016, voters approved STA Proposition 1, authorizing an increase in local sales and use tax of up to 0.2 percent to fund the STA Moving Forward Plan to maintain, improve and expand public transit in Spokane County's transit service area. Phase one of the new tax took effect with a 0.1 percent increase that was effective April 1, 2017. An additional 0.1 percent increase was effective April 1, 2019 with both tax increases expiring no later than December 31, 2028 unless renewed by voters.

STA received state funding from the Washington State Department of Transportation's Consolidated Grant program in the amount of \$2,203,792 in 2018, \$1,282,461 in 2017, and \$1,126,892 in 2016. These grant funds were used for special needs related service as well as design for future capital projects.

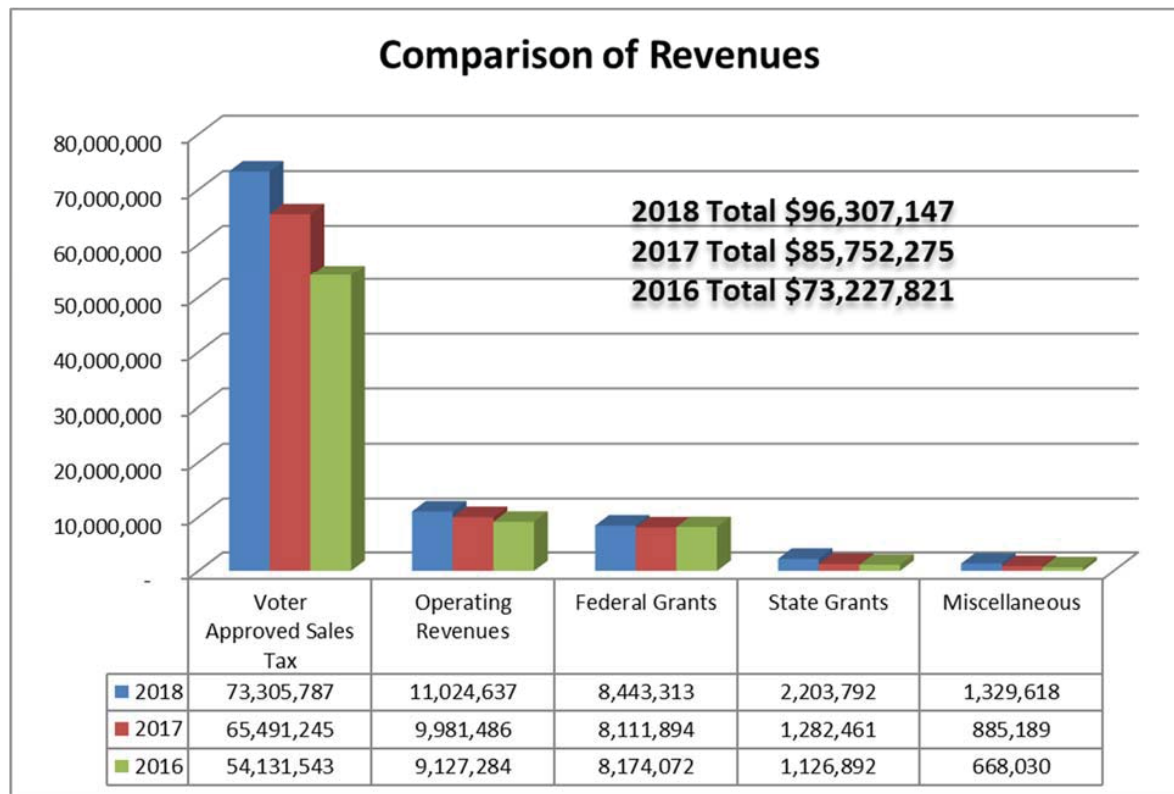
Miscellaneous revenue, primarily investment earnings, increased by \$444,429. Interest income increased due to higher interest rates during the year which averaged 1.59 percent and slightly higher cash balances.

STA uses Federal section 5307 formula grant funds for preventive maintenance. Use of these funds for maintenance is authorized by the FTA.

During 2018, STA revenues, excluding capital contributions, were \$96,307,147. The following chart shows the major sources of revenue:



Revenues, excluding capital contributions, for the last three years were as follows:



Service Delivery, Ridership and Operating Expenses

Operating expenses are most directly impacted by the number of revenue hours (a passenger vehicle in passenger carrying service for one hour) of service STA provides. Revenue miles also provide a valuable indicator of the service provided.

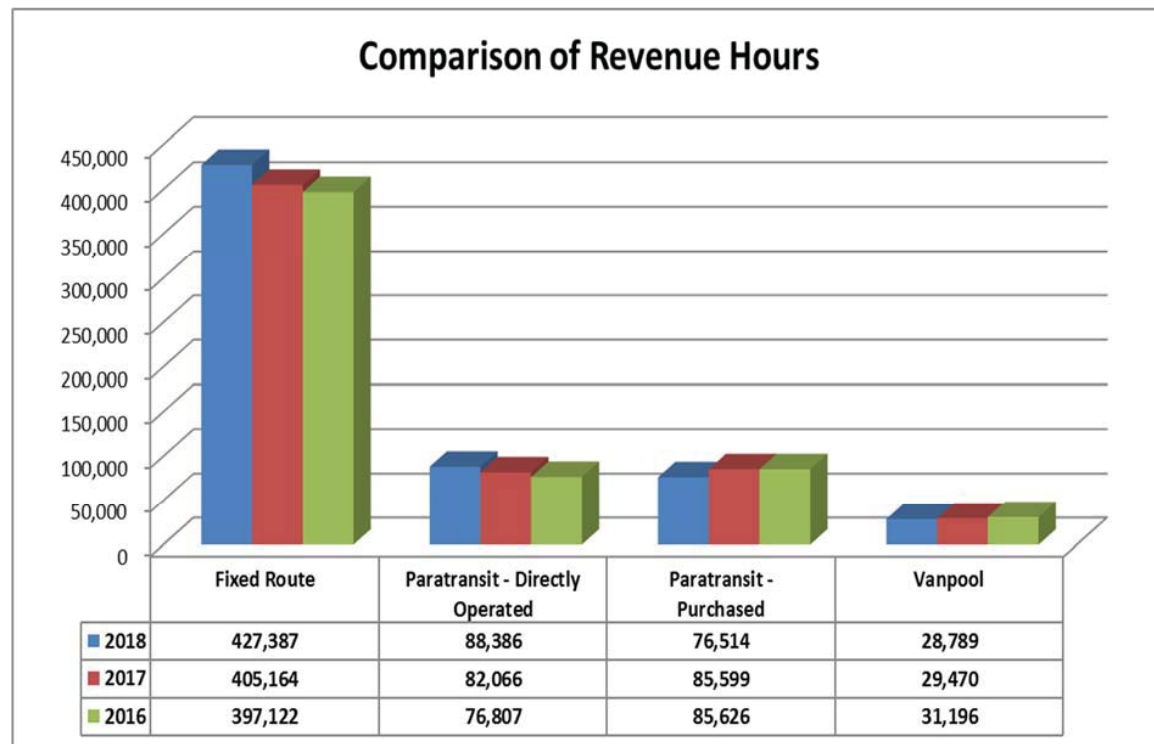
The mode describes the type of service or other activity that STA provides:

Fixed Route (Motor Bus) - Fixed Route refers to regularly scheduled buses operating on established routes.

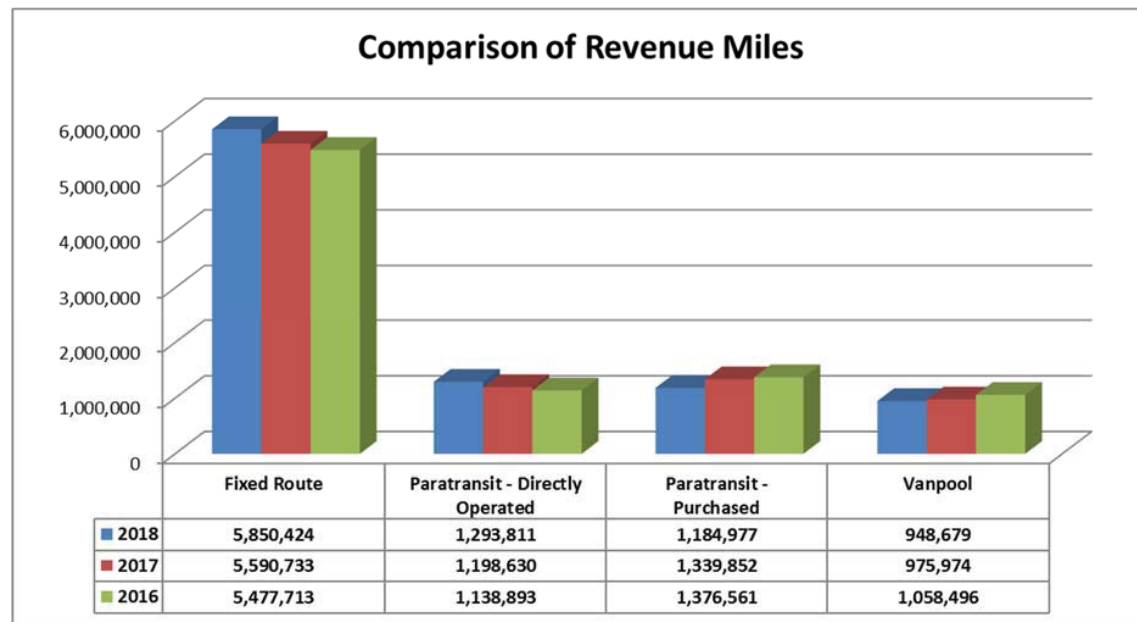
Paratransit (Demand Response) - Paratransit refers to the mode of service that provides a complementary paratransit service for those unable to use the regular bus because of the effects of their disability as provided under the Americans with Disabilities Act (ADA). Directly operated service is provided by STA personnel while purchased service is provided by a private contractor.

Vanpool - Vanpool is a service for prearranged groups of passengers who travel to a common destination in a van owned and maintained by STA. One of the passengers is designated as the driver and the program may receive employer support as a part of commute trip reduction (CTR) programs. Carpool client-matching is also available in this mode.

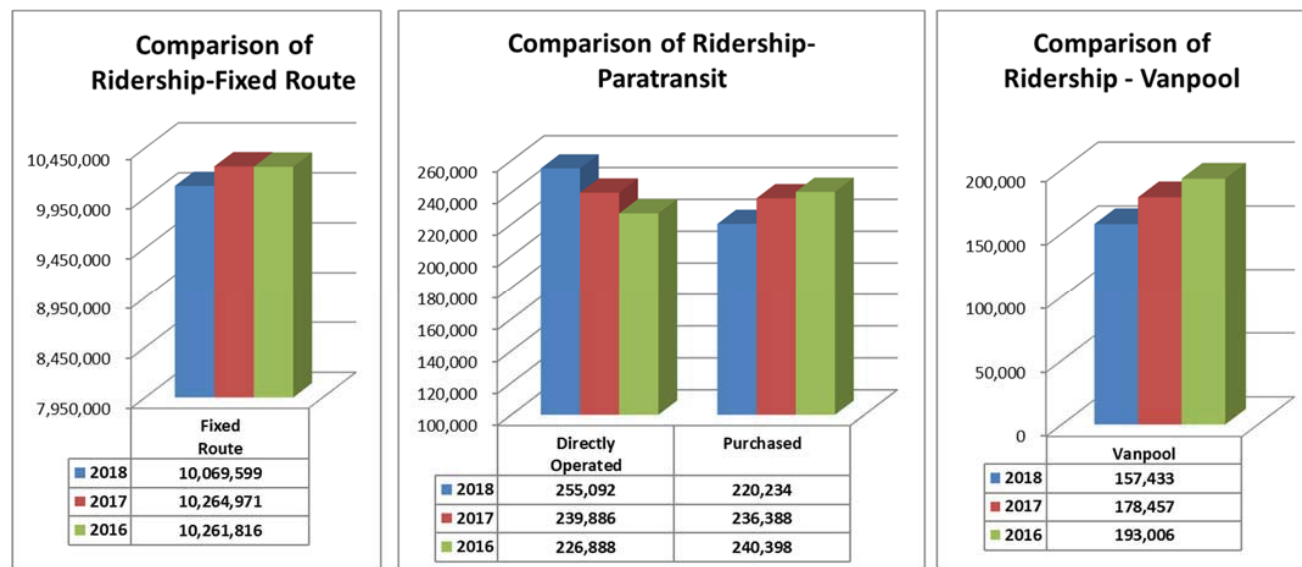
The following chart shows the comparison of revenue hours by mode for the last three years:



The following chart shows the comparison of revenue miles by mode for the last three years:



Most of the common operating efficiency and effectiveness measures in the transit industry have a ridership component. Results for the last three years appear below:



Fixed Route ridership declined by 1.9 percent in 2018.

Paratransit service provided pursuant to the Americans with Disabilities Act (ADA) declined slightly by 0.2 percent in 2018.

Vanpool ridership declined in 2018 by 11.8 percent.

Operating Expense by Function - The function describes the major operating areas of STA and includes:

Transportation - Responsible for all on-street passenger services, including operators, supervisors, dispatchers, security and schedulers. Fuel consumption is also classified as a transportation expense.

Maintenance - Responsible for providing vehicles (including maintenance, repair, parts, and cleaning) and keeping facilities in a state of good repair.

Administration - Responsible for all other functions including executive direction, planning, human resources, customer service, communications, information services, purchasing and finance. Included in administration expenses are insurance and utilities costs.

Additional financial commitments were made in 2008 to sustain and enhance quality of services through the “Quality Counts” initiatives, which included additional staffing to focus on training, vehicle cleanliness, safety, and customer satisfaction. The commitment to “Quality Counts” is ongoing.

As seen in the following tables:

- Transportation expense increased 6.8 percent due primarily to increases in labor, fringe and fuel offset by lower contract transportation expense as well as increased service.
- Maintenance expense increased 7.9 percent primarily due to increases in labor, fringe and vehicle repair materials.
- Administration expense increased 2.0 percent primarily due to increases in labor and fringe offset by lower professional services expenses.

Expense By Mode & Function For Years Ended December 31, 2018, 2017 and 2016

	2018	2017	Increase (Decrease)	% Change	2016
Mode & Function					
Fixed Route:					
Transportation	\$31,202,832	\$28,813,713	\$2,389,119	8.3%	\$26,574,221
Maintenance	11,141,033	10,244,285	896,748	8.8%	10,247,315
Administration	10,769,912	10,507,597	262,315	2.5%	9,397,196
Fixed Route Total	\$53,113,777	\$49,565,594	\$3,548,183	7.2%	\$46,218,732
Paratransit:					
Transportation	\$10,294,144	\$10,034,101	\$260,043	2.6%	\$9,428,686
Maintenance	1,448,814	1,405,728	43,086	3.1%	1,421,955
Administration	2,324,039	2,314,375	9,664	0.4%	2,079,079
Paratransit Total	\$14,066,997	\$13,754,204	\$312,793	2.3%	\$12,929,720
Vanpool:					
Transportation	\$157,760	\$149,880	\$7,880	5.3%	\$140,173
Maintenance	47,122	60,394	(13,272)	-22.0%	90,215
Administration	395,753	400,517	(4,764)	-1.2%	424,164
Vanpool Total	\$600,635	\$610,791	(\$10,156)	-1.7%	\$654,552
Modes Combined Expense:					
Transportation	\$41,654,736	\$38,997,693	\$2,657,043	6.8%	\$36,143,080
Maintenance	12,636,969	11,710,407	926,562	7.9%	11,759,485
Administration	13,489,704	13,222,489	267,215	2.0%	11,900,438
Modes Combined Expense Total	\$67,781,409	\$63,930,589	\$3,850,819	6.0%	\$59,803,003
Depreciation/Amortization	10,522,378	10,360,730	161,648	1.6%	10,126,015
Subtotal Operating Expense after Depreciation	\$78,303,787	\$74,291,319	\$4,012,467	5.4%	\$69,929,018
Election Costs	0	0	0	0.0%	64,410
Other Cooperative Projects-Amenities	1,481,724	193,907	1,287,817	664.1%	190,035
Total Expenses	\$79,785,511	\$74,485,226	\$5,300,284	7.1%	\$70,183,463

Operating Expense by Object – The object is the classification of expenses by type of cost. Below is a brief discussion of the events of the year in each object class.

Labor expense increased by 4.3 percent in 2018. This is primarily due to the impacts of the general wage increases summarized below and increases in service.

Effective Date	2016				2017			2018		
	1/1	2/1	4/1	7/1	1/1	2/1	7/1	1/1	4/1	7/1
Amalgamated Transit Union Local 1015			1.50%						3.00%	
Amalgamated Transit Union Local 1598		1.50%				1.50%				2.00%
The American Federation of State, County, and Municipal Employees Local 3939				1.00%			1.50%			
Management & Administrative employees	2.50%				1.50%			2.00%		

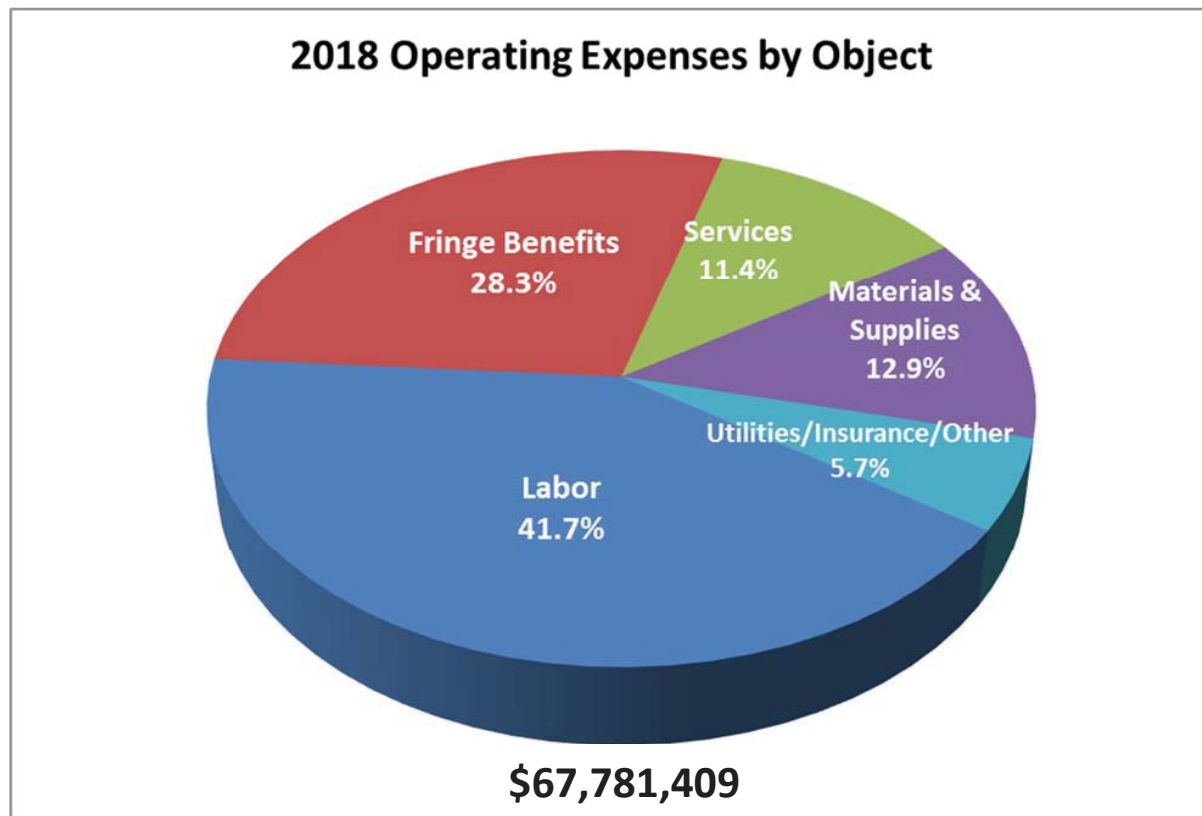
Fringe benefits expense primarily includes health insurance premiums, retirement contributions, social security/Medicare taxes and paid time off costs. The 10.7 percent increase in fringe benefits in 2018 was primarily due to increases in medical premiums, pension-related expenses offset by a decrease in state industrial insurance for which STA is self-funded. The increase would have been 5.4 percent excluding the GASB 68 and GASB 75 pension and other post-employment benefits (OBEB) expenses.

Services expense declined 1.8 percent in 2018 due primarily to decreases in contracted transportation expenses offset by increases in some professional services.

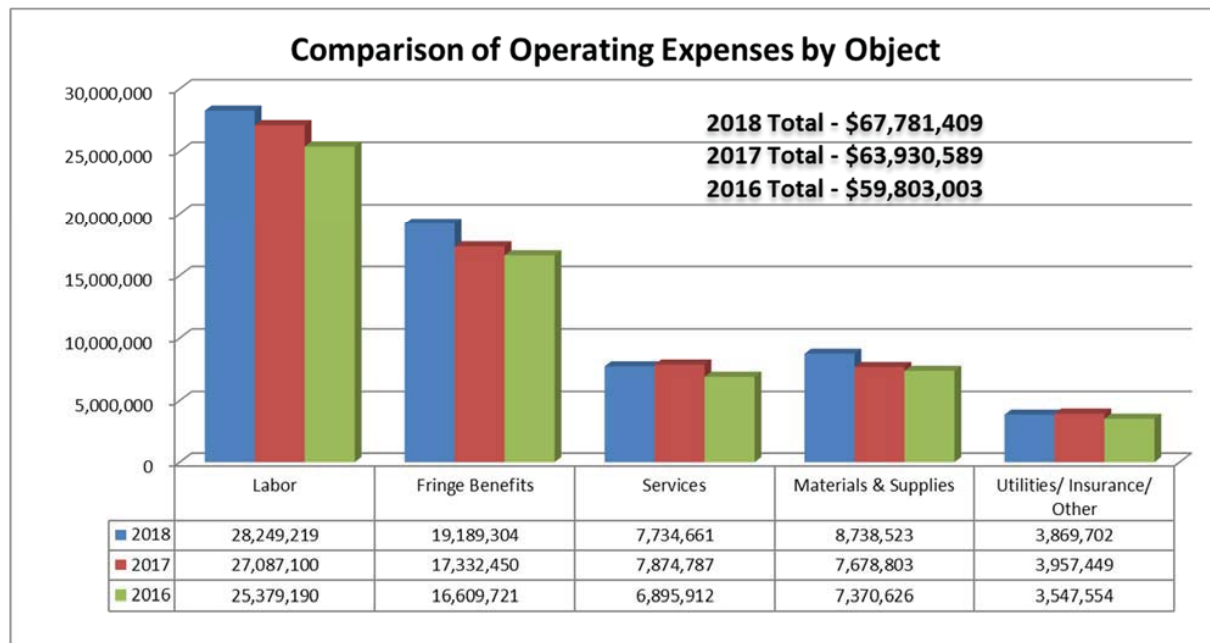
Materials and supplies expense increased by 13.8 percent in 2018. This was primarily due an increase in fuel and vehicle repair materials offset by lower software licenses and maintenance fees.

Utilities, insurance and other expense include costs related to utilities, liability and property insurance, taxes, leases and miscellaneous expenses. The 2.2 percent decrease in 2018 is primarily attributed to higher media and advertising costs in 2017 related to Spokane Transit Moving Forward advertising campaign.

During 2018, STA operating expenses, excluding depreciation, were \$67,781,409. The following chart shows the operating expenses by object:



Operating expenses, excluding depreciation, for the last three years were as follows:



Capital Assets

STA's investment in capital assets as of December 31, 2018, was \$203,581,481 less \$111,798,461 in accumulated depreciation. This includes \$17,420,949 in existing work in process. Capital assets consist of transit coaches, vans, and other vehicles, land, buildings, equipment, transit centers and park and ride lots. Capital asset changes consisted of \$22,937,750 of additions and \$1,098,570 of retirements and dispositions. Depreciation and amortization expense of \$10,522,378 was recorded.

Major capital asset acquisitions, including work in process and accruals, during 2018 consisted of the following:

- Additions to vehicles consisted of seven fixed route articulated coaches, eight vanpool vans, four supervisor trucks, and four maintenance service trucks for a cost of \$6,200,046.
- Additions to equipment include nine bus shelters on bus routes and three large shelters at the West Plains Transit Center; computer hardware replacements; maintenance equipment including: an emergency generator at 1212 Sharp, an angle broom for the Bobcat utility work machine, four snow blades and de-ice sprayers, a high rise wheel dolly, a mobile paint station, a welder, a UTV sprayer, a paint striper gun, three solar trash cans and five digital signs for displaying real time route information at the West Plains Transit Center. The combined amount of these equipment purchases was \$902,760.
- Additions to Buildings and Improvements include a chain link fence at the Sinto Parking Lot adjacent to 1212 Sharp, the Fleetwatch Fluid Management System, the remodel to the Plaza, the West Plains Transit Center, and several remodeled areas at North and South Boone buildings including: parking lot paving, fire separation, boardroom, planning area, human resource offices, customer lobby, and some restrooms for a cost of \$13,123,964.
- Additions to Land include the land for the West Plains Transit Center, the future Moran Station Park and Ride Lot, and the vacation of Sharp Ave from Cedar to Jefferson for the North West Boone Garage in the amount of \$2,660,183.
- Additions to Intangibles include the Solarwinds Network Management Software and Bomgar Security Software in the amount of \$50,797.

Additional information on STA's capital assets is contained in Note 3 to the financial statements.

Availability of Fund Resources for Future Use

STA's governing Board (Board) adopted a designated cash policy in October 2007. The policy designated \$5,500,000 for catastrophic self-insurance exposure protection and 15.0 percent of the annual Adopted Operating Expense Budget for unforeseen emergency expenses. An additional cash designation of \$4,950,000 was established by the Board in December 2011. This designated cash is for future right of way acquisition. The level of designated cash is reviewed and approved annually by the Board in conjunction with the budget adoption process.

Request for Information

This management, discussion, analysis and financial report is designed to provide a general overview of STA's finances for all who have an interest. Questions on any of the information presented in this report or requests for additional financial information are always welcome and should be addressed to: Spokane Transit, Director of Finance and Information Services, 1230 W. Boone Avenue, Spokane, WA 99201. An interesting and informative companion piece is the Transit Development Plan, an annual publication with an abundance of information that can be obtained through the above contact. Information can also be found on the STA website at www.spokanetransit.com.

**Spokane Transit Authority
Statement of Net Position
December 31, 2018 and 2017**

	2018	2017
<u>Assets</u>		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 80,568,279	\$ 66,446,207
Accounts Receivable, Net Allowance for Doubtful Accounts	469,879	643,643
Sales Tax Receivable	12,769,582	11,543,356
Due from Other Governments	4,750,657	12,093,693
Total Receivables	17,990,118	24,280,692
Maintenance Parts Inventory	1,611,896	1,469,689
Prepaid Expenses	523,310	538,948
<i>Total Current Assets</i>	100,693,603	92,735,536
<i>Noncurrent Assets:</i>		
Vehicles	81,521,564	75,853,782
Buildings and Improvements	65,066,835	51,967,085
Equipment and Furnishings	19,479,177	19,118,509
Intangible Property	6,819,995	6,769,198
Land	13,272,961	10,612,778
Work in Process	17,420,949	16,060,380
<i>Total Capital Assets</i>	203,581,481	180,381,732
Less Accumulated Depreciation and Amortization	(111,798,461)	(102,317,870)
<i>Capital Assets, Net of Accumulated Depreciation</i>	91,783,020	78,063,862
<i>Total Assets</i>	192,476,623	170,799,398
<i>Deferred Outflows of Resources:</i>		
Deferred Outflows Related to Pensions	3,803,233	3,617,389
Deferred Outflows - Other Post Employment Benefits	457,695	
<i>Total Deferred Outflows of Resources</i>	4,260,928	3,617,389
Total Assets and Deferred Outflows of Resources	\$ 196,737,551	\$ 174,416,787

Continued on the following page.

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

**Spokane Transit Authority
Statement of Net Position
December 31, 2018 and 2017
(Continued)**

	<u>2018</u>	<u>2017</u>
<u>Liabilities</u>		
<i>Current Liabilities:</i>		
Accounts Payable and Accrued Expenses	\$ 2,695,087	\$ 6,168,325
Accrued Wages, Benefits, and Other Liabilities	7,125,838	6,288,008
Contracts Payable (includes retainage)	1,640,804	561,309
Provision for Medical Premiums	127,165	127,165
Provision for Uninsured Claims	1,258,154	1,056,685
<i>Total Current Liabilities</i>	12,847,048	14,201,492
<i>Long-Term Liabilities:</i>		
Net Pension Liability	16,459,872	20,827,617
Net Other Post Employment Benefits Liability	1,786,073	
<i>Total Long-Term Liabilities</i>	18,245,945	20,827,617
<i>Total Liabilities</i>	31,092,993	35,029,109
<i>Deferred Inflows of Resources:</i>		
Advance Payment of Fares	31,960	27,670
Deferred Inflows Related to Pensions	7,099,460	4,647,588
<i>Total Deferred Inflows of Resources</i>	7,131,420	4,675,258
<u>Net Position</u>		
Net Investment in Capital Assets	91,783,020	78,063,862
Restricted for Workers' Compensation	357,000	357,000
Unrestricted	66,373,118	56,291,558
<i>Total Net Position</i>	158,513,138	134,712,420
Total Liabilities, Deferred Inflows, and Net Position	\$ 196,737,551	\$ 174,416,787

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

Spokane Transit Authority
Statement of Revenue, Expenses, and Change in Net Position
For the Years Ended December 31, 2018 and 2017

	2018	2017
<i>Operating Revenues:</i>		
Passenger Fares	\$ 10,658,762	\$ 9,553,029
Other Transit Revenue	365,875	428,457
<i>Total Operating Revenues</i>	11,024,637	9,981,486
<i>Operating Expenses:</i>		
Transportation	41,654,736	38,997,693
Maintenance	12,636,969	11,710,407
Administration	13,489,704	13,222,489
Depreciation	10,522,378	10,360,730
<i>Total Operating Expenses</i>	78,303,787	74,291,319
<i>Operating Loss</i>	(67,279,150)	(64,309,833)
<i>Nonoperating Revenues (Expenses):</i>		
Sales Tax	73,305,787	65,491,245
Interest Income	1,157,624	632,724
Other Nonoperating Revenues	174,294	396,033
Other Nonoperating Expenses	(1,481,724)	(193,907)
State and Local Grants	2,203,792	1,282,461
Federal Preventive Maintenance and Other Operating Grants	8,443,313	8,111,894
Gain (Loss) on Sale of Capital Assets	(2,300)	(143,567)
<i>Total Nonoperating Revenues (Expenses)</i>	83,800,786	75,576,883
<i>Net Gain Before Contributions</i>	16,521,636	11,267,050
<i>Capital Grants and Contributions:</i>		
FTA formula and discretionary capital grants	2,684,029	4,634,935
State capital grants	5,730,816	3,484,774
<i>Total Capital Grants and Contributions</i>	8,414,845	8,119,709
<i>Change in Net Position</i>	24,936,481	19,386,759
Net Position - Beginning of Year, as previously reported	134,712,420	115,325,661
Prior Period Adjustment (OPEB-GASB 75 Implementation)	(1,052,054)	
Prior Period Adjustment (Work in Process Adjustment)	(83,709)	
Net Position - Beginning of Year, as restated	133,576,657	115,325,661
<i>Net Position - End of Year</i>	\$ 158,513,138	\$ 134,712,420

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

Spokane Transit Authority
Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
<i>Cash Flows from Operating Activities:</i>		
Cash Received from Operating and Other Revenues	\$ 11,202,691	\$ 9,870,711
Cash Payments to Suppliers for Goods and Services	(20,941,470)	(19,080,685)
Cash payments to Employees for Services	(48,840,268)	(46,209,088)
<i>Net Cash Used in Operating Activities</i>	(58,579,047)	(55,419,062)
<i>Cash Flows from Noncapital Financing Activities:</i>		
Tax Receipts Collected by Other Governmental Entities	72,079,561	63,399,589
Noncapital Grants and Other Revenue	16,996,999	3,143,720
Other Expense	(1,049,914)	(275,900)
<i>Net Cash Provided by Noncapital Financing Activities</i>	88,026,646	66,267,409
<i>Cash Flows from Capital and Related Financing Activities:</i>		
Purchase of Property, Plant, and Equipment	(26,119,915)	(11,574,892)
Proceeds from Disposition of Property, Plant, and Equipment	54,483	124,116
Federal Capital Grants	3,695,272	3,385,344
Other Capital Grants	5,887,009	1,734,247
<i>Net Cash Used in Capital and Related Financing Activities</i>	(16,483,151)	(6,331,185)
<i>Cash Flows from Investing Activities:</i>		
Interest Income	1,157,624	632,724
<i>Net Cash Provided by Investing Activities</i>	1,157,624	632,724
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	14,122,072	5,149,886
<i>Cash and Cash Equivalents - Beginning of Year</i>	66,446,207	61,296,321
<i>Cash and Cash Equivalents - End of Year</i>	\$ 80,568,279	\$ 66,446,207

Continued on the following page.

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

Spokane Transit Authority
Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017
(Continued)

	2018	2017
<i>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</i>		
Operating Loss	\$ (67,279,150)	\$ (64,309,833)
<i>Adjustments to Reconcile Operating Loss to Net Cash Used in Operations:</i>		
Depreciation and Amortization	10,522,378	10,360,730
Pension Expense - GASB 68	(2,101,717)	(2,603,826)
Other Post Employment Benefits - GASB 75	276,324	
<i>Changes in Assets - Decrease (Increase):</i>		
Accounts Receivable	173,764	(114,128)
Maintenance Parts Inventory	(142,207)	(97,887)
Prepaid Expenses	15,638	144,495
<i>Changes in Liabilities - Increase (Decrease):</i>		
Accounts Payable	(1,046,079)	1,104,987
Accrued Wages and Benefits	837,267	(73,470)
Advance Payment of Fares	4,290	3,430
Provision for Uninsured Claims	201,469	178,013
Contracts Payable	(41,024)	(14,193)
WIP-Reclass of capital to operating expense		2,620
<i>Net Cash Used in Operating Activities</i>	<i>\$ (58,579,047)</i>	<i>\$ (55,419,062)</i>

NON-CASH TRANSACTIONS:

Non-cash investing, capital or financing activities includes capital accruals of \$885,233.

Reclass of Work in Process to Prepaid Expense of \$49,267.

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

Spokane Transit Authority
Notes to the Financial Statements
December 31, 2018

Note 1: Summary of Significant Accounting Policies

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

A. Reporting Entity

The Spokane Transit Authority (STA) is a Public Transportation Benefit Area (PTBA) organized and operating under R.C.W. Chapter 36.57A, as a municipal corporation in the State of Washington. On April 1, 1981, STA assumed the assets, liabilities, and operations of the City of Spokane Transit System.

STA is a special purpose government engaged only in business-type activities and provides transportation services to the general public. STA is supported primarily through voter-approved local sales tax, user fares, and federal and state grants.

STA is governed by a nine-member board of elected city and county officials who are appointed to the Board by their respective governing bodies. In 2010, a non-voting board member was added by state law to represent labor unions at STA. Two other local elected officials serve on the STA board in a non-voting position. As required by GAAP, management has considered all potential component units in defining the reporting entity. STA has no component units.

Per an established Interlocal Agreement, STA is a voting member of the Spokane Regional Transportation Council board and, by Federal and State law, is a partner in the metropolitan transportation planning process. This organization is not part of STA and is excluded from the accompanying financial statements.

B. Basis of Accounting and Reporting

The accounting records of STA are maintained in accordance with methods prescribed by the Federal Transit Administration (FTA) and the Washington State Auditor under authority of Chapter 53, USC 49 and Chapter 43.09 RCW, respectively. STA is considered an Enterprise Fund Activity. Its prescribed and regulatory accounting rules are found in the FTA's National Transit Database (NTD); Uniform System of Accounts (USOA); and the Washington State Auditor's Budgeting, Accounting, and Reporting System (BARS).

These regulations are designed to reflect the regulatory and governing body's intent that the cost of providing services to the public on a continuing basis should be financed and operated in a manner more consistent with the practices of private business enterprises. These regulations differ from other general government financial accounting practices.

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 STA activity are included on the statement of net position. STA's reported fund net position is segregated into amounts invested in capital assets, and restricted and unrestricted net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. STA discloses changes in cash flows by a separate statement that presents the operating, non-capital financing, capital and related financing and investing activities.

STA uses the prescribed full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Capital asset purchases are capitalized. STA has classified its revenues and expenses as either operating or non-operating according to the following criteria.

Operating revenues have the characteristics of exchange transactions, as defined in Government Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Examples include passenger fares and other auxiliary transit revenue.

Nonoperating revenues have the characteristics of nonexchange transactions, as defined by GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Examples include sales tax, investment income, and federal preventive maintenance grants.

STA receives three main sources of revenues in the form of voter-approved sales tax (76.4%), operating revenues (11.4%), and Federal Preventive Maintenance funding (9.5%).

Funding for STA's services is largely provided by a local voter-approved sales tax levied within the Public Transportation Benefit Area only. By state law, public funding for STA is through local sales and use tax of no more than 0.9 percent. Voter approval is required for all sales tax.

From 1981 to 2004, STA was authorized by voters to levy a local 0.3 percent sales tax within its public transportation benefit area (PTBA) for the purpose of supporting the public transportation system. On May 18, 2004 the voters approved up to an additional 0.3 percent sales tax levy effective October 1, 2004 to replace funding eliminated by the State in 2000 from Motor Vehicle Excise Tax. This 2004 sales tax approval included a sunset clause on June 30, 2009. The Board took action on February 21, 2008 to have voters consider a reauthorization of the 0.3 percent sales tax on the May 20, 2008 ballot. This request was approved by the voters making the additional 0.3 percent sales tax permanent. On November 8, 2016, voters approved STA Proposition 1, authorizing an increase in local sales and use tax rate of up to 0.2 percent to fund the STA Moving Forward Plan to maintain, improve and expand public transit in Spokane County's transit service area. Phase one of the new tax took effect with a 0.1 percent increase that was effective April 1, 2017. An additional 0.1 percent increase was effective April 1, 2019 with both tax increases expiring no later than December 31, 2028 unless renewed by voters. STA now receives a local 0.8 percent sales tax levy within its PTBA.

Capital and preventive maintenance formula and discretionary grants are available from the FTA based on maintenance expenses and available federal formula funding coordinated with a federally approved local and state Transportation Improvement Plan.

Operating revenues include passenger fares on all fixed route, paratransit, and vanpool programs. STA increased its fixed route basic cash fare from \$1.75 to \$2.00, effective July 1, 2018. The fixed route basic cash fare had been at \$1.75 since July 1, 2017. Paratransit basic cash fare increased from \$1.75 to \$2.00 effective July 1, 2018. The Paratransit basic cash fare had been at \$1.75 since July 1, 2017.

Operating expenses for STA include the costs of providing transit service, maintenance, administration, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Financial Statement Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Cash and Cash Equivalents

It is STA's policy to invest all available cash balances. Cash and cash equivalents are comprised of deposits at December 31, 2018 pooled in the Spokane County Treasurer's Investment Pool. The end-of-year cash and cash equivalents balance was \$80,568,279. Investments are purchased and administered through the Spokane County Treasurer and the Washington State Treasurer and are covered by either federal depository insurance or specific qualifying collateral pledged by the financial institutions in accordance with state public deposit protection regulations. All cash equivalents are stated at cost, which approximates market. For purposes of the statement of cash flows, STA considers all investments (including restricted investments) to be cash equivalents (Also see Note 12). STA does not have any debt.

2. Investments

See Note 2 (Deposits and Investments)

3. Receivables

The sales tax receivable amount is \$12,769,582.

Customer and third party accounts receivable consist of \$469,879 (net of allowance for doubtful accounts) owed from private individuals or organizations for goods and services or damages. Accounts are charged to expense, if they are deemed uncollectible, based upon a periodic review of the accounts.

4. Amounts Due To And From Other Governments

These accounts include \$4,750,657 due from other governments for grants.

5. Inventories and Prepaid Expenses

Materials and supplies inventories, consisting principally of expendable items held for business consumption, are stated at average cost. The cost is reported as expenditure at the time individual inventory items are consumed. The value of inventory at year end was \$1,611,896.

Prepaid expenses are services that are acquired or purchased during an accounting period but are not used during that accounting period. The portion of services used during the accounting period are expensed and the remaining balance is reported as an asset until used. These accounts consist of \$523,310 related to a communication system warranty and maintenance agreement of \$506,192 and \$17,118 of prepaid workers' compensation insurance.

6. Restricted Assets and Liabilities

STA has no restricted liabilities. The restricted asset of \$357,000 is a Department of L&I requirement due to being self-insured for workers' compensation benefits.

7. Capital Assets and Depreciation

See Note 3 (Capital Assets and Depreciation)

8. Compensated Absences

Employees accrue vacation annually at rates ranging from 5 to 30 days per year. Most hourly employees are not allowed to carry vacation allowances beyond the year-end following the year made available. Salaried and Paratransit employees may carry over limited amounts of unused vacation allowances to be used subsequent to the year-end. Vacation pay, which is earned, is payable upon resignation, retirement, or death. The accrued vacation balance at December 31, 2018 was \$2,097,116.

Full-time employees accumulate sick leave at the rate of 8 hours per month with a maximum accumulation of 40 to 180 days. Part-time employees accumulate prorated sick leave with a maximum accumulation of 120 days. Sick leave is recorded as an expense at the time it is earned. At retirement, most hourly employees receive the full value of unused accumulated sick leave up to a maximum of 60 to 80 days. The accrued sick leave balance at December 31, 2018 was \$2,690,365.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt

Net pension liability of \$16,459,872 is further described below in Item 13 and in Note 6: Pension Plans. Net Other Post-Employment Liability of \$1,786,073 is further described in Item 14 and Note 5: Defined Benefit Other Post-Employment Benefit (OPEB) Plans. See Note 9 for detail.

11. Deferred Inflows and Outflows of Resources

Advance Payment of Fares – The advance payment of fares is a deferred inflow and represents pre-payments of vanpool fares and January 2019 calendar month passes out on consignment. The balance represents payments received, but not yet due, from some January monthly passes distributed in December but not finalized until January.

Pension – See Item 13 and Note 6 for detail on deferred inflows and outflows related to pensions.

Other Post-Employment Benefits (OPEB) – See Item 14 and Note 5 for detail on deferred outflows related to OPEB.

13. 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.

14. Change in Classification

Reclassifications have been made to the prior years presented to conform to the current year's presentation.

Note 2: Deposits and Investments

STA is a participant in the Spokane County Investment Pool (SCIP), an external investment pool (Pool). The SCIP reports its investments in the Pool at fair market value, which is the same as the value of the Pool per share. The responsibility for managing the Pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. Spokane County's investment policy is established by the Spokane County Finance Committee consisting of the Chair of the Board of County Commissioners, County Auditor, and the County Treasurer.

Investments by SCIP are limited by state statute. SCIP deposits and certificates of deposit are covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC (Washington Public Deposit Protection Commission). The SCIP investment policy in its entirety is available at www.spokanecounty.org. As of December 31, 2018, STA's cash and cash equivalents in the SCIP were \$80,563,629.

Note 3: Capital Assets and Depreciation

A. Major expenses for capital assets, including capital leases and major repairs that have a useful life of over 3 years and a cost over \$5,000, are capitalized. Obligations under capital leases are disclosed in Note 9 (Long-Term Debt and Leases). Capital assets are valued at historical cost or estimated historical cost where historical cost is not known or estimated market value for donated assets. Donations are recorded at the donor cost or appraised value. Major additions and betterments are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

STA has acquired certain assets with funding provided by federal grant assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, STA 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 operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation over its estimated useful life. However, in the case of the sale of a significant operating unit or system, the original cost is removed from STA asset accounts, as is the accumulated depreciation related to the asset, and the net gain or loss on disposition is recorded as a gain or loss on the sale of the asset.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method over established useful lives of individual assets. Individual useful lives are generally assigned to assets as follows:

Facilities	15 - 40 years
Transportation vehicles and equipment	3 - 12 years
Intangible assets	3 - 15 years

At the time of acquisition, STA makes a determination of the estimated useful life and salvage value based upon current market and economic circumstances.

The statement of revenues, expenses, and changes in net position includes depreciation of all depreciable capital assets and total gains or losses upon disposition. However, depreciation and gains or losses upon disposition of assets associated with assets acquired with federal capital grants are allocated specifically to retirement of federal contributed capital.

B. Capital assets activity for the year ended December 31, 2018 was as follows:

	Beginning Balance 1/1/18	Additions/ Adjustments	Retirements	Ending Balance 12/31/18
Capital Assets, Not Being Depreciated:				
Land	\$10,612,778	\$2,660,183	\$0	\$13,272,961
Work in Process	16,060,380	1,360,569	0	17,420,949
Subtotal	26,673,158	4,020,752	0	30,693,910
Capital Assets Being Depreciated:				
Buildings	36,873,662	200,051		37,073,713
Improvements	15,093,423	12,923,913	(24,214)	27,993,122
Equipment/Vehicles	94,972,291	7,102,806	(1,074,356)	101,000,741
Intangibles	6,769,198	50,797		6,819,995
Subtotal	153,708,574	20,277,567	(1,098,570)	172,887,571
Less Accumulated Depreciation				
For:				
Buildings	29,452,455	554,271		30,006,726
Improvements	7,156,422	1,578,347	(16,547)	8,718,222
Equipment/Vehicles	62,812,808	7,193,947	(1,025,240)	68,981,515
Intangible Property	2,896,185	1,195,813		4,091,998
Subtotal	102,317,870	10,522,378	(1,041,787)	111,798,461
Total Capital Assets, Net of Accumulated Depreciation	\$78,063,862	\$13,775,941	(\$56,783)	\$91,783,020

C. Construction and Other Commitments

STA has active construction projects as of December 31, 2018. The projects and commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Northwest Boone Garage and related projects	\$6,514,817	\$3,152,954
Energy Savings-Paint Booth & Plaza Controls	1,314,990	535,010
West Plains Transit Center	4,258,421	356,368
Division Stop Improvements	601,665	347,170
2018 Transit Enhancements	28,762	99,774
Indiana Sidewalk Extension	36,583	4,062
Total	\$12,755,238	\$4,495,339

Other commitments include an order of six coaches to be delivered in 2019 of approximately \$3,015,797 and an order of forty paratransit vans to be delivered in 2019 of approximately \$2,599,079.

D. Preventive Maintenance

In 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) was enacted to continue federal capital and preventive maintenance assistance for transit agencies as part of the overall national transportation funding programs. In 2015, the Fixing America's Surface Transportation (FAST) Act reauthorized surface transportation programs through Fiscal Year 2020. The federal preventive maintenance grant monies are available to fund a portion of the eligible maintenance expenses, up to a pre-determined limit. Federal grants will generally fund up to 80 percent of awarded preventive maintenance and capital improvement expenditures provided that local matching funds of at least 20 percent of the project cost have been committed.

Note 4: Stewardship, Compliance, and Accountability

There have been no material violations of finance-related legal or contractual provisions.

Note 5: Defined Benefit Other Postemployment Benefit (OPEB) Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2018:

Aggregate OPEB Amounts	
OPEB liabilities	\$ 1,786,073
OPEB assets	\$ 0
Deferred outflows of resources	\$ 457,695
Deferred inflows of resources	\$ 0
OPEB expenses/expenditures	\$ 276,324

OPEB Plan Description

GASB Statement 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment benefit liability is recognized on the Statement of Net Position over time.

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

Benefits provided:

Spokane Transit provides access to post-employment healthcare benefits for eligible retirees and their dependents. In addition, employees that are members of Amalgamated Transit Union Local 1015 separating with 25 years of service are provided a \$2,000 life insurance policy with the premium paid by Spokane Transit. The current cost of this benefit is \$7.10 per person annually. This is a single-employer plan administered by Spokane Transit.

Eligibility: Employees are eligible for retiree healthcare when they retire according to the applicable PERS rules outlined below:

- Plan 1 (members of PERS joining before October 1, 1977):
 - (1) Age 60 regardless with 5 years of service;
 - (2) Service of 30 or more years.
- Plan 2 (members of PERS joining after October 1, 1977):
 - (1) Age 65 regardless with 5 years of service;
 - (2) Age 55 regardless with 20 years of service.
- Plan 3 (members of PERS on or after March 2, 2002):
 - (1) Age 65 regardless with 5 years of service;
 - (2) Age 55 regardless with 10 years of service.

Note: Employees are permitted to choose between PERS Plan 2 or 3.

Retirees are required to pay 100 percent of the cost of the premium. Benefits end after the death of the eligible retired employee. With the exception of the life insurance, this valuation does not account for the cost of benefits to retirees or their spouses after age 65.

Employees covered by benefit terms: At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to but not yet receiving benefits	-
Active employees	589
Total	655

Spokane Transit's total OPEB liability of \$1,786,073 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate	4.10%
Healthcare Cost Trend Rates:	
Current Year Trend	4.02%
Second Year Trend	9.50%
Decrement	0.50%
Ultimate Trend	5.00%
Year Ultimate Trend is Reached	2028
Salary Increases	2.00%

The discount rate was based on the index provided by Bond Buyer 20-Bond General Obligation Index based on the 20 year AA municipal bond rate as of December 31, 2018.

Mortality rates were based on the Society of Actuaries RP-2014 Total Dataset Mortality with Scale MP-2017 (Base Year 2006).

The following presents the total OPEB liability of Spokane Transit calculated using the current healthcare cost trend rate of 4.02 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.02 percent) or 1-percentage point higher (5.02 percent) than the current rate.

	1% Decrease (3.02%)	Current Healthcare Cost Trend Rate (4.02%)	1% Increase (5.02%)
Total OPEB Liability	\$1,593,346	\$1,786,073	\$2,014,304

The following presents the total OPEB liability of Spokane Transit calculated using the discount rate of 4.10 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.10 percent) or 1-percentage point higher (5.10 percent) than the current rate.

	1% Decrease (3.10%)	Current Discount Rate (4.10%)	1% Increase (5.10%)
Total OPEB Liability	\$1,923,663	\$1,786,073	\$1,657,596

Changes in the Total OPEB Liability

Spokane Transit	
Total OPEB Liability at 01/01/2018	\$1,327,804
Service cost	91,402
Interest	58,224
Changes of benefit terms	-
Differences between expected and actual experience	321,393
Changes of assumptions	185,464
Benefit payments	(67,875)
Change in Actuarial Cost Method	(130,339)
Total OPEB Liability at 12/31/2018	\$1,786,073

At December 31, 2018, Spokane Transit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$290,220	\$0
Changes of assumptions	\$167,475	\$0
Payments subsequent to the measurement date	\$0	\$0
TOTAL	\$457,695	\$0

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	Deferred Outflows of Resources
2019	\$49,162
2020	\$49,162
2021	\$49,162
2022	\$49,162
2023	\$49,162
Thereafter	\$211,885

Note 6: Retirement Plans

Public Employees' Retirement System – Defined Benefit Plan

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (16,459,872)
Deferred outflows of resources	\$ 3,803,233
Deferred inflows of resources	\$ (7,099,461)
Pension expense/expenditures	\$ 1,945,858

State Sponsored Pension Plans

Substantially all STA'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 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)

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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – August 2018		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%
September – December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	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.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The 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 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

STA's actual PERS plan contributions were \$12,173 to PERS Plan 1 and \$4,093,415 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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 changes in methods and assumptions since the last valuation.

- Lowered the valuation interest rate from 7.70 percent to 7.50 percent for all systems except LEOFF 2.
- Lowered the assumed general salary growth from 3.75 percent to 3.50 for all systems.
- Lowered assumed inflation from 3.00 percent to 2.75 percent for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability

The table below presents STA's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what STA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 13,625,199	\$ 11,086,974	\$ 8,888,359
PERS 2/3	\$ 24,575,762	\$ 5,372,898	\$(10,371,307)

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, 2018, STA's reported a total pension liability of \$16,459,872 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 11,086,974
PERS 2/3	\$ 5,372,898

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.227220%	0.248251%	0.021031%
PERS 2/3	0.289129%	0.314681%	0.025552%

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 except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been

required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the STA's recognized pension expense is as follows:

	Pension Expense
PERS 1	\$ 2,002,826
PERS 2/3	\$ (56,968)
TOTAL	\$ 1,945,858

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, STA 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		
Net difference between projected and actual investment earnings on pension plan investments		\$ 440,590
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	\$ 836,705	
TOTAL	\$ 836,705	\$ 440,590

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 658,576	\$ 940,696
Net difference between projected and actual investment earnings on pension plan investments		\$ 3,297,059
Changes of assumptions	\$ 62,854	\$ 1,529,083
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,019,439	\$ 892,033
Contributions subsequent to the measurement date	\$ 1,225,659	
TOTAL	\$ 2,966,528	\$ 6,658,871

TOTAL PERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 658,576	\$ 940,696
Net difference between projected and actual investment earnings on pension plan investments		\$ 3,737,649
Changes of assumptions	\$ 62,854	\$ 1,529,083
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 1,019,439	\$ 892,033
Contributions subsequent to the measurement date	\$ 2,062,364	
TOTAL	\$ 3,803,233	\$ 7,099,461

Deferred outflows of resources related to pensions resulting from STA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. 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
2019	\$ 19,276
2020	\$ (96,315)
2021	\$ (289,016)
2022	\$ (74,535)
2023	\$
Thereafter	\$

Year ended December 31:	PERS 2/3
2019	\$ (614,076)
2020	\$ (1,106,665)
2021	\$ (1,979,919)
2022	\$ (709,134)
2023	\$ (238,424)
Thereafter	\$ (269,785)

ICMA Retirement Corporation (RC) Defined Contribution Plan

Prior to becoming a member of PERS, STA's primary retirement plans were defined contribution plans. The plans are established pursuant to Internal Revenue Code Section 401(a), in a money purchase format. ICMA Retirement Corporation (RC) serves as plan administrator, trustee, and record keeper under the plans.

STA had five defined contribution retirement plans for its employees prior to becoming a member of PERS. The Spokane Transit Authority-CEO Plan 106806 is the only plan still active. The other plans have been frozen and no longer receive contributions. The CEO Plan vesting is 100 percent immediately upon receipt of contributions. Forfeitures would not be applicable for this plan.

Employer and employee contributions are established by the individual plan adoption agreements and, where applicable, the related collective bargaining agreement or contract. Employer and employee contributions were determined based upon a percentage of base pay, subject to certain defined wage limits. The employee contributions through October 2, 2010 ranged from 0 percent to 6.5 percent and the employer contribution ranged from 9 percent to 25 percent. The Chief Executive Officer's (CEO) contract provided for an employer contribution of 16 percent from October 3, 2010 to December 31, 2010, 18 percent for 2011 and 22 percent for 2012 through 2017. There are no employee contributions for this plan.

Annual gross payroll, most of which is subject to plan contributions, was \$178,270 in 2018 and \$167,227 in 2017. During the years ended December 31, 2018 and 2017, STA contributed a total of \$39,037 and \$38,145 respectively, to the Section 401(a) defined contribution plans. These amounts were recognized as pension expense by STA in 2018. There was no outstanding liability as of December 31, 2018.

Note 7: Deferred Compensation Plan

STA offers its employees a tax-deferred compensation plan created in accordance with Internal Revenue Code Section 457. ICMA Retirement Corporation (RC) serves as plan administrator, trustee, and record keeper under the plan. The plan permits employees to defer a portion of their wages until future years. In addition, STA contributes 3 percent into the account of employees hired before 1/1/07 in the following groups: ATU 1598, Non-represented employees, and the CEO. This deferred compensation is not available to employees until separation, retirement, death, or unforeseeable emergency, with the exception of the employees' Section 457 Loan Program. The compensation deferred under the plan and all income attributable to the plan is held in trust for the exclusive benefit of the participants and their beneficiaries and are therefore not subject to claims by the employer's creditors. While STA has no liability for investment losses under the plan, it performs the fiduciary duty of continual evaluation of investment options for plan participants. Total assets, which equal the total trustees' liability under this plan at December 31, 2018 and 2017, were \$12,960,092 and \$14,028,727, respectively.

Note 8: Insurance

A. Liability Insurance

STA joined the Washington State Transit Insurance Pool (WSTIP) in June 2004, for coverage effective July 1, 2004. WSTIP is a 25-member self-insurance program located in Olympia, Washington. WSTIP supplies STA auto liability, general liability, public officials liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage. STA assumes the liability for claims up to the deductible amounts listed below for each type of risk. Risk of claims in excess of the deductible amount has been transferred to the Washington State Transit Insurance Pool.

WSTIP was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member transit agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving six-month's notice. Any member who withdraws will not be allowed to rejoin for a period of 36 months.

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

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

WSTIP provided the following coverage for 2018.

General/ Auto Liability	\$25,000,000 per occurrence with \$0 deductible
Public Official Liability	\$25,000,000 per claim/aggregate with \$5,000 deductible
Property Insurance	\$500,000,000 blanket limit with \$25,000 deductible
Auto Physical Damage	Replacement Cost with \$25,000 deductible
Public Honesty Bond/Faithful Performance	\$1,000,000 per claim with \$10,000 deductible
Monies & Securities	\$1,000,000 per claim with \$10,000 deductible
Depositors Forgery	\$1,000,000 per claim with \$10,000 deductible
Pollution Liability	\$5,000,000 per claim/aggregate with \$100,000 deductible
Cyber Liability	\$25,000,000 aggregate with \$100,000 deductible

Claim settlements in the past three years did not exceed coverage limits or self-insured funding reserve for uninsured claims.

B. Workers' Compensation Insurance

On December 31, 2018, cash and investments set aside for workers' compensation self-insurance totaled \$1,586,404. STA reported a liability on December 31, 2018, of \$1,229,404, which represents the estimated liability for open workers' compensation claims for which STA may ultimately be liable, including a provision for claims incurred but not yet reported. No outstanding liabilities have been removed from the balance sheet due to the purchase of annuity contracts from third parties in the name of the claimants. In addition to the self-insurance reserve of \$357,000, STA purchased an excess commercial workers' compensation policy with a statutory limit per accident of \$500,000.

Note 9: Long-Term Debt and Leases

A. Long-Term Debt - STA currently operates on a "pay-as-you-go" basis and remained free of debt during the period.

B. Operating Leases

As lessee, during 2018 and 2017, STA leased property, equipment, and tires under operating leases. Total lease expense for the years ended December 31, 2018 and 2017 was approximately \$657,812 and \$541,352, respectively.

In 1995, STA began entering into operating lease agreements for retail space in its Downtown Plaza. Total lease income for the years ended December 31, 2018 and 2017 was approximately \$129,104 and \$90,812, respectively. The retail lease agreements at the STA Plaza include percentage rental rates ranging from 4 percent to 7 percent of gross sales less minimum rent payments. Minimum future payments, excluding the percentage rental rates, are due under these leases as follows (allowing for potential non-renewals):

2019	\$101,449
2020	\$ 87,165
2021	\$ 88,639
2022	\$ 64,451
2023	\$ 30,137

Note 10: Restricted Net Position

STA's statement of net position reports \$357,000 of restricted net position, which is restricted by self-insurance regulations of the State of Washington.

Note 11: Contingencies

A. Legal Proceedings

There are pending claims in which STA is involved and disputes liability. In the opinion of management, STA's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims in the event STA is deemed liable.

B. Federal Grants

STA has received several federal grants for specific purposes that are subject to review and audit. Such audits could lead to requests for reimbursement of expenditures disallowed under the terms of the grant. Management does not believe there will be any disallowances. Additionally, management believes that should any disallowances occur, they would be immaterial.

C. Environmental Liability

As a public transit operator, STA has certain environmental risks related to its operation involving the storage and disposal of certain petroleum products. In the opinion of management, any potential claim not covered by insurance would not materially affect the financial statements of STA.

Note 12: Designated Cash and Cash Equivalents

The Board adopted a designated cash policy in October 2007. The policy designated \$5,500,000 for catastrophic self-insurance exposure protection and 15 percent of the annual Adopted Operating Expense Budget designated for unforeseen emergency appropriations. An additional cash designation of \$4,950,000 was established by the Board in December 2011. This designated cash is for future High Performance Transit Right of Way acquisition. The level of designated cash is reviewed and approved annually by the Board, in conjunction with the budget adoption process. In 2018, the Board adopted cash reserves were a total of \$21,830,743. This included \$4,950,000 Right of Way acquisition, \$5,500,000 for catastrophic self-insurance exposure protection, \$11,023,743 for operating expense reserves, and \$357,000 for self-insurance reserves for workers' compensation (Note 10).

Note 13: Cooperative Funding of Transit Related Street and Road Projects

With concurrence of the Washington State Attorney General, STA initiated a special effort to assist in cooperative funding of street and road projects where its services are operated. Since inception of this program through 2012, STA has provided eligible jurisdictions approximately \$17.1 million for transit-related street and road projects in its service area. The 2017 and 2018 budgets did not provide additional funding as all remaining commitments of this program have been met. No further awards are contemplated by the Board at this time.

Note 14: Other Disclosures

Accounting and Reporting Changes

In 2018, STA implemented GASB Statement No. 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. GASB Statement No. 75 requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Revenue, Expenses, and Change in Net Position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment liability is recognized on the Statement of Net Position over time.

The cumulative effect of implementing GASB 75 in prior years was \$1,052,054.

In 2018, STA reviewed the work in process items and determined that one of the projects was cancelled and did not meet the capitalization requirements and should be reclassified to expense and prepaid expense for a portion converted to an ongoing service agreement. These project expenses of \$132,710 were from a prior period and therefore are being reported as a prior period adjustment and a reclassification in the current period from work in process to prepaid expense (\$49,267). In addition, there was a minor correction of \$266 for 2017. The cumulative effect of this change in prior years was \$83,709. In 2017, there were no changes in prior years due to work in process reclassification.

Spokane Transit Authority
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 1
As of June 30, 2018

		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.248251%	0.227220%	0.245403%	0.262319%
Employer's proportionate share of the net pension liability	\$	11,086,974	10,781,766	13,179,297	13,721,723
Employer's covered employee payroll	\$	125,402	133,648	220,564	259,655
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	8841.15%	8067.29%	5975.27%	5284.60%
Plan fiduciary net position as a percentage of the total pension liability	%	63.22%	61.24%	57.03%	59.10%

*** This schedule is to be built prospectively until it contains ten years of data.**

Spokane Transit Authority
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS) Plan 2/3
As of June 30, 2018

		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.314681%	0.289129%	0.309094%	0.332237%
Employer's proportionate share of the net pension liability	\$	5,372,898	10,045,851	15,562,639	11,871,017
Employer's covered employee payroll	\$	32,797,084	28,346,328	28,791,796	29,483,107
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	16.38%	35.44%	54.05%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	%	95.77%	90.97%	85.82%	89.20%

*** This schedule is to be built prospectively until it contains ten years of data.**

**Spokane Transit Authority
Schedule of Employer Contributions
Public Employees' Retirement System (PERS) Plan 1
As of December 31, 2018**

		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$	12,173	16,873	17,567	26,073
Contributions in relation to the statutorily or contractually required contributions	\$	<u>(12,173)</u>	<u>(16,873)</u>	<u>(17,567)</u>	<u>(26,073)</u>
Contribution deficiency (excess)	\$	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered employer payroll	\$	95,555	141,899	157,126	255,245
Contributions as a percentage of covered employee payroll	%	12.74%	11.89%	11.18%	10.21%

*** This schedule is to be built prospectively until it contains ten years of data.**

**Spokane Transit Authority
Schedule of Employer Contributions
Public Employees' Retirement System (PERS) Plan 2/3
As of December 31, 2018**

		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$	4,093,415	3,664,644	3,264,878	2,942,220
Contributions in relation to the statutorily or contractually required contributions	\$	<u>(4,093,415)</u>	<u>(3,664,644)</u>	<u>(3,264,878)</u>	<u>(2,942,220)</u>
Contribution deficiency (excess)	\$	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered employer payroll	\$	32,134,263	30,775,241	29,202,895	28,837,971
Contributions as a percentage of covered employee payroll	%	12.74%	11.91%	11.18%	10.20%

*** This schedule is to be built prospectively until it contains ten years of data.**

Spokane Transit Authority
Schedule of Changes in Total OPEB Liability and Related Ratios
For the year ended December 31, 2018

	<u>2018</u>
Total OPEB liability - beginning	\$ 1,327,804
Changes for the Year	
Service cost	91,402
Interest	58,224
Changes in benefit terms	0
Differences between expected and actual experience	321,393
Changes of assumptions	185,464
Benefit payments	(67,875)
Change in Actuarial Cost Method	<u>(130,339)</u>
Total OPEB liability - ending	<u><u>1,786,073</u></u>
 Covered-employee payroll	 32,401,982
 Total OPEB liability as a % of covered payroll	 5.51%

Notes to Schedule:

Until a full 10-year trend is compiled, only information for those years available is presented.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

**SPOKANE TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1	2	3	4	5				6
Federal Agency / Pass-Through Agency	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Cluster								
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2018- 005-00		\$5,000	\$5,000		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X068		\$9,503	\$9,503		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X598		\$24,107	\$24,107		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2016- 005-00		\$51,629	\$51,629		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X092		\$65,867	\$65,867		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0064		\$486,784	\$486,784		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2017- 013-00		\$565,582	\$565,582		1,2,4
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X082		\$853,167	\$853,167		1,2
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2017- 087-00		\$1,198,579	\$1,198,579		1,2,4

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

**SPOKANE TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1	2	3	4	5			6	7
Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2018- 049-00		\$7,827,408	\$7,827,408		1,2, 3,4
Total Federal Transit Cluster:				\$0	\$11,087,626	\$11,087,626	\$0	
Transit Services Programs Cluster								
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-2018- 067-00		\$6,972	\$6,972	\$6,972	1,2,4
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-16-X048		\$48,691	\$48,691	\$8,975	1,2
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-2017- 020-00		\$108,820	\$108,820	\$108,820	1,2,4
Total Transit Services Programs Cluster:				\$0	\$164,483	\$164,483	\$124,767	
TOTAL FEDERAL AWARDS EXPENDED:				\$0	\$11,252,109	\$11,252,109	\$124,767	

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Spokane Transit's financial statements. Spokane Transit uses the full accrual basis of accounting.

Note 2 - Program Costs

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

Note 3 - Preventive Maintenance

The amount reported for this award includes eligible expenditures made in 2018. For this program, it is acceptable to include the current year's costs on the SEFA because the FTA approves these costs on a retroactive basis. Spokane Transit was given "pre-award authority" for its preventive maintenance expenses. The official grant award was made by the FTA for the 2018 apportionment on August 29, 2018.

Note 4 – Indirect Cost Rate

Spokane Transit has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

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.

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