Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Spokane Transit Authority

Spokane County

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

Published June 15, 2017

Report No. 1019283

Office of the Washington State Auditor
Pat McCarthy

June 15, 2017

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,

Pat McCarthy

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the Authority's compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Federal Programs:

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

CFDA No.	Program or Cluster Title
20.500	Federal Transit Cluster – Capital Investment Grants
20.507	Federal Transit Cluster – Formula Grants
20.526	Federal Transit Cluster – Bus and Bus Facilities Formula Program

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

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

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 Spokane Transit Authority, Spokane County, Washington, as of and for the years ended December 31, 2016, 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 17, 2017. The prior year comparative information has been derived from the Authority's 2015 basic financial statements, on which we issued our report dated May 6, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.

Pat McCarthy

State Auditor

Olympia, WA

May 17, 2017

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

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

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) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

Pat McCarthy

State Auditor

Olympia, WA

May 17, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Board of Directors
Spokane Transit Authority
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Spokane Transit Authority, Spokane County, Washington, as of and for the years ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 15.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2015, from which such partial information was derived. We have previously audited the Authority's 2015 financial statements and we expressed unmodified opinions on the respective basic financial statements in our report dated May 6, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 27 and pension plan information on pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

May 17, 2017

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

Spokane Transit
For the Year Ended December 31, 2016

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, 2016. 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 ¾ 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, 2016 by $115,325,661. Of this amount, $40,268,239 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 $20,587,453 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 $4,873,199 (excluding prior period adjustments). The federal and state portions of capital grant revenue totaling $1,828,841 is not included in the $3,044,358 gain before capital contributions.
- STA continues to operate on a "pay-as-you-go" basis and remained free of debt during the period. Cash balances, less designated reserves, are planned for future operating and capital expenses.

Overview of the Financial Statements

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

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

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

<u>The Statement of Revenues, Expenses and Changes in Net Position</u> 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 2016. For the year ended December 31, 2016, assets exceeded liabilities by $115,325,661. STA is a capital-intensive enterprise and over one-half of its net position is invested in capital assets. The following is a comparative summary of STA's net position.

SUMMARY STATEMENT OF NET POSITION

	2016	2015	2014
Assets:			
Current Assets	$75,572,467	$73,425,077	$70,806,028
Capital Assets (Net)	74,700,423	72,569,507	70,158,234
Total Assets	150,272,890	145,994,584	140,964,262
Deferred Outflows	5,524,271	3,868,517	0
Total Assets and Deferred Outflows	155,797,161	149,863,101	140,964,262
Liabilities:			
Current Liabilities	10,461,347	9,743,288	9,553,255
Long Term Liabilities	28,741,936	25,592,740	0
Total Liabilities	39,203,283	35,336,028	9,553,255
Deferred Inflows	1,268,217	3,950,106	39,961
Net Position:			
Invested in Capital Assets	74,700,422	72,569,507	70,158,234
Restricted Reserves	357,000	357,000	357,000
Unrestricted Reserves	40,268,239	37,650,460	60,855,812
Total Net Position	115,325,661	110,576,967	131,371,046
Total Liabilities, Deferred Inflows, and Net Position	$155,797,161	$149,863,101	$140,964,262

During 2016, STA's net position increased by $4,873,199. Net position as of the beginning of 2016 decreased $124,505 due to a prior period adjustment for a reclassification of some prior year write offs of work in process to expense. Overall, STA net position improved by $4,748,694. 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, 2015 and 2014. 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

	2016	2015	2014
Operating Revenue			
Passenger fares	$8,735,266	$9,222,046	$9,850,580
Other transit revenue	392,018	355,034	484,159
Non-operating Revenue			
Sales tax	54,131,543	51,243,853	47,848,933
Grants - non-capital	9,300,964	9,118,785	10,488,117
Other non-operating revenue	668,030	591,149	127,699
Total Revenue (before capital contributions)	73,227,821	70,530,867	68,799,488
Operating Expenses	59,803,003	60,615,919	58,900,850
Depreciation	10,126,015	8,835,379	9,183,244
Non-operating Expenses			
Other non-operating Expenses	254,445	221,707	122,333
Total Expenses	70,183,463	69,673,005	68,206,427
Gain before Contributions and Special Items	3,044,358	857,862	593,061
Contributions			
Capital grants	1,828,841	3,875,404	3,779,827
Change in Net Position	4,873,199	4,733,266	4,372,888
Beginning Net Position	110,576,967	131,371,046	127,099,063
Prior period adjustments	(124,505)	(25,527,345)	(100,905)
Ending Net Position	$115,325,661	$110,576,967	$131,371,046

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	$ 0.75	$ 22.50
Paratransit	$ 1.50	$ 45.00

There were no fare increases in 2016. The STA Board approved new Tariff Policy and Procedures for Fixed Route and Paratransit at the July Board meeting. This new policy provides for fare increases on July 1, 2017 and July 1, 2018. Additional fare 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.

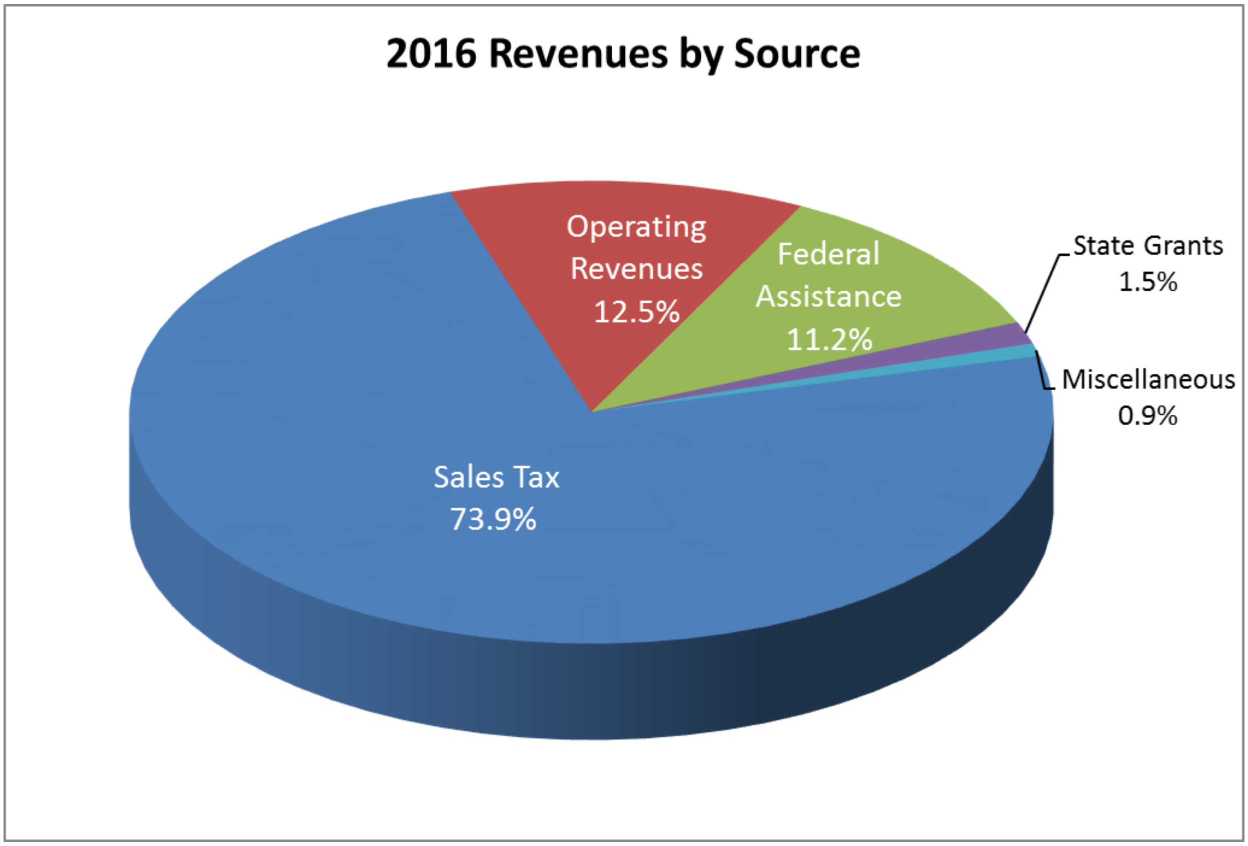
Funding for STA's services is largely provided by a local sales tax, 0.6 percent, levied within the Public Transportation Benefit Area (PTBA). By state law, public funding for transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Since 1981, 0.3 percent of the 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. On November 8, 2016, voters approved STA Proposition 1, authorizing an increase in local sales and use tax of up to 0.2% to fund the STA Moving Forward Plan to maintain, improve and expand public transit in Spokane County's transit service area. The new tax takes effect in phases with a 0.1 percent increase will be effective April 1, 2017 and an additional 0.1% increase effective April 1, 2019 with both tax increases expiring no later than December 31, 2028 unless renewed by voters.

STA received state funding from the Washington State Department of Transportation's Consolidated Grant program in the amount of $1,126,892 in 2016, $563,446 in 2015, and $1,020,658 in 2014. These grant funds were used for special needs related service. STA received additional state operating funds in prior years from the Washington State Department of Transportation's Public Transportation Grant Program (approved by House Bill 2190 and 5024), however, this funding was discontinued for 2016. STA received $400,487 in 2015 and $800,974 in 2014 from this program.

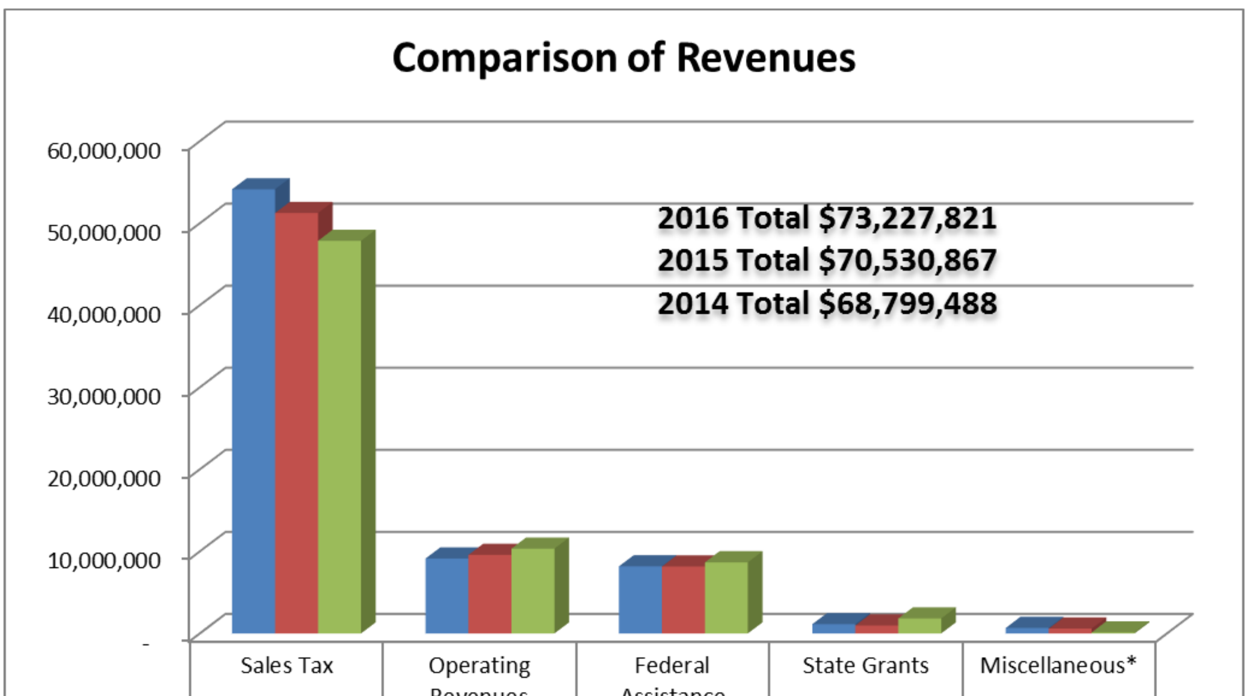
Miscellaneous revenue, primarily investment earnings, increased by $76,882. Investment income increased, due to higher interest rates during the year which averaged 0.78 percent and slightly higher cash balances.

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

During 2016, STA revenues, excluding capital contributions, were $73,227,821. The following chart shows the major sources of revenue:



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



	Sales Tax	Operating Revenues	Federal Assistance	State Grants	Miscellaneous*
2016	54,131,543	9,127,284	8,174,072	1,126,892	668,031
2015	51,243,853	9,577,080	8,154,852	963,933	591,149
2014	47,848,933	10,334,739	8,666,485	1,821,632	127,699

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.

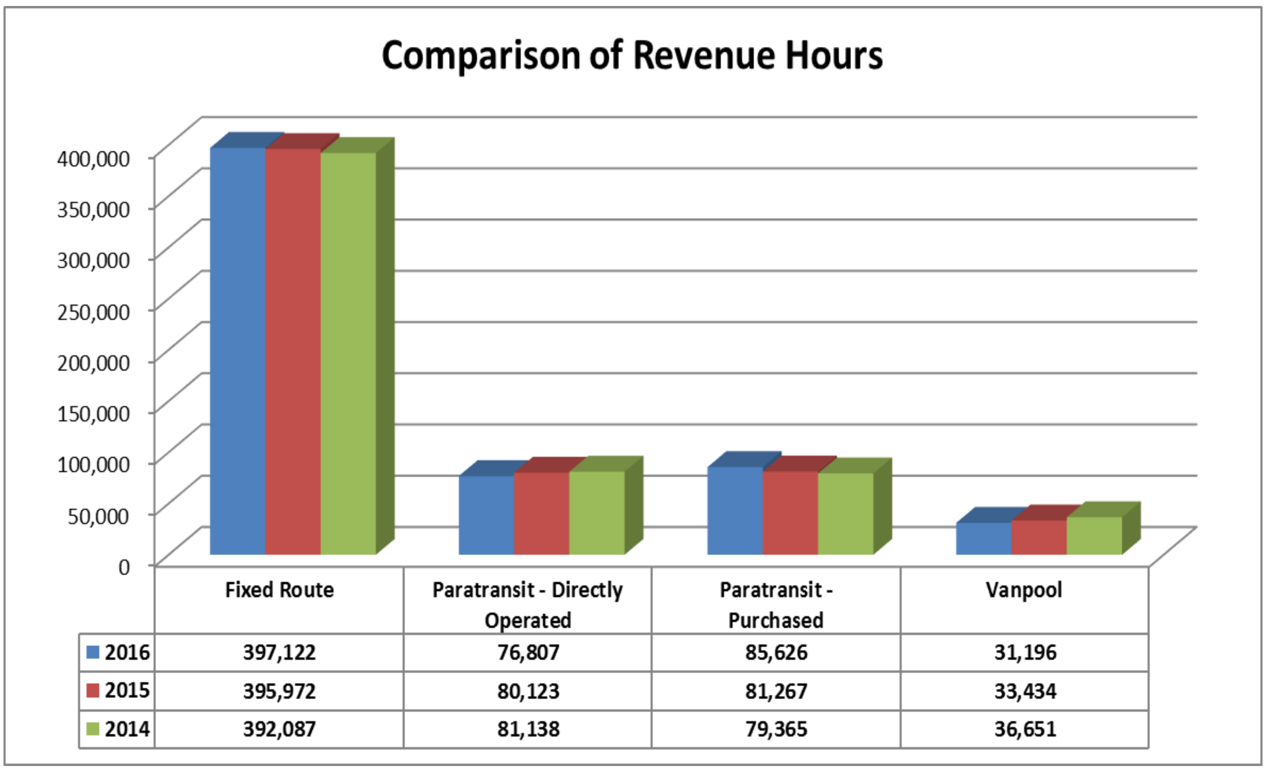
The mode describes the type of service or other activity that STA provides:

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.

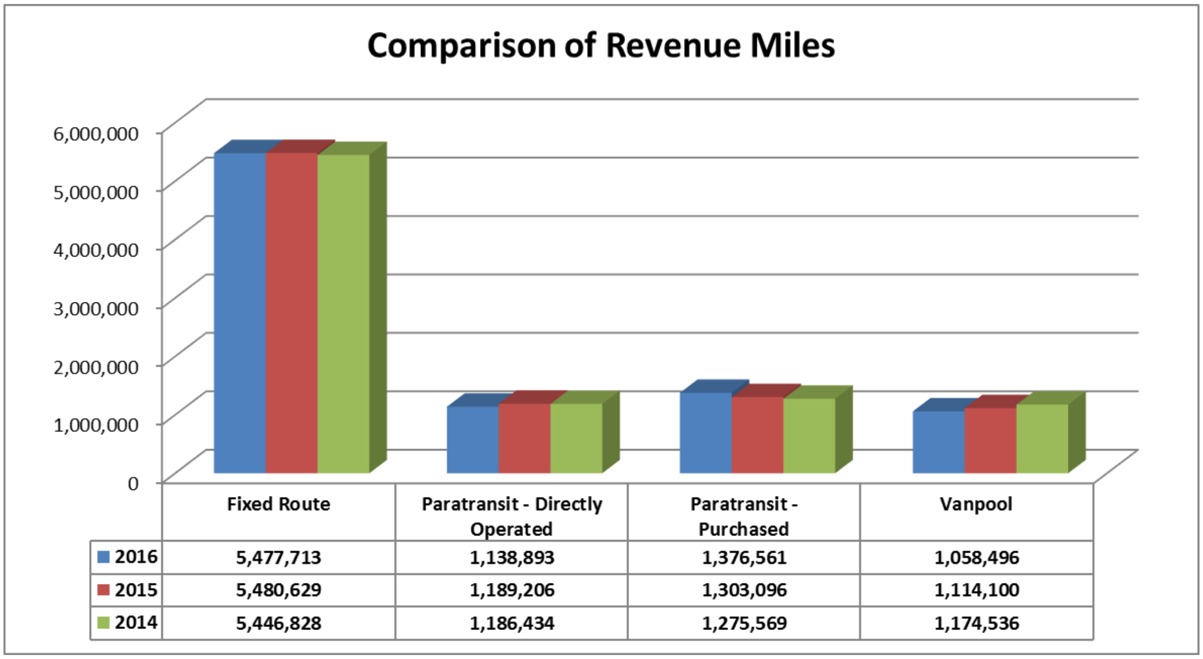
Vanpool - Vanpool is a service for prearranged groups of passengers who travel to a common destination. Typically, one of the passengers is designated as the driver and the program may receive employer support as a part of commute trip reduction (CTR) programs. Carpool client-matching is also available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

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

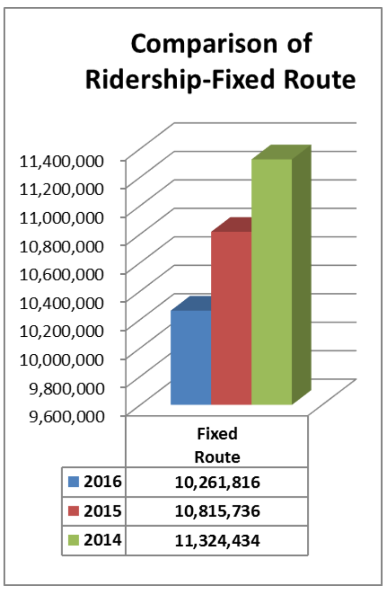


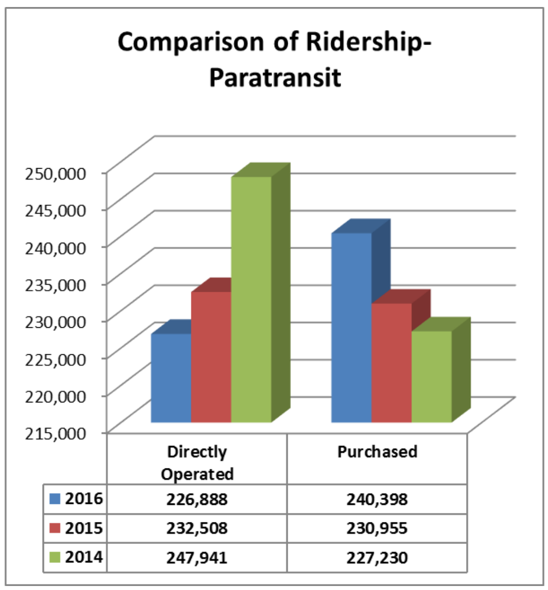
	Fixed Route	Paratransit - Directly Operated	Paratransit - Purchased	Vanpool
2016	397,122	76,807	85,626	31,196
2015	395,972	80,123	81,267	33,434
2014	392,087	81,138	79,365	36,651

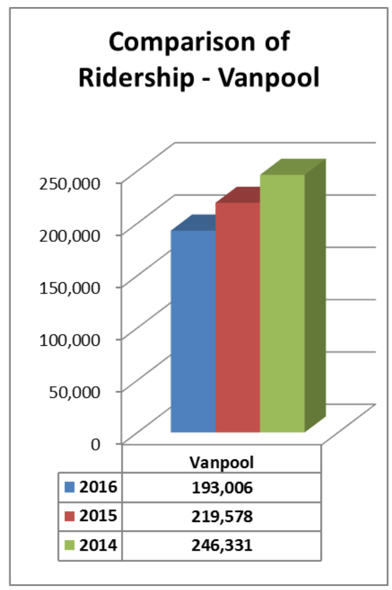
The following chart shows the comparison of revenue miles by mode for the last three years:



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







Fixed Route ridership declined by 5.1 percent from 2015 to 2016.

Paratransit service provided pursuant to the Americans with Disabilities Act (ADA) declined by 2.4 percent in 2016.

Vanpool ridership declined in 2016 by 12.1 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 decreased 3.5 percent due primarily to lower pension expense related to GASB 68 and lower fuel costs offset by increases in labor and fringe.
- Maintenance expense increased 2.3 percent primarily due to an increase vehicle repair materials offset by lower pension expense related to GASB 68.
- Administration expense increased 2.1 percent primarily due to increases in labor, fringe, and professional services offset by lower pension expense related to GASB 68.

Expense By Mode & Function For Years Ended December 31, 2016, 2015 and 2014

	2016	2015	Increase (Decrease)	% Change	2014*
Mode & Function					
Fixed Route:					
Transportation	$26,574,221	$27,887,454	($1,313,233)	-4.7%	$27,586,114
Maintenance	10,247,315	9,873,958	373,357	3.8%	9,227,399
Administration	9,397,196	9,248,666	148,530	1.6%	8,707,916
Fixed Route Total	$46,218,732	$47,010,078	($791,346)	-1.7%	$45,521,428
Paratransit:					
Transportation	$9,428,686	$9,412,238	$16,448	0.2%	$9,441,688
Maintenance	1,421,955	1,518,237	(96,282)	-6.3%	1,233,758
Administration	2,079,079	1,972,813	106,266	5.4%	1,838,257
Paratransit Total	$12,929,720	$12,903,288	$26,432	0.2%	$12,513,703
Vanpool:					
Transportation	$140,173	$168,283	($28,110)	-16.7%	$319,824
Maintenance	90,215	100,963	(10,748)	-10.6%	118,805
Administration	424,164	433,307	(9,143)	-2.1%	427,091
Vanpool Total	$654,552	$702,553	($48,001)	-6.8%	$865,720
Modes Combined Expense:					
Transportation	$36,143,080	$37,467,975	($1,324,895)	-3.5%	$37,347,626
Maintenance	11,759,485	11,493,158	266,327	2.3%	10,579,961
Administration	11,900,438	11,654,786	245,653	2.1%	10,973,263
Modes Combined Expense Total	$59,803,003	$60,615,919	($812,915)	-1.3%	$58,900,850
Depreciation/Amortization	10,126,015	8,835,379	1,290,636	14.6%	9,183,244
Subtotal Operating Expense after Depreciation	$69,929,018	$69,451,298	$477,721	0.7%	$68,084,094
Election Costs	64,410	140,680	(76,270)	-54.2%	0
Other Cooperative Projects-Amenities	190,035	81,027	109,008	134.5%	122,333
Total Expenses	$70,183,463	$69,673,005	$510,459	0.7%	$68,206,427

.

<u>Operating Expense by Object</u> – 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.

<u>Labor</u> expense increased by 0.8 percent in 2016. This is primarily due to the impacts of the general wage increases summarized below.

	2014				2015				2016			
Effective Date	**1/1**	**2/1**	**4/1**	**7/1**	**1/1**	**2/1**	**4/1**	**7/1**	**1/1**	**2/1**	**4/1**	**7/1**
Amalgamated Transit Union Local 1015			1.00%				1.00%				1.50%	
Amalgamated Transit Union Local 1598		1.50%				2.00%				1.50%		
The American Federation of State, County, and Municipal Employees Local 3939				3.50%*				1.00%				1.00%
Management & Administrative employees	1.50%				2.00%				2.50%			

*Binding Interest Arbitration Decision 2014 - Retroactive increases for 2012 and 2013 as well as 2014 increase set.

<u>Fringe benefits</u> expense primarily includes health insurance premiums, retirement contributions, social security/medicare taxes and paid time off costs. The 7.5 percent decrease in fringe benefits in 2016 was primarily due pension expense related to GASB 68. The decrease would have been 0.9% excluding the GASB 68 pension expense.

<u>Services</u> expense decreased 4.8 percent in 2016 due primarily to a decrease in some consulting fees and contracted maintenance.

<u>Materials and supplies</u> expense increased overall by 7.3 percent in 2016. This was primarily due an increase in software licenses and vehicle repair materials offset by lower fuel costs.

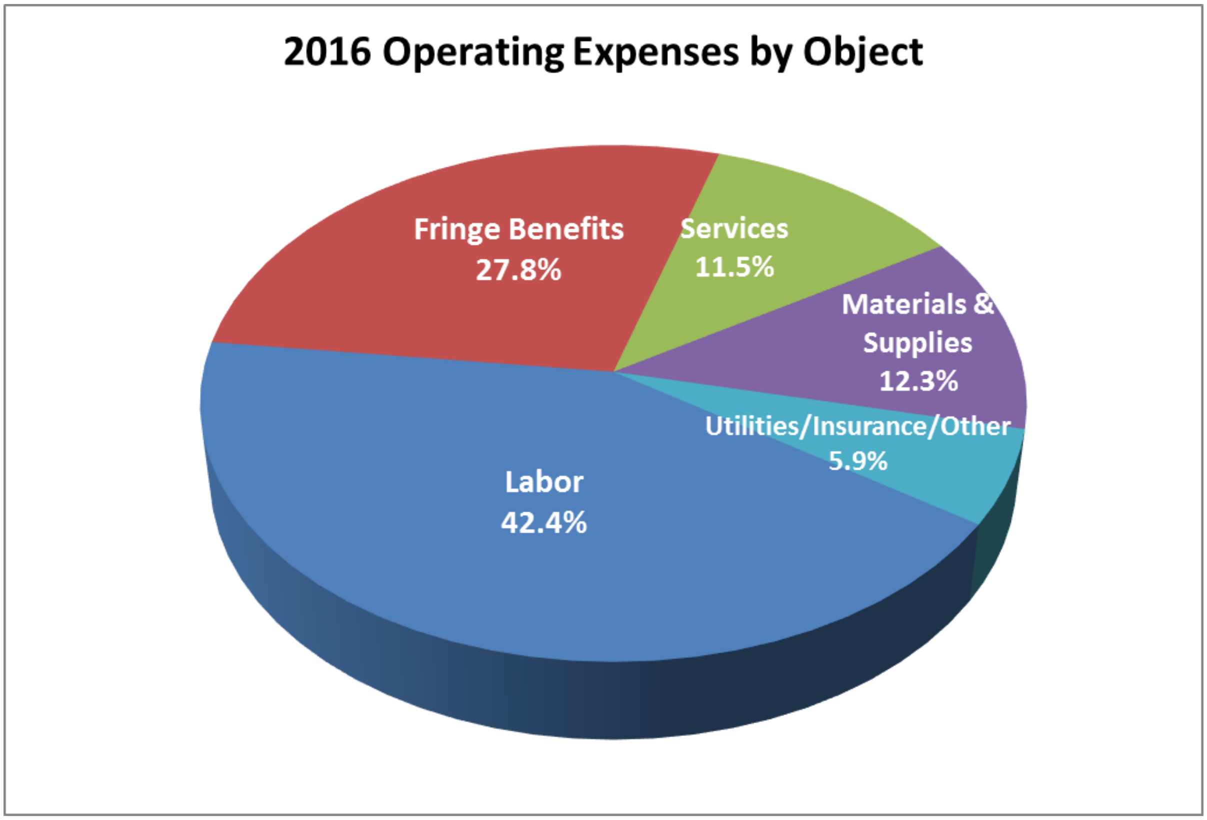
<u>Utilities</u> expense decreased 15.2 percent due to a decline in electricity and natural gas costs.

<u>Liability and Property Insurance</u> expense increased 16.5 percent in 2016.

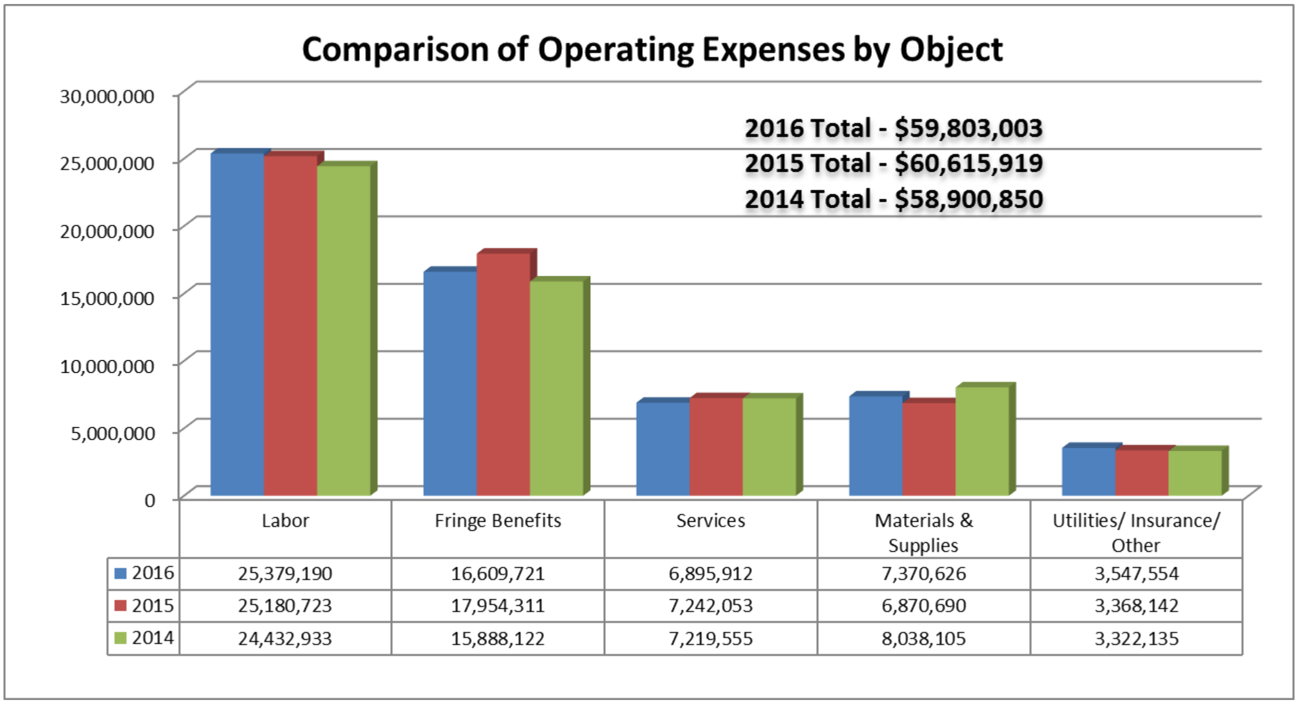
<u>Miscellaneous</u> expense is primarily discounts and promotions, dues and subscriptions, travel and meetings, advertising, and bad debt. This expense decreased by 8.0 percent in 2016.

<u>Lease</u> expenses are primarily for radio leases, radio transmitter repeater stations, fixed route bus tires, the Jefferson Park and Ride Lot and additional space at the Liberty Lake Park and Ride Lot. This expense increased by 145.8 percent in 2016 due to the new radio leases.

During 2016, STA operating expenses, excluding depreciation, were $59,803,003. The following chart shows the operating expenses by object:


2016 Operating Expenses by Object
Fringe Benefits
27.8%
Services
11.5%
Materials &
Supplies
12.3%
Utilities/Insurance/Other
5.9%
Labor
42.4%

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



	Labor	Fringe Benefits	Services	Materials & Supplies	Utilities/ Insurance/ Other
2016	25,379,190	16,609,721	6,895,912	7,370,626	3,547,554
2015	25,180,723	17,954,311	7,242,053	6,870,690	3,368,142
2014	24,432,933	15,888,122	7,219,555	8,038,105	3,322,135

Capital Assets

STA's investment in capital assets as of December 31, 2016, was $171,777,947 less $97,077,524 in accumulated depreciation. This includes $11,656,650 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 $18,807,030 of additions and $1,772,072 of retirements and dispositions. Depreciation and amortization expense of $10,126,015 was recorded.

Major capital asset acquisitions, including work in process and accruals, during 2016 consisted of the following:

- Additions to vehicles consisted of a road car, a supervisor truck, two maintenance service trucks, a paratransit van, and seven fixed route coaches for a cost of $3,288,264.
- Additions to equipment include three bus shelters; computer hardware replacements, a Smart Bus CAD/AVL System including hardware and training aides, radio communication system replacement; maintenance equipment including: additional parts for a 4 column lift, barrel pump elevator, electric scissor lift, hot water pressure washer, a mower, a welder, and an air compressor with air dryer; and three double sided electric signs for displaying real time route information at park and ride lots. The combined amount of these equipment purchases was $8,098,883.
- Additions to Building Improvements included the new bus washer at Boone, roof and insulation upgrade at the Valley Service Center, Energy Saving Project, and the in-ground lift at Boone for a cost of $3,957,812.
- Additions to Buildings include the new restroom facility at Indian Trail in the amount of $119,564.
- Additions to Intangibles include the software to operate the Smart Bus CAD/AVL system in the amount of $3,342,507.

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 right of way acquisition. The level of designated cash is reviewed and approved annually by the Board in conjunction with the budget adoption process.

Request for Information

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

Spokane Transit
Statement of Net Position
December 31, 2015 and 2016

	2016	2015
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 61,296,321	$ 59,978,151
Accounts Receivable, Net Allowance for Doubtful Accounts	322,026	481,140
Sales Tax Receivable	9,451,700	8,881,230
Due from Other Governments	2,447,175	2,743,257
Total Receivables	12,220,901	12,105,627
Maintenance Parts Inventory	1,371,802	1,324,889
Prepaid Expenses	683,443	16,410
Total Current Assets	**75,572,467**	**73,425,077**
Noncurrent Assets:		
Vehicles	72,152,004	69,440,646
Buildings and Improvements	51,359,045	47,281,670
Equipment and Furnishings	20,743,050	14,153,836
Intangible Property	5,254,420	1,597,409
Land	10,612,778	10,612,778
Work in Process	11,656,650	18,176,477
Total Capital Assets	**171,777,947**	**161,262,816**
Less Accumulated Depreciation and Amortization	(97,077,524)	(88,693,309)
Capital Assets, Net of Accumulated Depreciation	**74,700,423**	**72,569,507**
Total Assets	**150,272,890**	**145,994,584**
Deferred Outflows of Resources:		
Deferred Outflows Related to Pensions	5,524,271	3,868,517
Total Deferred Outflows Related to Pensions	**5,524,271**	**3,868,517**
Total Assets and Deferred Outflows of Resources	**$ 155,797,161**	**$ 149,863,101**

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

Spokane Transit
Statement of Net Position
December 31, 2015 and 2016
(continued)

	2016	2015
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 2,461,464	$ 1,773,027
Accrued Wages, Benefits, and Other Liabilities	6,361,478	6,322,112
Contracts Payable (includes retainage)	632,568	598,923
Provision for Medical Premiums	127,165	127,165
Provision for Uninsured Claims	878,672	922,061
Total Current Liabilities	10,461,347	9,743,288
Long-Term Liabilities:		
Net Pension Liability	28,741,936	25,592,740
Total Long-Term Liabilities	28,741,936	25,592,740
Total Liabilities	**39,203,283**	**35,336,028**
Deferred Inflows of Resources:		
Advance Payment of Fares	24,240	30,379
Deferred Inflows Related to Pensions	1,243,977	3,919,727
Total Deferred Inflows of Resources	**1,268,217**	**3,950,106**
Net Position		
Net investment in capital assets	74,700,422	72,569,507
Restricted for Workers' Compensation	357,000	357,000
Unrestricted	40,268,239	37,650,460
Total Net Position	$ 115,325,661	$ 110,576,967
Total Liabilities, Deferred Inflows, and Net Position	**$ 155,797,161**	**$ 149,863,101**

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

Spokane Transit
Statement of Revenue, Expenses, and Change in Net Position
For the Year Ended December 31, 2015 and 2016

	2016	2015
Operating Revenues:		
Passenger Fares	$ 8,735,266	$ 9,222,046
Other Transit Revenue	392,018	355,034
Total Operating Revenues	9,127,284	9,577,080
Operating Expenses:		
Transportation	36,143,080	37,467,975
Maintenance	11,759,485	11,493,158
Administration	11,900,438	11,654,786
Depreciation	10,126,015	8,835,379
Total Operating Expenses	69,929,018	69,451,298
Operating Loss	(60,801,734)	(59,874,218)
Nonoperating Revenues (Expenses):		
Sales Tax	54,131,543	51,243,853
Investment Income	469,007	407,078
Other Nonoperating Revenues (Expenses)	(44,940)	(43,378)
State and Local Grants	1,126,892	963,933
Federal Preventive Maintenance and Other Operating Grants	8,174,072	8,154,852
Gain (Loss) on Sale of Capital Assets	(10,482)	5,742
Total Nonoperating Revenues (Expenses)	63,846,092	60,732,080
Net Gain Before Contributions	3,044,358	857,862
Capital Grants and Contributions:		
FTA formula and discretionary capital grants	768,247	3,195,053
State capital grants	1,060,594	680,351
Total Capital Grants and Contributions	1,828,841	3,875,404
Change in Net Position	4,873,199	4,733,266
Net position - Beginning of Year, as previously reported	110,576,967	131,371,046
Prior Period Adjustment (Work in Process Adjustment)	(124,505)	(616,946)
Prior Period Adjustment (GASB 68 Pension)		(24,910,399)
Net Position - Beginning of Year, as restated	110,452,462	105,843,701
Net Position - End of Year	**$115,325,661**	**$110,576,967**

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

Spokane Transit
Statement of Cash Flows
For the Year Ended December 31, 2015 and 2016

	2016	2015
Cash Flows from Operating Activities:		
Cash Received from Operating and Other Revenues	$ 9,280,259	$ 9,399,558
Cash Payments to Suppliers for Goods and Services	(17,666,743)	(16,976,236)
Cash Payments to Employees for Services and Benefits	(43,175,241)	(41,563,385)
Net Cash Used in Operating Activities	(51,561,725)	(49,140,063)
Cash Flows from Noncapital Financing Activities:		
Tax Receipts Collected by Other Governmental Entities	53,561,073	50,259,282
Noncapital Grants and Other Revenue/Expense	8,669,452	8,095,902
Net Cash Provided by Noncapital Financing Activities	62,230,525	58,355,184
Cash Flows from Capital and Related Financing Activities:		
Purchase of Property, Plant, and Equipment	(12,382,507)	(13,146,419)
Proceeds from Disposition of Property, Plant, and Equipment	19,791	66,271
Federal Capital Grants	1,482,485	3,390,627
Other Capital Grants	1,060,594	680,351
Net Cash Used in Capital and Related Financing Activities	(9,819,637)	(9,009,171)
Cash Flow from Investing Activities:		
Investment Income	469,007	407,078
Net Cash Provided by Investing Activities	469,007	407,078
Net Increase (Decrease) in Cash and Cash Equivalents	1,318,170	613,028
Cash and Cash Equivalents - Beginning of Year	59,978,151	59,365,123
Cash and Cash Equivalents - End of Year	$ 61,296,321	$ 59,978,151

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

Spokane Transit
Statement of Cash Flows
For the Year Ended December 31, 2015 and 2016
(Continued)

	2016	2015
Activities:		
Operating Loss	$(60,801,735)	$(59,874,218)
Adjustments to Reconcile Operating Loss to Net Cash Used in		
Depreciation and Amortization	10,126,015	8,835,379
Pension Expense - GASB 68	(1,182,308)	733,551
Changes in Assets - Decrease (Increase):		
Accounts Receivable	159,113	(167,940)
Maintenance Parts Inventory	(46,913)	71,315
Prepaid Expenses	(667,034)	(1,768)
Due from Other Governments	172,860	(127,183)
Work in Process Reclass to Operating Expense		438,085
WIP-Capital Labor Reclass From Operating Expense		(52,422)
Changes in Liabilities - Increase (Decrease):		
Accounts Payable	688,436	124,200
Accrued Wages and Benefits	39,366	501,972
Advance Payment of Fares	(6,139)	(9,582)
Provision for uninsured claims	(43,388)	388,548
Net Cash Used in Operating Activities	**$(51,561,727)**	**$(49,140,063)**

NON-CASH TRANSACTIONS:
Non-cash investing, capital or financing activities includes capital accruals of $499,630.

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

Spokane Transit Authority
Notes to the Financial Statements
December 31, 2016

Note 1: Summary of Significant Accounting Policies

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

A. Reporting Entity

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

STA is a special purpose government engaged only in business-type activities and provides transportation services to the general public. STA is supported primarily through 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 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 (73.9%), Federal Preventive Maintenance funding (11.2%) and operating revenues (12.5%).

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 vanpool 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.

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

1. Cash and Cash Equivalents

It is STA's policy to invest all available cash balances. Cash and cash equivalents are comprised of deposits at December 31, 2016 pooled in the Spokane County Treasurer's Investment Pool. The end-of-year cash and cash equivalents balance was $61,296,321. 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

The sales tax receivable amount is $9,451,700.

Customer and third party accounts receivable consist of $322,026 (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 $2,447,175 due from other governments for grants.

5. Inventories and Prepaid Expenses

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

	2016	2015
Vehicle Parts	$1,058,068	$990,838
Fuels	313,734	334,051
	$1,371,802	$1,324,889

Prepaid expenses are services that are acquired or purchased during an accounting period but are not used during that accounting period. The portion of services used during the accounting period are expensed and the remaining balance is reported as an asset until used. These accounts consist of $666,707 related to a communication system warranty and maintenance agreement and $16,736 of prepaid workers compensation insurance.

6. Restricted Assets And Liabilities

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

7. Capital Assets and Depreciation

See Note 3 (Capital Assets and Depreciation)

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

Net pension liability of $28,741,936 is further described below in Item 13 and in Note 6: Pension Plans.

12. Deferred Inflows and Outflows of Resources

Advance Payment of Fares – The advance payment of fares is a deferred inflow and represent pre-payments of vanpool fares and January 2017 calendar month passes out on consignment. The balance represents payments received, but not yet due, from some January monthly passes distributed in December but not finalized until January.

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

13. Pensions

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

14. Change in Classification

In January 2016, STA converted to a new financial accounting and reporting system (Munis). All December 2015 transaction occurring during the month of January, as well as year-end close and reporting, were completed in Munis. During the conversion process, some general ledger accounts were reclassified to better conform to the Uniform System of Accounts (USOA). Reclassifications have been made to the prior years presented to conform to the current year's presentation.

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.

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

	Beginning Balance 1/1/16	Additions/ Adjustments	Retirements	Ending Balance 12/31/16
Capital Assets, Not Being Depreciated:				
Land	$10,612,778	$0	$0	$10,612,778
Work in Process	18,084,187	(6,427,536)	0	11,656,650
Work in Process-Capital Labor	92,289		(92,289)	0
Subtotal	28,789,254	(6,427,536)	(92,289)	22,269,428
Capital Assets Being Depreciated:				
Buildings	36,754,099	119,564		36,873,662
Improvements	10,527,571	3,957,812		14,485,383
Equipment/Vehicles	83,594,483	11,072,643	(1,772,072)	92,895,054
Intangibles	1,597,409	3,657,011		5,254,420
Subtotal	132,473,562	18,807,030	(1,772,072)	149,508,519
Less Accumulated Depreciation For:				
Buildings	28,348,635	552,215		28,900,850
Improvements	5,690,453	618,274		6,308,727
Equipment/Vehicles	53,121,883	8,342,358	(1,741,799)	59,722,443
Intangible Property	1,532,337	613,167		2,145,504
Subtotal	88,693,309	10,126,015	(1,741,799)	97,077,524
Total Capital Assets, Net of Accumulated Depreciation	**$72,569,507**	**$2,253,479**	**($122,562)**	**$74,700,423**

C. Construction Commitments

STA has active construction projects as of December 31, 2016. The projects and commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Fire Separation	$42,546	$2,233
Paratransit Lift Replacement	60,800	3,200
Jefferson Lot Improvements	442,780	19,285
Plaza Improvements	1,783,566	1,737,363
Total	**$2,329,692**	**$1,762,081**

D. Preventive Maintenance

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

Note 4: Stewardship, Compliance, and Accountability

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

Note 5: 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, 2015. The plan has been determined to be immaterial and therefore, not reported in the financial statements.

Note 6: Retirement Plans

Public Employees' Retirement System – Defined Benefit Plan

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	$28,741,936
Pension Assets	
Deferred Outflows of Resources	$5,524,271
Deferred Inflows of Resources	$1,243,977
Pension Expense/Expenditures	$2,021,208

State Sponsored Pension Plans

Substantially all STA's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

Public Employees' Retirement System (PERS)

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

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

<u>Contributions</u>

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

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

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

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

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

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

*For employees participating in JBM, the contribution rate was 15.30%.

STA's actual contributions to the plan were $17,567 to PERS Plan 1 and $3,264,878 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

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

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

- **Inflation:** 3% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

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

There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.

- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 201, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

The table below presents STA's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what STA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$15,892,907	$13,179,297	$10,844,069
PERS 2/3	$28,653,617	$15,562,639	$(8,101,252)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, the STA's reported a total pension liability of $28,741,936 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	$13,179,297
PERS 2/3	$15,562,639

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.262319%	0.245403%	(0.016916%)
PERS 2/3	0.332237%	0.309094%	(0.023143%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

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

Pension Expense

For the year ended December 31, 2016, the STA's recognized pension expense as follows:

	Pension Expense
PERS 1	$ (217,917)
PERS 2/3	2,239,116
TOTAL	$2,021,208

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	$ 331,834	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	710,703	
TOTAL	$1,042,537	

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 828,700	$ 513,748
Net difference between projected and actual investment earnings on pension plan investments	1,904,418	
Changes of assumptions	160,853	
Changes in proportion and differences between contributions and proportionate share of contributions	669,467	730,229
Contributions subsequent to the measurement date	918,297	
TOTAL	$4,481,735	$1,243,977

Total PERS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$828,700	$513,748
Net difference between projected and actual investment earnings on pension plan investments	$2,236,252	
Changes of assumptions	$160,853	
Changes in proportion and differences between contributions and proportionate share of contributions	$669,467	
Contributions subsequent to the measurement date	$1,629,000	730,229
TOTAL	$5,524,272	$1,243,977

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

Year ended December 31:	PERS 1	PERS 2/3
2017	$ (81,704)	$ 61,499
2018	$ (81,704)	$ 61,999
2019	$ 304,754	$ 1,339,522
2020	$ 190,489	$ 856,940
2021	$ -	$ -
Thereafter	$ -	$ -

ICMA Retirement Corporation (RC) Defined Contribution Plan

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

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

Employer and employee contributions are established by the individual plan adoption agreements and, where applicable, the related collective bargaining agreement or contract. Employer and employee contributions were determined based upon a percentage of base pay, subject to certain defined wage limits. The employee contributions through October 2, 2010 ranged from 0 percent to 6.5 percent and the employer contribution ranged from 9 percent to 25 percent. The Chief Executive Officer's (CEO) contract provided for an employer contribution of 16 percent from October 3, 2010 to December 31, 2010, 18 percent for 2011 and 22 percent for 2012 through 2016. There is no employee contributions for this plan.

Annual gross payroll, most of which is subject to plan contributions, was $168,806 in 2016 and $169,421 in 2015. During the years ended December 31, 2016 and 2015, STA contributed a total of $36,081 and $36,063 respectively, to the Section 401(a) defined contribution plans. These amounts were recognized as pension expense by STA in 2016. There was no outstanding liability as of December 31, 2016.

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 percent into the account of employees hired before 1/1/07 in the following groups: ATU 1598, Non-represented employees, and the CEO. This deferred compensation is not available to employees until separation, retirement, death, or unforeseeable emergency, with the exception of the employees' Section 457 Loan Program. The compensation deferred under the plan and all income attributable to the plan is held in trust for the exclusive benefit of the participants and their beneficiaries and are therefore not subject to claims by the employer's creditors. While STA has no liability for investment losses under the plan, it performs the fiduciary duty of continual evaluation of investment options for plan participants. Total assets, which equal the total trustees' liability under this plan at December 31, 2016 and 2015, were $12,517,154 and $12,059,070, 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 2016.

General Liability	$20,000,000 per occurrence with $0 deductible
Auto Liability	$20,000,000 per occurrence with $0 deductible
Public Official Liability	$20,000,000 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.

B. Workers' Compensation Insurance

On December 31, 2016, cash and investments set aside for workers' compensation self-insurance totaled $1,206,922. STA reported a liability on December 31, 2016, of $849,922, 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 a self-insurance reserve of $357,000, STA purchased an excess commercial workers' compensation policy with a statutory limit per accident of $500,000.

Note 9: Long-Term Debt and Leases

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

B. Operating Leases

As lessee, during 2016 and 2015, STA leased property, equipment, and tires under operating leases. Total lease expense for the years ended December 31, 2016 and 2015 was approximately $709,232 and $503,000, respectively.

In 1995, STA began entering into operating lease agreements for retail space in its Downtown Plaza. Total lease income for the years ended December 31, 2016 and 2015 was approximately $97,914 and $107,382, 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):

2017	$58,508
2018	$60,507
2019	$57,364
2020	$41,647
2021	$41,647

Note 10: Restricted Net Assets

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

Note 11: Contingencies

A. Legal Proceedings

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

B. Federal Grants

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

C. Environmental Liability

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

Note 12: Designated Cash and Cash Equivalents

The Board adopted a designated cash policy in October 2007. The policy designated $5,500,000 for catastrophic self-insurance exposure protection and 15 percent of the annual Adopted Operating Expense Budget designated for unforeseen emergency appropriations. An additional cash designation of $4,950,000 was established by the Board in December 2011. This designated cash is for future High Performance Transit Right of Way acquisition. The level of designated cash is reviewed and approved annually by the Board, in conjunction with the budget adoption process. In 2016, the Board adopted cash reserves were a total of $20,587,453. This included $4,950,000 for High Performance Transit Right of Way acquisition, $5,500,000 for catastrophic self-insurance exposure protection, and $9,780,453 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 2015 and 2016 budgets did not provide additional funding as all remaining commitments of this program have been met. No further awards are contemplated by the Board at this time.

Note 14: Other Disclosures

Accounting and Reporting Changes

In 2016, STA reviewed the work in process items and determined that some of the projects did not meet the capitalization requirements and should be reclassified to expense. Some of these project expenses were from a prior period and therefore are being reported as a prior period adjustment. The cumulative effect of this change in prior years was $124,505. In 2015, the change in prior years due to work in process reclassification to expense was in the amount of $616,946.

In 2015, STA implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made subsequent to the Measurement Date*. GASB Statement No. 68 requires governmental employers with employees participating in defined benefit pension plans that are administered through trusts or equivalent arrangements to report their proportionate share of the net pension liability (or net assets, if the plan net position exceeds the total pension liability) on the face of their accrual based financial statements.

GASB Statement No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The cumulative effect of implementing GASB 68 and 71 in prior years was $24,910,399.

Spokane Transit Authority
Schedule of Employer Contributions
Public Employees' Retirements System (PERS) Plan 1
As of December 31, 2016

		2015	2016
Statutorily or contractually required contributions	$	26,073	17,567
Contributions in relation to the statutorily or contractually required contributions	$	(26,073)	(17,567)
Contribution deficiency (excess)	$	0	0
Covered employer payroll	$	255,245	157,126
Contributions as a percentage of covered employee payroll	%	10.21%	11.18%

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

Spokane Transit Authority
Schedule of Employer Contributions
Public Employees' Retirements System (PERS) Plan 2/3
As of December 31, 2016

		2015	2016
Statutorily or contractually required contributions	$	2,942,220	3,264,878
Contributions in relation to the statutorily or contractually required contributions	$	(2,942,220)	(3,264,878)
Contribution deficiency (excess)	$	0	0
Covered employer payroll	$	28,837,971	29,202,895
Contributions as a percentage of covered employee payroll	%	10.20%	11.18%

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

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

Spokane Transit Authority
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirements System (PERS) Plan 1
As of June 30, 2016

		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.262319%	0.245403%
Employer's proportionate share of the net pension liability	$	13,721,723	13,179,297
Employer's covered employee payroll	$	255,245	157,126
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	5375.90%	8387.73%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	59.10%

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

Spokane Transit Authority
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirements System (PERS) Plan 2/3
As of June 30, 2016

		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.332237%	0.309094%
Employer's proportionate share of the net pension liability	$	11,871,017	15,562,639
Employer's covered employee payroll	$	28,837,971	29,202,895
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	41.16%	53.29%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	89.20%

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

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

SPOKANE TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

1	2	3	4	5				6
Federal Agency / Pass-Through Agency	**Federal Program**	**CFDA Number**	**Other Award Number**	**Expenditures**				**Note**
				From Pass-Through Awards	**From Direct Awards**	**Total**	**Passed through to Subrecipients**	
CDBG – Entitlement Grants Cluster								
Office of Community Planning and Development, U.S. Department of Housing and Urban Development/ Pass through from City of Spokane	Community Development Block Grants/ Entitlement Grants	14.218	B-15-MC-53-0006	$11,106		$11,106		
	Total CDBG – Entitlement Grants Cluster			**$11,106**	**$0**	**$11,106**	**$0**	
Federal Transit Cluster								
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0090		$120,052	$120,052		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0064		$309,929	$309,929		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X598		$42,159	$42,159		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X579		$46,172	$46,172		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X068		$77,242	$77,242		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X082		$78,940	$78,940		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X081		$105,127	$105,127		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X079		$404,346	$404,346		

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

SPOKANE TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

1	2	3	4	5			6	7
Federal Agency / Pass-Through Agency	**Federal Program**	**CFDA Number**	**Other I.D. Number**	**Expenditures**			**Passed through to Subrecipients**	**Note**
				From Pass-Through Awards	**From Direct Awards**	**Total**		
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-2016-005-00		$7,613,669	$7,613,669		3
Federal Transit Administration, U.S. Department of Transportation	Bus and Bus Facilities Formula Program	20.526	WA-34-0002		$77,662	77,662		
			Total Federal Transit Cluster:	**$0**	**$8,875,298**	**$8,875,298**	**$0**	
Transit Services Programs Cluster								
Federal Transit Administration, U.S. Department of Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	WA-16-X048		$67,726	$67,726		
			Total Transit Services Programs Cluster:	**$0**	**$67,726**	**$67,726**	**$0**	
			TOTAL FEDERAL AWARDS EXPENDED:	**$11,106**	**$8,943,024**	**$8,954,130**	**$0**	

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

Note 1 - Basis of Accounting

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

Note 2 - Program Costs

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

Note 3 - Preventive Maintenance

The amount reported for this award includes eligible expenditures made in 2016. 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 2016 apportionment on September 13, 2016.

Note 4 – Indirect Cost Rate

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov