

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**Spokane Transit Authority**  
**Spokane County**

Audit Period  
**January 1, 2013 through December 31, 2013**

**Report No. 1012211**

Issue Date  
**July 17, 2014**



**Washington State Auditor**  
**Troy Kelley**

Independence • Respect • Integrity



## Washington State Auditor Troy Kelley

July 17, 2014

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,

**TROY KELLEY**  
STATE AUDITOR

# Table of Contents

**Spokane Transit Authority  
Spokane County  
January 1, 2013 through December 31, 2013**

Federal Summary .....	1
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 <i>Government Auditing Standards</i> .....	3
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	5
Independent Auditor's Report on Financial Statements .....	8
Financial Section.....	11

# Federal Summary

## Spokane Transit Authority Spokane County January 1, 2013 through December 31, 2013

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

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the basic financial statements.

#### ***Internal Control Over Financial Reporting:***

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

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

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.526	Federal Transit Cluster - Federal Transit - Bus and Bus Facilities Formula Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$318,479.

The Authority qualified as a low-risk auditee under OMB Circular A-133.

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

**Spokane Transit Authority  
Spokane County  
January 1, 2013 through December 31, 2013**

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, Spokane County, Washington, as of and for the year ended December 31, 2013, 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 13, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the Authority implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*. The prior year comparative information has been derived from the Authority's 2012 basic financial statements, on which we issued our report dated May 13, 2013.

## ***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.

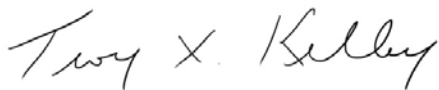
## ***COMPLIANCE AND OTHER MATTERS***

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.



**TROY KELLEY**  
STATE AUDITOR

May 13, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Spokane Transit Authority  
Spokane County  
January 1, 2013 through December 31, 2013**

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, Spokane County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The Authority's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2013.

### ***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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

**TROY KELLEY**  
STATE AUDITOR

May 13, 2014

# **Independent Auditor's Report on Financial Statements**

## **Spokane Transit Authority Spokane County January 1, 2013 through December 31, 2013**

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, Spokane County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 11.

#### ***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, 2013, 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 1 to the financial statements, in 2013, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Report on Summarized Comparative Information***

The prior year comparative information has been derived from the Authority's 2012 financial statements and, in our report dated May 13, 2013, we expressed an unmodified opinion on the respective financial statements. 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, 2012, from which such partial information was derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 22 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.

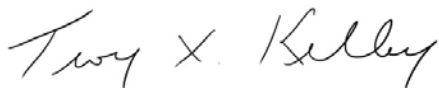
#### ***Supplementary and Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2014 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.



**TROY KELLEY**  
STATE AUDITOR

May 13, 2014

## **Financial Section**

**Spokane Transit Authority  
Spokane County  
January 1, 2013 through December 31, 2013**

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management Discussion and Analysis – 2013

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013

Notes to Schedule of Expenditures of Federal Awards – 2013

**Spokane Transit Authority  
For the Year Ended December 31, 2013**

**Management Discussion and Analysis**

This section of Spokane Transit Authority's (STA's) Annual Financial Report presents management's overview and analysis (MD&A) of the financial performance for the year ended December 31, 2013. 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, 2013 by \$127,099,063. Of this amount, \$57,886,183 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 \$20,244,732 for catastrophic self-insurance exposure protection, operating reserves, and cash designated for future High Performance Transit Right of Way acquisition.
- STA's total net position increased by \$1,275,562. The federal and state portions of capital grant revenue totaling \$3,178,597 is not included in the \$1,903,035 loss before capital contributions and special items.
- 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 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 2013. For the year ended December 31, 2013, assets exceeded liabilities by \$127,099,063. STA is a capital-intensive enterprise and about one-half (54.2%) 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

	2013	2012	2011
<b>Assets:</b>			
Current Assets	\$66,486,518	\$60,465,715	\$64,373,440
Capital Assets (Net)	68,855,880	73,826,778	78,217,778
Total Assets	135,342,398	134,292,493	142,591,218
<b>Liabilities:</b>			
Current Liabilities	8,208,299	7,805,009	8,257,372
Total Liabilities	8,208,299	7,805,009	8,257,372
<b>Deferred Inflows</b>	35,036	69,575	65,986
<b>Net Position:</b>			
Invested in Capital Assets	68,855,880	73,826,778	78,217,778
Restricted Reserves	357,000	357,000	357,000
Unrestricted Reserves	57,886,183	52,234,131	55,693,082
Total Net Position	127,099,063	126,417,909	134,267,860
<b>Total Liabilities, Deferred Inflows, and Net Position</b>	<u>\$135,342,398</u>	<u>\$134,292,493</u>	<u>\$142,591,218</u>



During 2013, STA's net position increased by \$1,275,562. 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, 2012 and 2011. 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**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenue</b>			
Passenger fares	\$10,364,381	\$10,314,643	\$10,151,749
Other transit revenue	447,696	454,815	384,327
<b>Non-operating Revenue</b>			
Sales tax	45,360,083	42,931,465	41,855,394
Grants - non-capital	8,994,140	8,452,005	9,509,911
Other non-operating revenue	522,941	577,494	664,439
<b>Total Revenue (before capital contributions)</b>	65,689,241	62,730,422	62,565,820
<b>Operating Expenses</b>	57,152,370	56,332,970	55,728,202
<b>Depreciation</b>	9,497,787	7,819,325	7,568,083
<b>Non-operating Expenses</b>			
Other non-operating expenses	942,119	50,473	121,570
Cooperative street projects		223,836	2,291,216
<b>Total Expenses</b>	67,592,276	64,426,604	65,709,071
<b>Loss before Contributions and Special Items</b>	(1,903,035)	(1,696,182)	(3,143,251)
<b>Contributions</b>			
Capital grants (ARRA)			72,823
Capital grants	3,178,597	3,355,161	3,367,918
<b>Special Items</b>		8,828,175	
<b>Change in Net Position</b>	1,275,562	(7,169,196)	297,490
<b>Beginning Net Position</b>	126,417,909	134,267,860	133,970,370
Prior period adjustment	(594,408)	(680,755)	
<b>Ending Net Position</b>	<u>\$127,099,063</u>	<u>\$126,417,909</u>	<u>\$134,267,860</u>

## Revenues

Passenger fares are the major source of operating revenues. The following table shows the amount for selected classifications of fares the Board adopted in 2012:

### Fare Examples:

	Cash Fares:	Monthly Pass:
Adult	\$1.50	\$45.00
Student	\$ 1.50	\$ 37.00
Youth	\$ 1.50	\$ 30.00
Reduced Fare	\$ .75	\$ 22.50
Paratransit	\$ 1.50	\$ 45.00

There were no fare increases in 2013. Additional information can be obtained at the STA website or by contacting STA.

Operating revenues also include income from lease of display advertising space on coaches, as well as other small miscellaneous items.

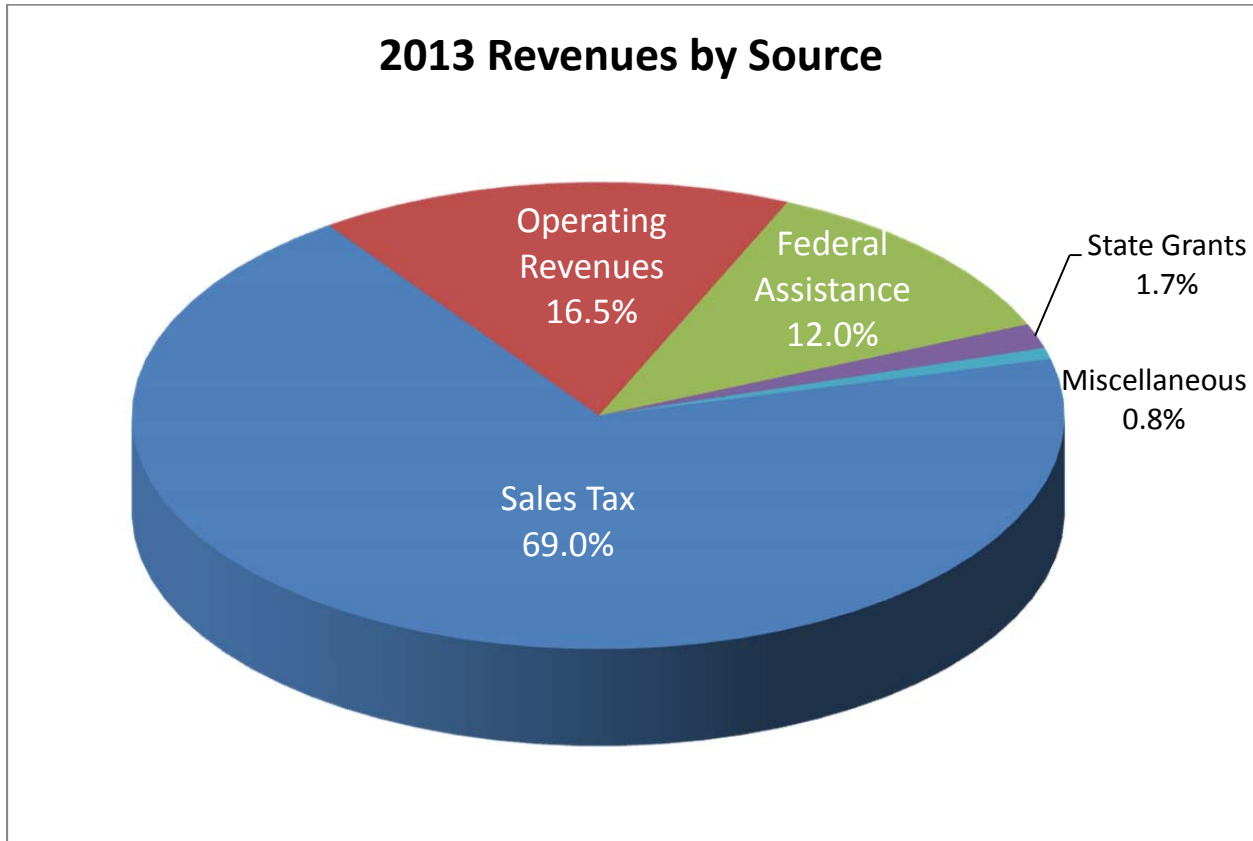
Funding for STA's services is largely provided by a local sales tax, 0.6 percent, levied within the Public Transportation Benefit Area (PTBA). By state law, public funding for transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Since 1981, 0.3 percent of the 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. Voter approval is required before additional sales tax can be levied.

STA received state funding from the Washington State Department of Transportation's Consolidated Grant program in the amount of \$340,220 in 2013, \$0 in 2012, and \$1,421,955 in 2011. These grant funds were used for special needs related service. STA received additional state operating funds from the Washington State Department of Transportation's Public Transportation Grant Program (approved by House Bill's 2190 and 5024). STA received \$776,408 in 2013 and \$187,961 in 2012.

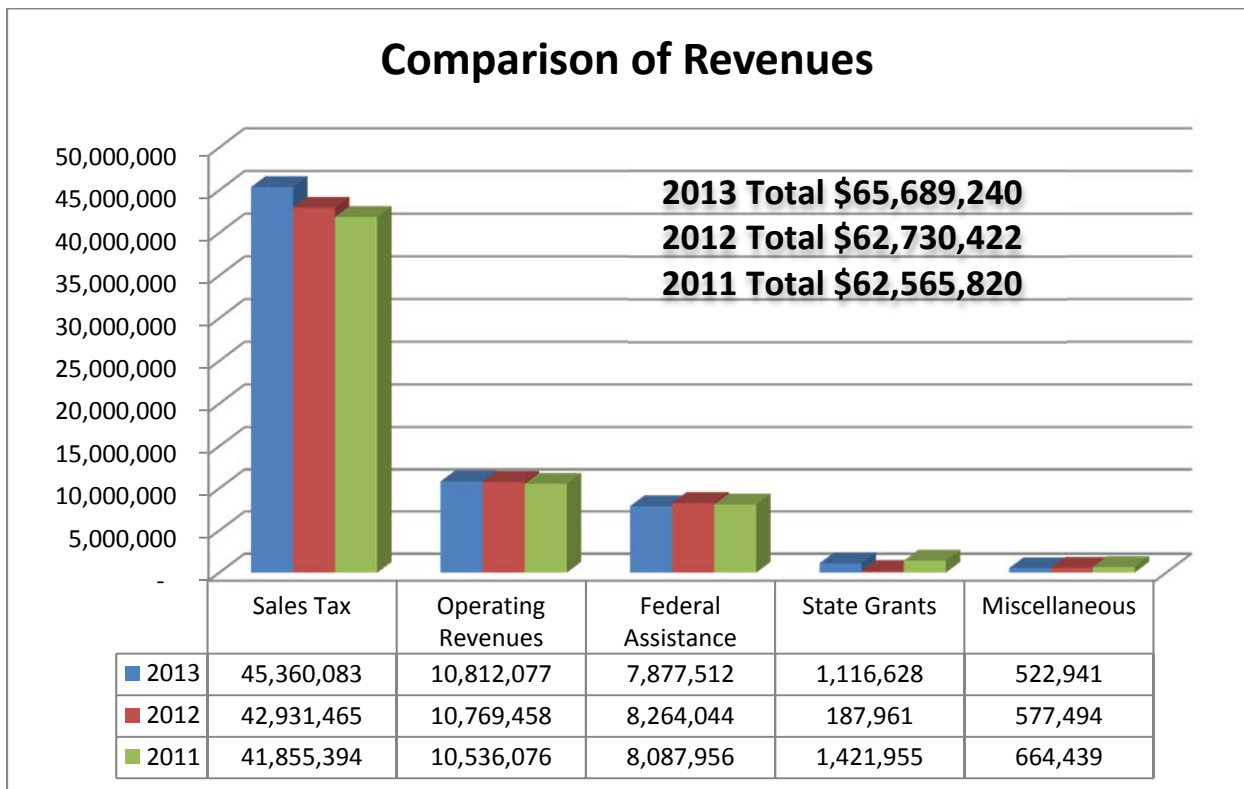
Miscellaneous revenue, primarily investment earnings, decreased as a result of lower interest rates during the year which averaged 0.81 percent.

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

During 2013, STA revenues, excluding capital contributions, were \$65,689,241. 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.

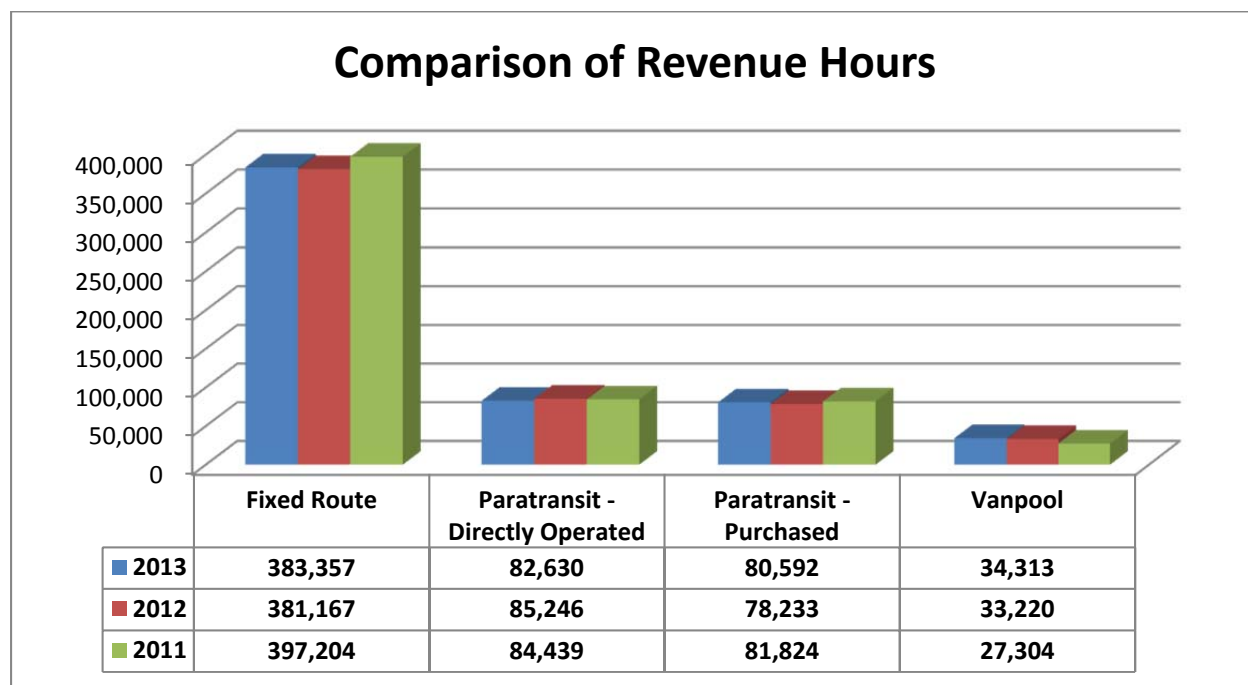
The mode describes the type of service or other activity that STA provides:

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

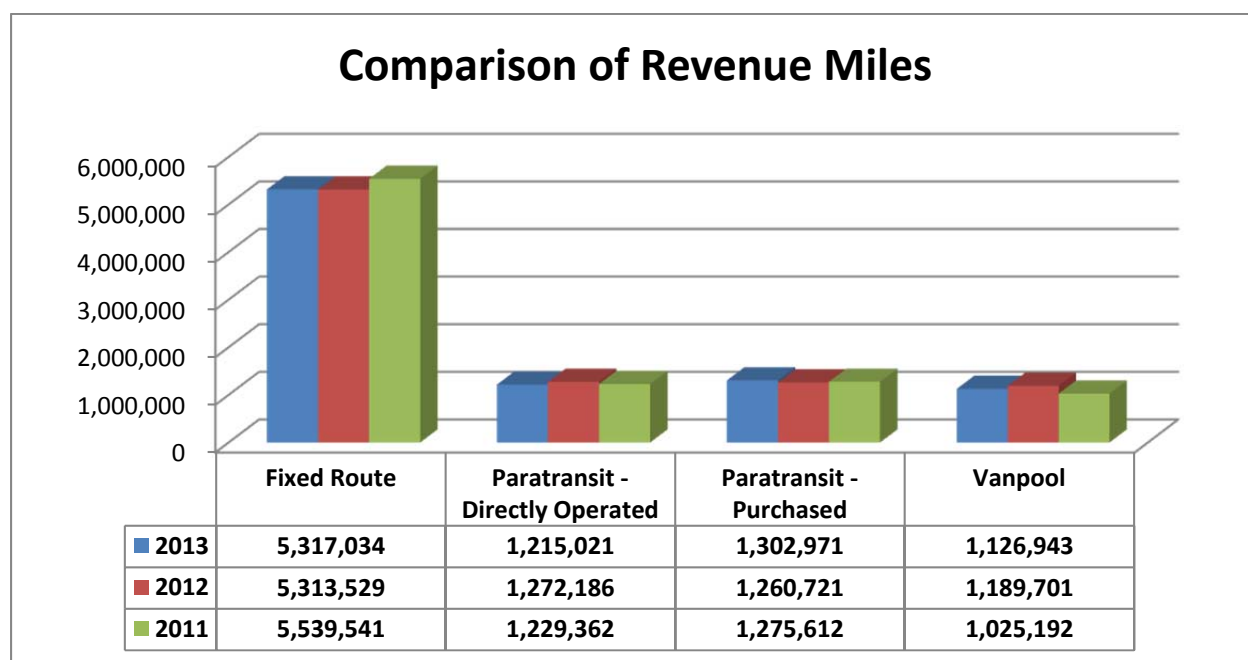
Paratransit (Demand Response) - Paratransit refers to the mode of service that provides a complementary paratransit service as provided under the Americans with Disabilities Act (ADA). Directly operated service is provided by STA personnel while purchased service is provided by a private contractor.

Vanpool - Vanpool is a service for prearranged groups of passengers who travel to a common destination. Typically, 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.

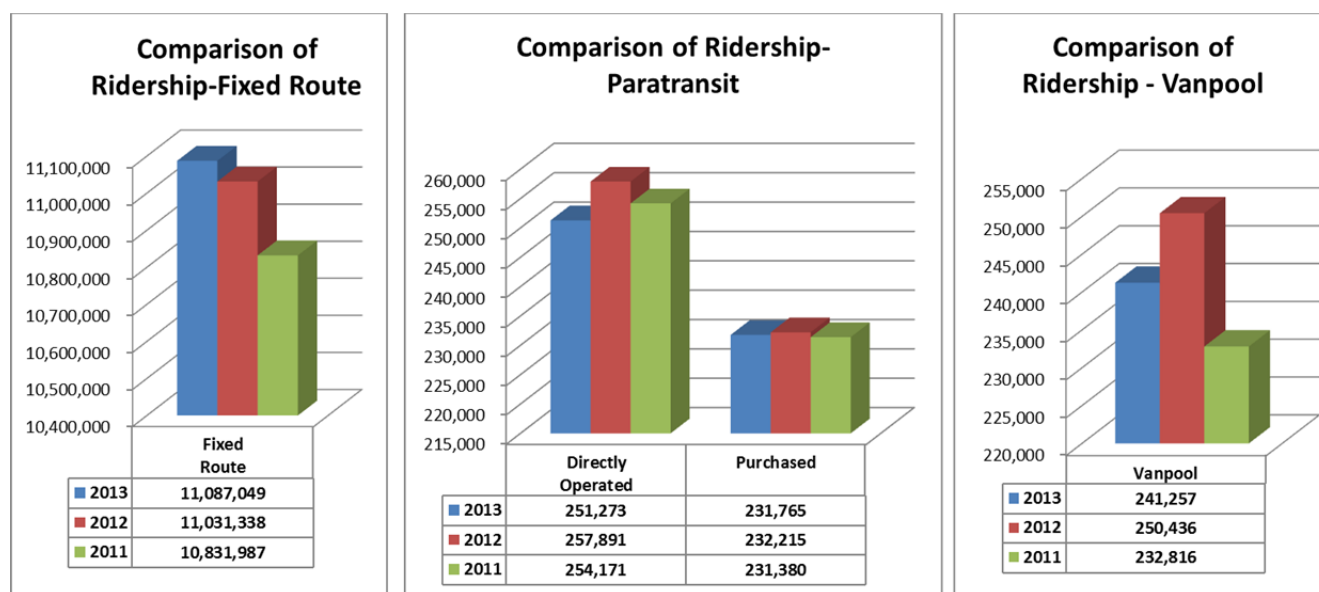
The following chart shows the comparison of revenue hours by mode for the last three years:



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 increased 0.5 percent from 2012 to 2013.

Paratransit service provided pursuant to the Americans with Disabilities Act (ADA) declined by 1.4 percent in 2013.

Vanpool service declined in 2013 by 3.7 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 facilities upkeep.

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 0.5 percent due primarily to higher labor and fringe offset by lower fuel costs.
- Maintenance expense decreased 0.7 percent primarily due to a reduction in vehicle repair materials.
- Administration expense increased 7.1 percent primarily due to increases in labor and fringe, liability and property insurance, computer materials, and professional services.

**Expense By Mode & Function For Years Ended December 31, 2013, 2012 and 2011**

	2013	2012	Increase (Decrease)	% Change	2011
<b>Mode &amp; Function</b>					
<b>Fixed Route:</b>					
Transportation	\$26,995,156	\$26,670,682	\$324,474	1.2%	\$26,777,932
Maintenance	8,757,943	8,720,193	37,750	0.4%	8,795,593
Administration	8,523,872	8,032,524	491,348	6.1%	7,800,036
Fixed Route Total	\$44,276,971	\$43,423,399	\$853,572	2.0%	\$43,373,561
<b>Paratransit:</b>					
Transportation	\$9,045,602	\$9,146,943	(\$101,341)	-1.1%	\$9,008,538
Maintenance	1,208,090	1,330,773	(122,683)	-9.2%	1,158,565
Administration	1,801,160	1,616,234	184,926	11.4%	1,456,996
Paratransit Total	\$12,054,852	\$12,093,950	(\$39,098)	-0.3%	\$11,624,099
<b>Rideshare:</b>					
Transportation	\$324,121	\$360,092	(\$35,971)	-10.0%	\$305,634
Maintenance	97,133	86,743	10,390	12.0%	88,420
Administration	399,293	368,786	30,507	8.3%	336,488
Rideshare Total	\$820,547	\$815,621	\$4,926	0.6%	\$730,542
<b>Modes Combined Expense:</b>					
Transportation	\$36,364,879	\$36,177,717	\$187,162	0.5%	\$36,092,104
Maintenance	10,063,166	10,137,709	(74,543)	-0.7%	10,042,578
Administration	10,724,325	10,017,544	706,781	7.1%	9,593,520
<b>Modes Combined Expense Total</b>	<b>\$57,152,370</b>	<b>\$56,332,970</b>	<b>\$819,400</b>	<b>1.5%</b>	<b>\$55,728,202</b>
Depreciation	9,497,787	7,819,325	1,678,462	21.5%	7,568,083
<b>Subtotal Operating Expense after Depreciation</b>	<b>\$66,650,157</b>	<b>\$64,152,295</b>	<b>\$2,497,862</b>	<b>3.9%</b>	<b>\$63,296,285</b>
Special Items		8,828,175	(8,828,175)	-100.0%	
Other Cooperative Projects-Amenities*	942,119	50,473	1,486,054	2944.3%	121,570
Cooperative Street Projects*		223,836	(223,836)	-100.0%	2,291,216
<b>Total Expenses</b>	<b>\$67,592,276</b>	<b>\$73,254,779</b>	<b>(\$5,068,095)</b>	<b>-6.9%</b>	<b>\$65,709,071</b>

\*Reclassifications made in prior year to conform to the current year's presentation.

**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 2.0 percent in 2013. This is primarily due to the impacts of the wage increases summarized below as well as the market-based adjustments for some ATU 1015 positions that were effective April 1, 2013.

Effective Date	2011		2012		2013
	1/1	7/1	1/1	8/1	1/1
Amalgamated Transit Union Local 1015				2.00%	
Amalgamated Transit Union Local 1598	1.00%		1.00%		
The American Federation of State, County, and Municipal Employees Local 3939		1.00%			
Management & Administrative employees	1.00%		0.00%		1.00%

Fringe benefits expense primarily includes health insurance premiums, retirement contributions, social security/medicare taxes and paid time off costs. The 3.3 percent increase in fringe benefits in 2013 was primarily due to increases in retirement costs and wage related fringe such as social security/medicare taxes, state industrial insurance, as well as holiday and vacation. Retirement benefits increased 15.7 percent while vacation increased 10 percent.

Services expense increased 3.1 percent in 2013 primarily due to the implementation of the IPA (in-person assessment) eligibility program for paratransit that started in late 2012, as well as an increase in contract transportation services, contract maintenance for buildings and grounds, and professional services.

Materials and supplies expense decreased overall by 6.5 percent in 2013. This was primarily due to fuel, vehicle and radio repair materials, tires and tubes, small tools, equipment, and fixtures, and furnishings. In addition, computer materials increased due to the capitalization threshold changes made in 2012.

Utilities expense increased slightly, 0.7 percent, due to increases in natural gas, electricity, water, and sewer.

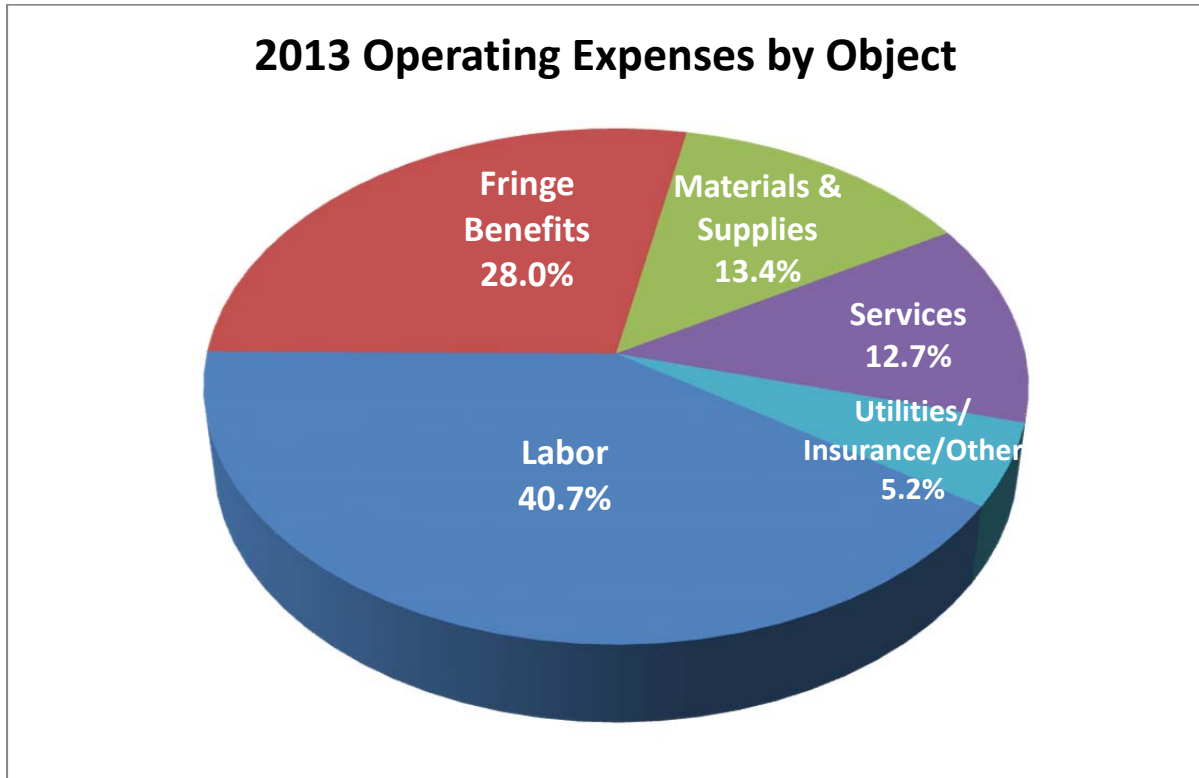
Liability and Property Insurance expense increased 18.7 percent in 2013. This is primarily due to the additional coverage for the contracted transportation vehicles.

Miscellaneous expense decreased by 14.0 percent in 2013 primarily due to a decline in bad debt. Miscellaneous expense is primarily discounts and promotions, dues and subscriptions, travel and meetings, legal advertising, and bad debt.

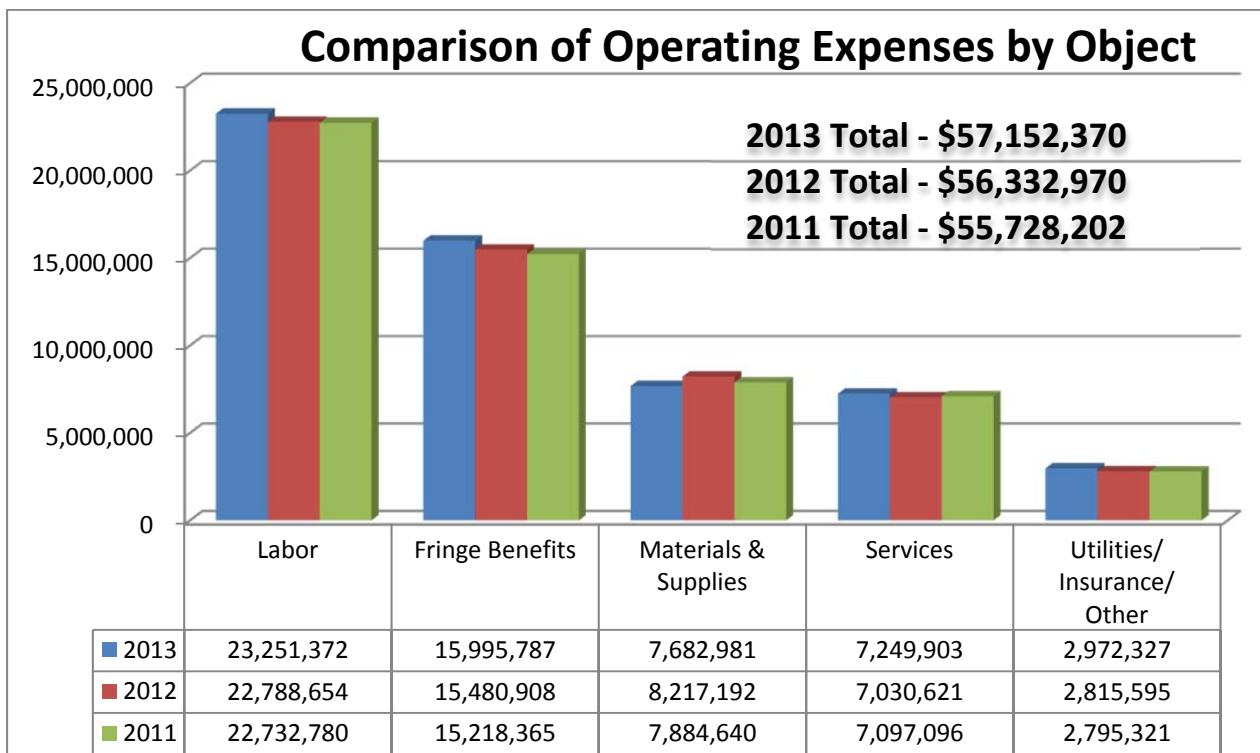
Lease expenses are primarily for radio transmitter repeater stations, fixed route bus tires and the Jefferson Park and Ride Lot. This expense increased by 10.9 percent in 2013.

**Special Item** – STA reported a special item expenditure in 2012 that represented expense recognition for costs accumulated in work in process for due diligence, design, engineering, environmental, and feasibility study costs for a potential light rail project. The light rail project is no longer considered a work in process. STA did not have any special items to report for 2013.

During 2013, STA operating expenses, excluding depreciation, were \$57,152,370. 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, 2013, amounted to \$147,310,718 less \$78,454,837 in accumulated depreciation. This includes an additional \$4,618,475 in existing work in process. Capital assets consist of transit coaches and other vehicles, land, buildings, equipment, transit centers and park and ride lots. Capital asset changes consisted of \$8,668,684 of additions and \$1,597,475 of retirements and dispositions. Depreciation expense of \$9,497,787 was recorded.

Major capital asset acquisitions, including work in process and accruals, during 2013 consisted of the following:

- Additions to vehicles consisted of ten vanpool vans to expand service, two service vehicles, and forty-eight paratransit vans for a cost of \$4,764,266. This amount was transferred from work in process as the vehicles were placed in service in 2013.
- Additions to equipment included the first phase of Smart Bus Project which was installation of cameras on all revenue vehicles at a total cost of \$2,273,659. Other additions include: bus shelter improvements at Spokane Community Colleges and new shelters at three bus stops; computer hardware and software replacements and upgrades including vanpool software and a phone system upgrade; two emergency generators; and mobile lifts in the combined amount of \$915,418. These amounts include \$3,074,381 which was transferred from work in process as the projects were completed in 2013.
- Additions for Building Improvements included the dispatch room remodel, the sewer improvement at the Hastings Park and Ride lot, a vault lid replacement at the Plaza, two HVAC unit replacements, and maintenance area air doors as well as modifications to the electronics and training room area for maintenance for a cost of \$715,341. This amount was transferred from work in process as the projects were completed in 2013.
- Work in Process activity included transfers to capital asset additions detailed above. During 2013, \$1,634,999 was reclassified from work in process to expense primarily due to the reclassification of the Plaza Wall Street Project. This was done due to the fact that the property improved is not owned by STA. Additions to work in process include \$1,992,955 for the Smart Bus CAD/AVL Project, \$142,818 for the north block property renovation planning, \$140,722 for the Central City Line Project, and other miscellaneous ongoing projects.

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 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.

## 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 Authority, 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](http://www.spokanetransit.com).

**SPOKANE TRANSIT AUTHORITY**  
**STATEMENT OF NET POSITION**

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$56,492,813	\$50,403,192
Receivables:		
Accounts receivable, net of allowance for doubtful accounts	350,290	476,124
Sales tax receivable	8,095,199	7,763,216
Due from other governments	184,517	533,195
Total receivables	8,630,006	8,772,535
Inventories	1,349,005	1,276,246
Prepayments	14,694	13,742
<b>Total current assets</b>	<b>66,486,518</b>	<b>60,465,715</b>
<b>CAPITAL ASSETS</b>		
Vehicles	72,612,439	68,620,224
Buildings and improvements	45,796,906	44,583,590
Equipment and furnishings	14,278,877	12,413,200
Land	10,004,021	10,004,021
Work in process	4,618,475	8,671,524
Less accumulated depreciation	(78,454,838)	(70,465,781)
<b>Total capital assets</b>	<b>68,855,880</b>	<b>73,826,778</b>
<b>TOTAL ASSETS</b>	<b>\$135,342,398</b>	<b>\$134,292,493</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$1,397,320	\$1,595,387
Accrued wages, benefits, and other liabilities	5,311,500	5,335,692
Contracts payable (includes retainage)	751,376	29,688
Provision for medical premiums	127,165	127,165
Provision for uninsured claims	620,938	717,077
<b>Total current liabilities</b>	<b>8,208,299</b>	<b>7,805,009</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Advance payment of fares	35,036	69,575
<b>Total deferred inflows of resources</b>	<b>35,036</b>	<b>69,575</b>
<b>NET POSITION</b>		
Invested in capital assets	68,855,880	73,826,778
Restricted for self-insurance	357,000	357,000
Unrestricted	57,886,183	52,234,131
<b>Total net position</b>	<b>127,099,063</b>	<b>126,417,909</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>	<b>\$135,342,398</b>	<b>\$134,292,493</b>

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

**SPOKANE TRANSIT AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES</b>		
Passenger fares	\$10,364,381	\$10,314,643
Other transit revenue	447,696	454,815
Total operating revenues	10,812,077	10,769,458
<b>OPERATING EXPENSES</b>		
Transportation	36,364,879	36,177,717
Maintenance	10,063,165	10,137,709
Administration	10,724,326	10,017,544
Depreciation	9,497,787	7,819,325
Total operating expenses	66,650,157	64,152,295
<b>OPERATING LOSS</b>	(55,838,080)	(53,382,837)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sales tax	45,360,083	42,931,465
Investment income	390,170	475,304
Other non-operating revenues (expenses)	(749,688)	119,388
State and local grants	1,116,628	187,961
Cooperative street projects		(223,836)
Federal preventive maintenance and other operating grants	7,877,512	8,264,044
Loss on sale of fixed assets	(59,660)	(67,671)
Total non-operating revenues (expenses)	53,935,045	51,686,655
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEMS</b>	(1,903,035)	(1,696,182)
<b>FEDERAL AND STATE CAPITAL CONTRIBUTIONS</b>		
FTA formula and discretionary capital grants	2,243,766	2,708,429
State capital grants	934,831	646,732
Subtotal capital grants	3,178,597	3,355,161
<b>SPECIAL ITEMS</b>		(8,828,175)
<b>INCREASE (DECREASE) IN NET POSITION</b>	1,275,562	(7,169,196)
<b>TOTAL BEGINNING NET POSITION, as previously reported</b>	126,417,909	134,267,860
Prior period adjustment	(594,408)	(680,755)
<b>TOTAL BEGINNING NET POSITION, as restated</b>	125,823,501	133,587,105
<b>TOTAL ENDING NET POSITION</b>	<u>\$127,099,063</u>	<u>\$126,417,909</u>

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

**SPOKANE TRANSIT AUTHORITY**  
**STATEMENT OF CASH FLOWS**

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from fares and other	\$10,903,030	\$10,853,060
Cash payments to suppliers for goods & services	(18,172,702)	(18,418,072)
Cash payments to employees for services	(39,367,490)	(38,276,449)
Net cash from operating activities	(46,637,162)	(45,841,461)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Tax receipts collected by other governmental entities	45,028,100	42,605,723
Other non-operating expense	(929,767)	
Non-capital grants and other revenue	9,877,085	15,807,251
Net cash provided from non-capital financing activities	53,975,418	58,412,974
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property, plant, and equipment	(4,827,999)	(13,535,927)
Proceeds from disposition of property, plant, and equipment	29,085	75,163
Federal capital grants	2,247,532	3,914,123
Other grants	912,577	644,079
Net cash from capital and related financing activities	(1,638,805)	(8,902,562)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	390,170	475,304
Net cash provided by investing activities	390,170	475,304
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	6,089,621	4,144,255
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	50,403,192	46,258,937
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$56,492,813</u>	<u>\$50,403,192</u>

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

**SPOKANE TRANSIT AUTHORITY**  
**STATEMENT OF CASH FLOWS**

	Year Ended December 31,	
	2013	2012
<b>RECONCILIATION OF NET LOSS TO NET CASH FROM OPERATING ACTIVITIES</b>		
Net operating loss	(55,838,080)	(53,382,837)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation expense	9,497,787	7,819,325
Increase (decrease) in cash due to changes in assets and liabilities:		
Accounts receivable	125,492	80,013
Inventories	(72,759)	(48,000)
Prepaid expenses	(952)	(471)
Accounts payable	(198,067)	(728,688)
Accrued wages and benefits	(24,192)	(77,775)
Advance payment of fares	(34,539)	3,589
Provision for uninsured claims	(96,139)	70,888
Work in process reclass to operating expense	4,287	422,495
Net adjustments	9,200,918	7,541,376
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>(46,637,162)</u>	<u>(45,841,461)</u>

**NON-CASH TRANSACTIONS:**

Non-cash investing, capital or financing activities includes capital accruals of \$751,376.

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

## **Note 1 – Summary of Significant Accounting Policies**

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. The financial statements of STA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

### **A. Reporting Entity**

Spokane Transit Authority is a special purpose government engaged only in business-type activities and provides transportation services to the general public. STA is supported primarily through sales tax, user charges, 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 legislative bodies. In 2010, a non-voting board member was added to represent labor unions at STA. 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) for Transit Districts.

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 does not have long-term liabilities.

## Note 1 – Summary of Significant Accounting Policies (Continued)

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 sales tax (69.1%), Federal Preventive Maintenance funding (12.0%) and operating revenues (16.5%).

Funding for STA's services is largely provided by a local sales tax levied within the Public Transportation Benefit Area only. By state law, public funding for transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Voter approval is required before additional sales tax can be levied.

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. STA now receives a local 0.6 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 rideshare programs. STA increased its fixed route basic cash fare structure from \$1.00 to \$1.25, effective January 1, 2010, and to \$1.50 effective January 1, 2011. Paratransit basic cash fare increased from \$1.25 to \$1.50 effective January 1, 2012.

Operating expenses for STA include the costs of providing transit service, maintenance, administrative expenses, 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.

## Note 1 – Summary of Significant Accounting Policies (Continued)

### C. Assets, Liabilities 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, 2013 pooled in the Spokane County Treasurer's Investment Pool. The end-of-year cash and cash equivalents balance was \$56,492,813. 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 11). STA is not currently engaged in any short-term debt activity.

#### 2. Short-Term Investments

See Note 2 (Deposits and Investments)

#### 3. Receivables

Sales tax receivable amounts to \$8,095,199.

Customer and third party accounts receivable consist of \$350,290 (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 \$184,517 due from other governments for grants. The amount due to other governments is \$0.

#### 5. Inventories

Materials and supplies inventories, consisting principally of expendable items held for consumption, are stated at average cost.

	<u>2013</u>	<u>2012</u>
Vehicle Parts	\$835,190	\$750,714
Fuels	<u>513,815</u>	<u>525,532</u>
	<u>\$1,349,005</u>	<u>\$1,276,246</u>

#### 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 risk.

#### 7. Capital Assets and Depreciation

See Note 3 (Capital Assets and Depreciation)



## Note 1 – Summary of Significant Accounting Policies (Continued)

### 8. Other Property and Investments

See Note 2 (Deposits and Investments)

### 9. Compensated Absences

Full-time 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.

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.

### 10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

### 11. Long-Term Debt

See Note 9 (Long-Term Debt and Leases)

### 12. Deferred Inflows of Resources

**Advance Payment of Fares** - Advance payment of fares represent pre-payments of vanpool fares and January 2014 calendar month passes out on consignment. The balance represents payments received, but not yet due, from Air National Guard and Fairchild Air Force Base vanpool groups as well as some January monthly passes distributed in December but not finalized until January.

### 13. Change in Classification

In 2013, STA implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 establishes standards for reporting deferred outflows of resources, deferred inflow of resources and net position. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The financial statements show deferred inflows of revenue for the advance payment of fares which were previously reported as prepaid fares. These changes did not have an effect on STA's financial position.

## Note 2 – Deposits and Investments

STA's cash deposits are held by Spokane County and are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple-financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As required by state law, all investments of STA funds are obligations of the Spokane County Treasurer's Investment Pool.

All temporary investments are stated at cost and classified as cash and cash equivalents in the financial statements. STA has no other investments at year-end and is not independently subject to custodial credit risk.

## 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 8 (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 financial 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	20 - 40 years
Transportation vehicles and equipment	3 - 12 years
Intangible assets	3 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.

### Note 3 – Capital Assets and Depreciation (continued)

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

<b>Capital Assets</b>	<b>Balance at 1/1/13</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 12/31/13</b>
Buildings	\$35,213,773	\$497,975		\$35,711,748
Improvements	9,369,817	715,341		10,085,158
Equipment/Vehicles	80,558,691	7,455,367	(1,122,742)	86,891,316
Intangible Assets	474,733		(474,733)	
Depreciable Capital Assets	125,617,014	8,668,683	(1,597,475)	132,688,222
Non-Depreciable Capital Assets				
Land	10,004,021			10,004,021
Work in Process	8,671,524	6,135,938	(10,188,987)	4,618,475
<b>Total Capital Assets</b>	<b>\$144,292,559</b>	<b>\$14,804,621</b>	<b>(\$11,786,462)</b>	<b>\$147,310,718</b>
<b>Accumulated Depreciation</b>				
Buildings	\$26,473,725	\$855,344		\$27,329,069
Improvements	4,154,599	498,492		4,653,091
Equipment/Vehicles	39,362,725	8,143,950	(1,033,998)	46,472,677
Intangible Assets	474,732		(474,732)	
<b>Total Accumulated Depreciation</b>	<b>\$70,465,781</b>	<b>\$9,497,786</b>	<b>(\$1,508,730)</b>	<b>\$78,454,837</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$55,151,233</b>			<b>\$54,233,385</b>

### C. Construction Commitments

STA has active construction projects as of December 31, 2013. The projects and commitments with contractors are as follows:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
2012 Bus Shelter Pad Project	\$17,624	\$928
SCC Interim Transit Center Improvements	112,363	6,524
Bus Stop Sign Replacement		298,614
Emergency Generator Replacement	283,088	13,649
Fire Alarm Upgrade		24,186
H&C #A Replacement	17,011	14,490
The Colonnade	16,809	66,614
Bus Passenger Shelter	36,556	13,468
<b>Total</b>	<b>\$483,451</b>	<b>\$438,472</b>

### **Note 3 – Capital Assets and Depreciation (continued)**

#### **D. Preventive Maintenance**

In 2012, the Moving Ahead for Progress in the 21<sup>st</sup> 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. 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 – Other Postemployment Benefit (OPEB) Plans**

STA makes available to retirees who are eligible to retire through the Washington State Public Employee Retirement System (PERS) and their spouses bus passes, retiree life insurance and medical insurance. The retiree bus pass and life insurance is at minimal or no cost to the employer. Additionally, retirees who are not yet Medicare eligible and elect to participate in one of the group medical plans pay 100% of medical premiums at a rate derived from the pool of active and participating retired employees.

An actuarial evaluation of STA's other postemployment benefit plan was done as of December 31, 2013. The plan has been determined to be immaterial and therefore, not reported in the financial statements.

### **Note 6 – Retirement Plans**

The following information for the STA retirement plans is for the time period January 1 to December 31, 2013. STA froze its defined contribution retirement plans (with the exception of the CEO plan) on October 2, 2010, when STA was admitted to the Washington State Public Employees Retirement System (PERS).

As of October 3, 2010, all Spokane Transit Authority qualifying full-time and part-time employees became participants of one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (PERS), under cost-sharing multiple-employer defined benefit and defined contribution public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

## **Note 6 – Retirement Plans (continued)**

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

#### **Plan Description**

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

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

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

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

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

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

## **Note 6 – Retirement Plans (continued)**

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset, the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or

until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (base on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

## Note 6 – Retirement Plans (continued)

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members.

Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

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

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

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

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

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

## Note 6 – Retirement Plans (continued)

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

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

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

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

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012 :

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
<b>Total</b>	<b>263,347</b>

### Funding Policy

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



## Note 6 – Retirement Plans (continued)

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

\*The employer rates include the employer administrative expense fee currently set at 0.18%.

\*\*The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and 3.

\*\*\*Plan 3 defined benefit portion only.

\*\*\*\*The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\*Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Spokane Transit and its employees made the required contributions. STA's required contributions (employee and employer) for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 39,258	\$3,178,145	\$295,198
2012	\$ 37,036	\$2,871,141	\$228,595
2011	\$130,951	\$2,560,126	\$154,998

### **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.

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 0.0 percent to 6.5 percent and the employer contribution ranged from 9.0 percent to 25 percent. The Chief Executive Officer's (CEO) contract provided for an employer contribution of 16.0 percent from October 3, 2010 to December 31, 2010, 18.0 percent for 2011 and 22.0 percent for 2012 through 2016.

**Note 6 – Retirement Plans (continued)**

Annual gross payroll, most of which is subject to plan contributions, was \$166,486 in 2013 and \$163,649 in 2012. During the years ended December 31, 2013 and 2012, STA and its employees contributed a total of \$35,133 and \$33,129 respectively, to the Section 401(a) defined contribution plans.

**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 plans. The plan permits employees to defer a portion of their wages until future years. In addition, STA contributes 3% 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, 2013 and 2012, were \$11,935,706 and \$10,720,223, 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. 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 provided the following coverage for 2013.

General Liability	\$12,000,000 per occurrence with \$0 deductible
Auto Liability	\$12,000,000 per occurrence with \$0 deductible
Public Official Liability	\$12,000,000 per claim/aggregate with \$5,000 deductible
Property Insurance (Building, Personal and Auto Physical Damage)	\$1,000,000,000 blanket limit 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 \$5,000 deductible (claims made base)

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

## **Note 8 – Insurance (continued)**

### **B. Workers' Compensation Insurance**

On December 31, 2013, cash and investments set aside for workers' compensation self-insurance totaled \$949,188. STA reported a liability on December 31, 2013, of \$592,188, 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 reserve, STA purchased an excess commercial workers' compensation policy with a statutory limit per accident and a \$450,000 self-insured retention per accident.

## **Note 9 – Long-Term Debt and Leases**

**A.** Long-Term Debt - STA has no long-term debt.

### **B. Operating Leases**

As lessee, during 2013 and 2012, STA leased property, equipment, and tires under operating leases. Total lease expense for the years ended December 31, 2013 and 2012 was approximately \$464,000 and \$511,000, respectively.

In 1995, STA began entering into operating lease agreements for retail space in its Downtown Plaza. In 2012, STA purchased an office building at 1212 Sharp for future expansion of its operating facilities. The office building had two tenants leasing office space when purchased. The tenants vacated the building in early 2013.

Total lease income for the years ended December 31, 2013 and 2012 was approximately \$131,111 and \$131,180, 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):

2014	\$48,976
2015	\$50,857
2016	\$45,596
2017	\$35,705
2018	\$41,031

## **Note 10 – Restricted Net Assets**

STA's statement of net position reports \$357,000 of restricted net assets, of which \$357,000 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 fifteen 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 2013, the Board adopted cash reserves were a total of \$20,244,732. This included \$4,950,000 for High Performance Transit Right of Way acquisition, \$5,500,000 for catastrophic self-insurance exposure protection, and \$9,437,732 for operating expense reserves.

## **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 2013 and 2014 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**

### **A. Accounting Principle and Reporting Changes**

In 2013, STA reviewed the work in process items and determined the Plaza Wall Street Project should be reclassified to expense. This project was necessary for STA operations however the property improved was not owned by STA. Some of the project expenses were from a prior period (2012) and therefore are being reported as a prior period adjustment. The reclassification of this project to an expense was due to a change in application of an accounting principle.

In 2012, STA reviewed capitalization thresholds for federal, state and local governments. Based on this review, STA changed its capitalization threshold from \$500 to \$5,000. The capitalization threshold determines the criteria in which an asset is capitalized and reported in the Statement of Net Position. Assets under this criterion are charged to an expense and reported in the Statement of Revenues, Expenses and Change in Net Position. As a part of this change, the net book value of assets acquired before 2012 that no longer met the current threshold were removed from the fixed asset accounts. The cumulative effect of this change in prior years was \$680,755.

### **B. Extraordinary/Special Items**

There were no extraordinary or special items to report for 2013. During 2012, STA reported a special item expenditure that represented expense recognition for costs accumulated in work in process for due diligence, design, engineering, environmental, and feasibility study costs for a potential light rail project. The light rail project is no longer considered a work in process.

# SCHEDULE 16

## SPOKANE TRANSIT AUTHORITY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2013

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0089		\$13,429	\$13,429	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0064		\$58,946	\$58,946	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0090		\$259,676	\$259,676	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0034		\$392,955	\$392,955	
<b>SUBTOTAL</b>					<b>\$725,006</b>	<b>\$725,006</b>	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X458		\$4,000	\$4,000	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X485		\$20,625	\$20,625	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X492		\$39,332	\$39,332	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X512		\$71,353	\$71,353	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X050		\$987,785	\$987,785	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X537		\$7,552,656	\$7,552,656	3
<b>SUBTOTAL</b>					<b>\$8,675,751</b>	<b>\$8,675,751</b>	

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, 2013**

1 Federal Agency Name / Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other I.D. Number	5 Expenditures			6 Foot note Ref.
				From Pass- Through Awards	From Direct Awards	Total	
Federal Transit Administration, U.S. Department of Transportation/ Pass through from Washington State Department of Transportation	Formula Grants for Rural Areas	20.509	GCA6850	\$29,010		\$29,010	
Federal Transit Administration, U.S. Department of Transportation/ Pass through from Washington State Department of Transportation	Formula Grants for Rural Areas	20.509	GCB1637	\$81,194		\$81,194	
<b>SUBTOTAL</b>				<b>\$110,204</b>		<b>\$110,204</b>	
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-16-X038		\$64,390	\$64,390	
<b>SUBTOTAL</b>					<b>\$64,390</b>	<b>\$64,390</b>	
Federal Transit Administration, U.S. Department of Transportation	Job Access Reverse Commute	20.516	WA-37-X050		\$150,262	\$150,262	
<b>SUBTOTAL</b>					<b>\$150,262</b>	<b>\$150,262</b>	
Federal Transit Administration, U.S. Department of Transportation	New Freedom Program	20.521	WA-57-X014		\$140,298	\$140,298	4
<b>SUBTOTAL</b>					<b>\$140,298</b>	<b>\$140,298</b>	
Federal Transit Administration, U.S. Department of Transportation	Bus and Bus Facilities Formula Program	20.526	WA-34-0002		\$750,042	\$750,042	
<b>SUBTOTAL</b>					<b>\$750,042</b>	<b>\$750,042</b>	
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>\$110,204</b>	<b>\$10,505,749</b>	<b>\$10,615,953</b>	

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, 2013**

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**Note 1 - Basis of Accounting**

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

**Note 3 - Prior Year's Preventive Maintenance**

The amount reported for this award includes eligible expenditures made in 2013. 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 2013 apportionment on August 22, 2013.

**Note 4 – Amounts Awarded to Subrecipients**

Included in the total amount expended for this program is \$140,298 that was passed through to the City of Spokane Valley. This subrecipient administered its' own program.





## **ABOUT THE STATE AUDITOR'S OFFICE**

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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 as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

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

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

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**Director of Performance and State Audit**  
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