



Regional Fare Coordination System

*Financial Statements and Independent
Auditors' Report for the Years Ended
December 31, 2016 and 2015*

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REGIONAL FARE COORDINATION SYSTEM

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REGIONAL FARE COORDINATION SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Regional Fare Coordination System (One Regional Card for All, "ORCA") for the years ended December 31, 2016 and 2015. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements and notes to the financial statements as a whole.

ORCA is a jointly operated electronic payment system for fare collection using smart card technology for bus, rail and ferry travel in the King, Kitsap, Snohomish and Pierce counties for participating agencies. This system allows riders to add a variety of fare products to a smart card in order to pay for fares on the transportation services. Fare products that can be loaded to the ORCA card include regional passes, agency-specific passes, e-purse (stored-value) or a combination of pass and e-purse, which are then used to pay for fares and distributed to the following participant agencies:

- Snohomish County Public Transportation Benefit Area ("Community Transit")
- City of Everett ("Everett Transit")
- King County ("King County Metro")
- Kitsap County Public Transportation Benefit Area ("Kitsap Transit")
- Pierce County Public Transportation Benefit Area ("Pierce Transit")
- Central Puget Sound Regional Transit Authority ("Sound Transit")
- Washington Department of Transportation, Ferries Division ("Washington State Ferries")

As set forward in the Amended and Restated Interlocal Cooperation Agreement ("ORCA ILA Agreement"), ORCA is administered by a Fiscal Agent, Sound Transit, who is responsible for the management of funds received but not yet allocated to participating agencies, as well as the financial reporting of operating and maintenance activities associated with the collection and distribution of fare revenue. Expenses incurred relative to regional administration are billed to participating agencies in accordance with the ORCA ILA agreement. No legal entity exists and as such all assets and liabilities are the responsibility of each participating agency, which are presented in the Schedule of Net Position by Agency. Usage of fare products, operating revenue and operating expenses associated with the operations of a smart card based fare payment system are reported for each participating agency in the Schedule of Operating Activity by Agency.

REGIONAL FARE COORDINATION SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

ORCA's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). The 2016 and 2015 financial statements are presented using the economic resource measurement focus and accrual basis of accounting and provide information for the participating agencies of the ORCA ILA Agreement to incorporate into their financials. The ORCA ILA Agreement created a joint venture in the activities of the ORCA system, however, no legal entity has been created by the participants and all assets and liabilities are the responsibility of each participating agency.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the activities of ORCA are included in the Statements of Net Position. Net position is the difference between assets and liabilities, however, as the assets and liabilities are the responsibility of each participating agency, there is no net position for ORCA. The financial statements also include notes that provide additional information that are essential to a full understanding of the information provided as well as the supplemental allocation Schedules of Net Position by Agency and Schedules of Operating Activity by Agency which present each participating Agencies pro-rata interest.

FINANCIAL ANALYSIS

| Net Position <i>(in millions)</i> | December 31 | | | % Change | |
|---|--------------------|----------------|----------------|------------------|------------------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 39.1 | \$ 33.4 | \$ 28.1 | 17.1% | 18.9% |
| Accounts receivable and due from agencies | 34.5 | 30.8 | 28.5 | 12.0% | 8.1% |
| Total assets | \$ 73.6 | \$ 64.2 | \$ 56.6 | 14.6% | 13.4% |
| LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ 4.7 | \$ 2.9 | \$ 2.7 | 62.1% | 7.4% |
| Due to agencies | 68.9 | 61.3 | 53.9 | 12.4% | 13.7% |
| Total liabilities | \$ 73.6 | \$ 64.2 | \$ 56.6 | 14.6% | 13.4% |
| NET POSITION | \$ - | \$ - | \$ - | - | - |

Total assets and total liabilities increased 14.6% in 2016 and 13.4% in 2015. Strong year-over-year growth is the result of increased sales of ORCA products due to both an increase in usage and higher passenger fares. Overall, ORCA sales in 2016 were \$230.1 million, up from \$211.6 million in 2015 and \$189.7 million in 2014, an increase of 8.7% and 11.6% respectively, as ORCA continued to see increases in ridership and increases in passenger fares. The number of ORCA cards in use increased 15.2% in 2016 and 6.8% in 2015 when comparing December card usage for all three periods. The sales value of ORCA regional products is deposited to cash accounts held by the Fiscal Agent on behalf of the ORCA participants as unearned and undistributed receipts due to agencies until earned. As products are used to pay transit fares, the revenue is earned by the agency providing service and will be distributed according to the usage of the product.

REGIONAL FARE COORDINATION SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Sales by Product Type

| <i>(in millions)</i> | December 31 | | | % Change | |
|----------------------|-----------------|-----------------|-----------------|-------------|--------------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| Business Accounts | \$ 114.3 | \$ 104.7 | \$ 95.7 | 9.2% | 9.4% |
| E-Purse | 65.0 | 57.3 | 48.7 | 13.4% | 17.7% |
| Pass Products | 50.8 | 49.7 | 45.3 | 2.3% | 9.7% |
| Total | \$ 230.1 | \$ 211.6 | \$ 189.7 | 8.7% | 11.6% |

ORCA products include both business and retail products. The business passport product is available to businesses and institutions through the ORCA business account program and are priced based on an annual fixed rate contract. There were 923 business passport accounts at the end of 2016, up from 851 in 2015 and 815 in 2014. Retail products include E-purse, Puget Pass, Day Pass, and agency specific products. E-purse sales had significant growth as more riders adopt ORCA and riders that traditionally buy a monthly pass are weighing the costs/benefits of a pass versus E-purse. ORCA retail products are available for purchase through a number of sales channels including websites, ticket vending machines, retailer outlets and transit customer service centers.

Operating Revenue and Expense

All operating expenses are shared and billed to the participating agencies based on an operating share calculated annually. The operating share calculation is defined by the ILA agreement and is based on historical ORCA ridership.

Regional ORCA Operating Revenue and Expense

| <i>(in millions)</i> | December 31 | | | % Change | |
|---|---------------|---------------|---------------|-------------|--------------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| ORCA Regional Operating Revenues | | | | | |
| Agency Billings | \$ 7.5 | \$ 7.4 | \$ 7.8 | 1.4% | -5.1% |
| Other Revenue | 0.4 | 0.3 | 0.3 | 33.3% | 0.0% |
| Total | \$ 7.9 | \$ 7.7 | \$ 8.1 | 2.6% | -4.9% |
| ORCA Regional Operating Expenses | | | | | |
| Services | \$ 4.8 | \$ 4.2 | \$ 5.1 | 14.3% | -17.6% |
| Wages and Benefits | 1.2 | 1.4 | 1.2 | -14.3% | 16.7% |
| Card Production Costs | 1.1 | 1.3 | 1.1 | -15.4% | 18.2% |
| Other Expenses | 0.8 | 0.8 | 0.7 | 0.0% | 14.3% |
| Total | \$ 7.9 | \$ 7.7 | \$ 8.1 | 2.6% | -4.9% |
| Change in Net Position | \$ - | \$ - | \$ - | - | - |

REGIONAL FARE COORDINATION SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenue consists primarily of Agency billings to offset operating expenses. Operating revenues increased \$0.2 million or 2.6% in 2016 after decreasing \$0.4 million or 4.9% in 2015. Other revenue increased \$0.1 million or 33.3% mainly attributed to higher interest rates since the increase in the federal fund rate in December 2015.

Total operating expenses increased by 2.6% in 2016. This change was mainly attributable to a change in services expenses, partially offset by reductions in wages and benefits and card production costs. Expenses for services grew by 14.3% in 2016 with consulting for the next generation technology of ORCA (ngORCA) adding \$0.8 million. Wages and benefits decreased in 2016 by \$0.2 million, or 14.3%, with reduced staffing because of operating efficiencies and open positions for ORCA offset by increased staffing for ngORCA.

Total operating expenses decreased by 4.9% in 2015 from a reduction for Vix Security Services in 2014 when additional costs were incurred to initiate improved system security. Wages and benefits increased 16.7% in 2015 because the failure rate of Autoload warranted extra staff in addition to increased production in the Mail Center.

ORCA Operating Activity

Passenger fare revenues are distributed to each agency based on usage of the product. ORCA fare revenue fluctuations are a result of changes in ridership and the cost of transit. The following tables and narrative present ORCA Ridership, ORCA Fare Revenue by Participating Agency, and ORCA Market Share.

ORCA Ridership

Overall ridership continued to grow in 2016 with 125.2 million rides, compared to 117.1 million rides in 2015 and 112.0 million rides in 2014. Increased ridership is driven by light rail expansion with the opening of the extensions of Sound Transit's light rail from downtown Seattle to University Stadium in March 2016 and a second extension to South 200th in Tukwila, continued ORCA maturation, regional population growth, and congestion.

Ridership by Agency

| <i>(in millions)</i> | December 31 | | | % Change | |
|--------------------------|--------------|--------------|--------------|-------------|-------------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| King County Metro | 79.0 | 77.3 | 74.4 | 2.2% | 3.9% |
| Sound Transit | 30.8 | 24.2 | 22.7 | 27.3% | 6.6% |
| Community Transit | 6.6 | 6.5 | 6.4 | 1.5% | 1.6% |
| Pierce Transit | 4.3 | 4.5 | 4.0 | -4.4% | 12.5% |
| Kitsap Transit | 2.3 | 2.5 | 2.4 | -8.0% | 4.2% |
| Everett Transit | 1.1 | 1.1 | 1.1 | 0.0% | 0.0% |
| Washington State Ferries | 1.1 | 1.0 | 1.0 | 10.0% | 0.0% |
| Total | 125.2 | 117.1 | 112.0 | 6.9% | 4.6% |

REGIONAL FARE COORDINATION SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ORCA Fare Revenue

Overall ORCA fare revenue in 2016 was \$225.5 million, an increase of \$17.9 or 8.6% from 2015. The increase is primarily driven by a 6.9% increase in ridership from the previous year. In addition to increased ridership, the following fare increases were implemented in 2016:

- Washington State Ferries fares increased 2.5% for vehicles and 1.0% for passengers in May 2016.
- Sound Transit increased ST Express fares by 25 cents for all existing fare categories in March 2016 and implemented an adult low income fare program (ORCA LIFT).

Sound Transit increased Sounder commuter rail fares by 50 cents for adult and youth riders, and 25 cents for seniors and people with disabilities in March 2016. To mitigate the impact of the fare increase on low-income riders, a low-income rider fare equal to the youth fare was established.

ORCA Fare Revenue by Participating Agency

| <i>(in millions)</i> | December 31 | | | % Change | |
|-----------------------------------|-----------------|-----------------|-----------------|-------------|--------------|
| | 2016 | 2015 | 2014 | 2016-2015 | 2015-2014 |
| Regional ORCA Fare Revenue | | | | | |
| King County Metro | \$ 135.9 | \$ 129.3 | \$ 114.3 | 5.1% | 13.1% |
| Sound Transit | 64.5 | 51.9 | 47.3 | 24.3% | 9.7% |
| Community Transit | 15.5 | 14.7 | 13.8 | 5.4% | 6.5% |
| Pierce Transit | 4.4 | 4.5 | 4.0 | -2.2% | 12.5% |
| Washington State Ferries | 3.2 | 2.7 | 2.4 | 18.5% | 12.5% |
| Kitsap Transit | 1.3 | 3.8 | 4.1 | -65.8% | -7.3% |
| Everett Transit | 0.7 | 0.7 | 0.8 | 0.0% | -12.5% |
| Total | \$ 225.5 | \$ 207.6 | \$ 186.7 | 8.6% | 11.2% |

ORCA Market Share

The percentage of fares paid with an ORCA card increased 1.5% in 2016 after increasing 2.0% in 2015. These increases contribute to ORCA fare revenue as passengers switch to ORCA from another payment method.

REGIONAL FARE COORDINATION SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ORCA Ridership Market Share

| | December 31 | | |
|--------------------------|--------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| King County Metro | 64.3% | 63.2% | 61.3% |
| Sound Transit | 73.7% | 71.7% | 70.9% |
| Community Transit | 72.1% | 73.1% | 73.8% |
| Pierce Transit | 50.8% | 49.9% | 39.5% |
| Kitsap Transit | 64.2% | 65.5% | 64.3% |
| Everett Transit | 57.8% | 56.6% | 56.1% |
| Washington State Ferries | 15.7% | 14.9% | 15.3% |
| Total | 64.2% | 62.7% | 60.7% |

Economic Conditions

ORCA is budgeting for continued growth as ridership is expected to continue to increase as ORCA products continue to be adopted and as demand for public transportations in the Puget Sound region continues to grow.



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Independent Auditors' Report

The Joint Board
Regional Fare Coordination System:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Regional Fare Coordination System (One Regional Card for All, "ORCA") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Regional Fare Coordination System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 entity'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 entity'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 business-type activities of the Regional Fare Coordination System as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 18 through 24 is presented for purposes of additional analysis and is not a required part of the 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

KPMG LLP

April 14, 2017

REGIONAL FARE COORDINATION SYSTEM

STATEMENTS OF NET POSITION

| | December 31 | |
|--|-------------------|-------------------|
| | 2016 | 2015 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (note 3): | | |
| FDIC or PDPC | \$ 2,702,108 | \$ 2,357,359 |
| WA State Local Government Investment Pool | 36,366,280 | 31,026,122 |
| Accounts receivable (note 4) | 196,799 | 152,990 |
| Due from agencies: | | |
| Capital | 154,829 | 30,124 |
| Operating | 2,037,540 | 1,465,180 |
| Product loads | 32,162,625 | 29,127,668 |
| Total assets | 73,620,181 | 64,159,443 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 5): | | |
| Capital | 162,703 | 31,800 |
| Operating | 1,839,644 | 1,002,610 |
| Cardholder and participant claim funds | 2,680,518 | 1,870,684 |
| Due to agencies (note 6): | | |
| Capital | 19,775 | 44,429 |
| Operating | 544,618 | 614,974 |
| Unearned receipts | 28,891,826 | 24,333,257 |
| Undistributed receipts | 39,481,097 | 36,261,689 |
| Total liabilities | 73,620,181 | 64,159,443 |
| NET POSITION | \$ - | \$ - |

See accompanying notes to financial statements.

REGIONAL FARE COORDINATION SYSTEM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | December 31 | |
|--|------------------|------------------|
| | 2016 | 2015 |
| Operating revenues | | |
| Agency billings | \$ 7,473,612 | \$ 7,359,968 |
| Card fee income | 300,035 | 285,645 |
| Interest income | 152,774 | 46,243 |
| Total operating revenues | 7,926,421 | 7,691,856 |
| Operating expenses | | |
| Services | 4,793,060 | 4,235,977 |
| Wages and benefits | 1,250,000 | 1,398,184 |
| Card product costs | 1,056,171 | 1,313,096 |
| Bank card fees | 652,571 | 562,913 |
| Bad debt | 114,448 | 113,470 |
| Telephone | 36,165 | 38,086 |
| Office supplies | 24,006 | 30,130 |
| Total operating expenses | 7,926,421 | 7,691,856 |
| Change in net position | - | - |
| Total net position, beginning of year | - | - |
| Total net position, end of year | \$ - | \$ - |

See accompanying notes to financial statements.

REGIONAL FARE COORDINATION SYSTEM

STATEMENTS OF CASH FLOWS

| | December 31 | |
|--|-----------------------------|-----------------------------|
| | 2016 | 2015 |
| Cash flows from operating activities | | |
| Cash receipts from product loads | \$ 227,694,656 | \$ 209,633,807 |
| Payments to agencies for fare apportionment | (222,300,059) | (204,337,357) |
| Cash received from participating agencies for operating | 7,201,287 | 7,470,366 |
| Payments to suppliers and service providers for operating | (7,045,295) | (7,509,381) |
| Cash received from participating agencies for capital | 374,912 | 126,330 |
| Payments for capital | (393,368) | (183,085) |
| Net cash provided by operating activities | <u>5,532,133</u> | <u>5,200,680</u> |
| Cash provided by investing activities | | |
| Interest income received | <u>152,774</u> | <u>46,243</u> |
| Net increase in cash and cash equivalents | 5,684,907 | 5,246,923 |
| Cash and cash equivalents (note 3) | | |
| Beginning of year | <u>33,383,481</u> | <u>28,136,558</u> |
| End of year | <u>\$ 39,068,388</u> | <u>\$ 33,383,481</u> |
| Change in net position | \$ - | \$ - |
| Adjustments to reconcile to net cash provided by operating activities | | |
| Bad debt expense | 114,448 | 113,470 |
| Investment income | (152,774) | (46,243) |
| Changes in operating assets and liabilities | | |
| Increase in accounts receivable | (43,809) | (29,418) |
| Increase in expenses due from agencies - capital | (124,705) | (18,312) |
| Increase in expenses due from agencies - operating | (572,360) | (175,247) |
| Increase in product loads due from agencies | (3,149,405) | (2,196,905) |
| Increase (decrease) in accounts payable and accrued liabilities - capital | 130,903 | (29,058) |
| Increase in accounts payable and accrued liabilities - operating | 837,034 | 18,866 |
| Increase in cardholder and participant claim fund | 809,834 | 224,779 |
| Decrease in amounts due to agencies - capital | (24,654) | (9,385) |
| (Decrease) increase in amounts due to agencies - operating | (70,356) | 50,139 |
| Increase in unearned receipts | 4,558,569 | 4,048,716 |
| Increase in undistributed receipts | <u>3,219,408</u> | <u>3,249,278</u> |
| Net cash provided by operating activities | <u>\$ 5,532,133</u> | <u>\$ 5,200,680</u> |

See accompanying notes to financial statements.

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REGIONAL FARE COORDINATION SYSTEM

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2016 AND 2015

1. AGREEMENT AND REPORTING ENTITY

Agreement— In April 2009, Snohomish County Public Transportation Benefit Area (“Community Transit”), the City of Everett (“Everett Transit”), King County (“King County Metro”), Kitsap County Public Transportation Benefit Area (“Kitsap Transit”), Pierce County Public Transportation Benefit Area (“Pierce Transit”), Central Puget Sound Regional Transit Authority (“Sound Transit”) and Washington State Department of Transportation, Ferries Division (“Washington State Ferries”), signed the Amended and Restated Interlocal Cooperation Agreement (“ORCA ILA Agreement”) for the design, implementation, operation and maintenance of the Regional Fare Coordination System (“ORCA”). The purpose of the ORCA system is to simplify the fare collection program using smart card technology for all bus, rail and ferry travel in the King, Kitsap, Snohomish and Pierce counties.

Reporting Entity— Government Accounting Standards Board Statement (GASB) 14 establishes standards for defining and reporting on the financial reporting entity and reporting participation in joint ventures or other jointly operated arrangements. The ORCA ILA Agreement created a joint venture in the activities of the ORCA system; however, no legal entity has been created by the participants. ORCA administers operating and maintenance activities associated with the collection and distribution of fare revenue on behalf of participating agencies. Expenses incurred related to regional administration are billed to participating agencies in accordance with the ORCA ILA Agreement. As no legal entity exists, all assets and liabilities are the responsibility of each participating agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the financial statements.

Basis of Accounting—The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Operating revenues consist primarily of agency billings and is the amount paid by the agencies for their share of operating expenses. Operating revenues are recorded when the underlying expense is incurred. All assets and liabilities associated with the operation of ORCA are included in the statement of net position.

Cash and Cash Equivalents—Cash and cash equivalents are carried at cost, which approximates fair value.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and demand deposits in the Washington State Local Government Investment Pool (LGIP). Funds in the LGIP are invested in a manner generally consistent with the Securities and Exchange Commission’s Rule 2a-7 of the Investment Company Act of 1940 as it

REGIONAL FARE COORDINATION SYSTEM

Notes to financial statements, continued

currently stands. All LGIP investments consist of high quality, highly liquid securities, with a weighted average maturity of 60 days or less, a weighted average life of 120 days or less, and a unit value of \$1. Cash held in the LGIP is managed by the Washington State Treasurer's Office. This pool represents an interest in a group of securities and has no specific security subject to custodial risk.

ORCA's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

All surplus cash for the Regional Pass and Float accounts are deposited in segregated accounts at the LGIP.

Concentration of Credit Risk— Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The ORCA funds other than those in the LGIP are either in bank accounts covered by the FDIC or by collateral held in a multiple financial institution collateral pool administered by the PDPC.

Credit Risk— Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The LGIP is a 2a7-like fund and is unrated. While there are no specific investments associated with the ORCA funds at the LGIP, it generally invests in treasury and agency securities of the U.S. government and bank deposits, which are fully guaranteed under FDIC and the PDPC, so credit risk is minimal.

REGIONAL FARE COORDINATION SYSTEM

Notes to financial statements, continued

Cash and cash equivalents are comprised of the following accounts:

| | 2016 | | | 2015 | | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | FDIC or PDPC | LGIP | Total | FDIC or PDPC | LGIP | Total |
| Fare processing | | | | | | |
| Float account | \$ 280,125 | \$21,901,918 | \$ 22,182,043 | \$ 299,511 | \$17,284,521 | \$ 17,584,032 |
| Regional pass account | 1,610,282 | 14,464,362 | 16,074,644 | 1,420,806 | 13,741,601 | 15,162,407 |
| Institutional account | 76,740 | - | 76,740 | 68,276 | - | 68,276 |
| Weekly retail distributor account | 81,245 | - | 81,245 | 82,699 | - | 82,699 |
| Daily retail distributor account | 110,221 | - | 110,221 | 113,037 | - | 113,037 |
| Cardholder claim fund account | 137,443 | - | 137,443 | 80,108 | - | 80,108 |
| Participant claim fund | 75,161 | - | 75,161 | 109,735 | - | 109,735 |
| Total fare processing | 2,371,217 | 36,366,280 | 38,737,497 | 2,174,172 | 31,026,122 | 33,200,294 |
| Other | | | | | | |
| Central payments account | 330,891 | - | 330,891 | 183,187 | - | 183,187 |
| Total cash | \$ 2,702,108 | \$36,366,280 | \$39,068,388 | \$ 2,357,359 | \$31,026,122 | \$33,383,481 |

Fare Processing Accounts

Float is the depository account holding the funds for prepaid fares loaded on ORCA cards that are to be used to pay for future transit usage using e-purse. These funds reside in the account until the cardholder uses the ORCA card or until other transactions occur which affect these funds (i.e. claims or escheatment). This account is allocated among agencies in the same ratios as the historical transit fares collected from payment using e-purse for the last three months.

Regional Pass is the depository account holding the funds from the purchase of regional passes. These funds reside in the account until the ORCA system apportions the revenues earned by agencies based on actual regional pass ridership, 30 calendar days after the end of the month. This account is allocated to agencies based on actual apportionment, which occurs 30 days after the date of the statement of net position, with the remainder being allocated based on the ratio of historical transit fares collected by the agencies for fares paid by regional pass usage in the three months prior to the past apportionment month.

Institutional is the depository account used to collect and distribute funds for all business account products and prepaid business account products such as electronic vouchers. This account is allocated among agencies in the ratio of transit fares collected by the agencies for fares paid by total of combined e-purse and regional pass usage for three months prior.

Weekly Retail Distributor is the depository account used to collect the funds for the loading of products purchased at retailers. The account is swept daily by ACH transferring funds to the e-purse or regional pass (product accounts) and is reimbursed from the retailers on a weekly basis. This account is prefunded by the Regional Pass account. The amount funded by the Regional Pass account is allocated according to the rules for that account with the remaining receivable balance allocated by total of combined e-purse and regional pass usage for three months prior.

REGIONAL FARE COORDINATION SYSTEM

Notes to financial statements, continued

Daily Retail Distributor is the depository account that functions the same as the Weekly Retail Distributor, except that reimbursements from retailers are collected on a daily basis. This account is prefunded by the Regional Pass account. The amount funded by the Regional Pass account is allocated according to the rules for that account with the remaining receivable balance allocated by total of combined e-purse and regional pass usage for three months prior.

Cardholder Claim is the depository account that holds funds from cardholder purchases that have been made in a “card not present environment” and have expired due to the cardholder not interacting with a fare collection device prior to the expiration of the prescribed period. The cardholder’s funds are moved from the product issuer account to the Cardholder Claim account, awaiting claim by cardholders. These funds are available to reimburse the agency that makes the refund to cardholder claimants or for distribution among agencies, if such claims do not occur as provided under Washington unclaimed property laws. This account is allocated to the agencies first to known claims in process, not yet paid to agencies, with the balance allocated in the ratio of transit fares collected by the agencies for fares paid by total of combined e-purse and regional pass usage for three months prior.

Participant Claim is the depository account that holds funds from transactions awaiting distribution back to the agencies that provided the unreported service. This account is allocated to the agencies first to known claims in process, not yet paid to agencies, with the balance allocated in the ratio of transit fares collected by the agencies for fares paid by e-purse usage for three months prior.

Other

Central Payments is the depository account for funds used to accept deposits from agencies for payment to vendors for work related to the activities of ORCA. This account is allocated to the agencies based on actual payments received from agencies.

4. RECEIVABLES AND AMOUNTS DUE FROM AGENCIES

Accounts receivable and amounts due from other agencies include amounts receivable from third parties as well as amounts due from agencies for regionally shared capital expenditures and operating expenses. Amounts due from agencies for product loads are for sales of ORCA products transacted in 2016 and for uncollected billings for fare revenue earned by the transportation agencies (usage) in the current period. Accounts receivable and amounts due from other agencies are allocated among the agencies based on their ORCA ILA agreement percentages or respective portion of earned receipts. Payment terms are generally defined by agreement and range from 3 to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified in the invoice, which is generally 30 days.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities include the amounts payable to agencies or vendors for regionally shared operating expenses or capital expenditures. These accounts are allocated to the agencies based on the ORCA ILA agreement percentages for either operating expenses or capital expenditures.

Cardholder claims represent the liability to cardholders for purchases that have been made in a “card not present environment” and have expired due to the cardholder not interacting with a fare collection device prior to the expiration of the prescribed period. The balance is allocated to the agencies, first to known claims in process and not yet paid, with the balance allocated in the ratio of transit fares collected by the agencies for fares paid by the total combined e-purse and regional pass usage during the current quarter.

REGIONAL FARE COORDINATION SYSTEM

Notes to financial statements, continued

Participant claims represents the liability from transactions awaiting distribution back to the agencies that provided the unreported service. The balance is allocated to the agencies first to known claims in process, not yet paid to agencies, with the balance allocated in the ratio of transit fares collected by the agencies for fares paid by e-purse usage during the current quarter.

6. DUE TO AGENCIES

Amounts due to agencies include reimbursable regionally shared expenses for capital expenditures and operating expenses.

Unearned receipts due to agencies are derived from the purchase of product loads of e-purse fares, regional Puget Passes and passport products that have not yet been earned. These amounts are paid to the agencies when travel by transit riders has occurred, based on their proportionate share of actual usage that occurred.

Undistributed receipts include amounts due to agencies for completed travel by transit riders through December 31, 2016 and 2015, which have not been distributed to the agencies. These amounts are allocated based on actual settlements.

7. SUBSEQUENT EVENT

Management has evaluated the events and transactions that have occurred after December 31, 2016 through April 14, 2017, the date these financial statements were available to be issued.

**SUPPLEMENTAL
ALLOCATION SCHEDULES**

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REGIONAL FARE COORDINATION SYSTEM

Schedule of Net Position by Agency

| | December 31, 2016 | | | | | | | |
|---|-----------------------|--------------------|---------------------|-------------------|--------------------|-----------------------|-----------------------------|-------------------|
| | Community Transit | Everett Transit | King County | Kitsap Transit | Pierce Transit | Sound Transit | Washington State Ferries | Total |
| ASSETS | | | | | | | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents: | | | | | | | | |
| FDIC or PDPC | \$ 165,635 | \$ 13,823 | \$ 1,585,096 | \$ 17,099 | \$ 99,145 | \$ 775,310 | \$ 46,000 | \$ 2,702,108 |
| WA State Local Government Investment Pool | 2,114,061 | 164,520 | 20,504,870 | 261,148 | 1,062,173 | 11,142,463 | 1,117,045 | 36,366,280 |
| Accounts receivable | 11,474 | 886 | 111,821 | 1,338 | 5,824 | 59,945 | 5,511 | 196,799 |
| Due from agencies: | | | | | | | | |
| Capital | 19,441 | 4,303 | 91,122 | 9,259 | 14,792 | 15,912 | - | 154,829 |
| Operating | 112,119 | 19,925 | 1,376,688 | 43,875 | 70,564 | 396,336 | 18,033 | 2,037,540 |
| Product loads | 952,356 | 142,193 | 30,249,160 | 194,643 | 239,218 | 462,032 | (76,977) | 32,162,625 |
| Total assets | 3,375,086 | 345,650 | 53,918,757 | 527,362 | 1,491,716 | 12,851,998 | 1,109,612 | 73,620,181 |
| LIABILITIES | | | | | | | | |
| Current liabilities | | | | | | | | |
| Accounts payable and accrued liabilities: | | | | | | | | |
| Capital | 19,441 | 4,303 | 91,122 | 9,259 | 14,792 | 15,912 | 7,874 | 162,703 |
| Operating | 105,344 | 18,294 | 1,220,791 | 40,137 | 66,357 | 371,794 | 16,927 | 1,839,644 |
| Cardholder and participant claim funds | 155,117 | 12,108 | 1,510,478 | 19,570 | 76,288 | 821,347 | 85,610 | 2,680,518 |
| Due to agencies: | | | | | | | | |
| Capital | - | - | - | - | - | - | 19,775 | 19,775 |
| Operating | - | - | 291,108 | - | - | 253,510 | - | 544,618 |
| Unearned receipts | 1,654,012 | 131,899 | 16,122,047 | 228,329 | 792,389 | 8,911,987 | 1,051,163 | 28,891,826 |
| Undistributed receipts | 2,868,690 | 84,491 | 24,178,144 | 171,850 | 595,327 | 11,550,727 | 31,868 | 39,481,097 |
| Total liabilities | 4,802,604 | 251,095 | 43,413,690 | 469,145 | 1,545,153 | 21,925,277 | 1,213,217 | 73,620,181 |
| Net position | \$ (1,427,518) | \$ 94,555 | \$10,505,067 | \$ 58,217 | \$ (53,437) | \$ (9,073,279) | \$ (103,605) | \$ - |

See accompanying independent auditors' report

REGIONAL FARE COORDINATION SYSTEM

Schedule of Net Position by Agency

| | December 31, 2015 | | | | | | | |
|---|-----------------------|--------------------|---------------------|-------------------|--------------------|-----------------------|-----------------------------|-------------------|
| | Community Transit | Everett Transit | King County | Kitsap Transit | Pierce Transit | Sound Transit | Washington State Ferries | Total |
| ASSETS | | | | | | | | |
| Current assets | | | | | | | | |
| Cash and cash equivalents: | | | | | | | | |
| FDIC or PDPC | \$ 150,958 | \$ 15,883 | \$ 1,411,318 | \$ 15,682 | \$ 96,241 | \$ 599,931 | \$ 67,346 | \$ 2,357,359 |
| WA State Local Government Investment Pool | 1,900,761 | 161,970 | 19,084,545 | 198,029 | 1,028,644 | 7,837,858 | 814,315 | 31,026,122 |
| Accounts receivable | 9,363 | 796 | 94,456 | 964 | 5,017 | 38,523 | 3,871 | 152,990 |
| Due from agencies: | | | | | | | | |
| Capital | 3,676 | 916 | 17,537 | 1,870 | 2,738 | 3,387 | - | 30,124 |
| Operating | 76,653 | 11,841 | 1,025,523 | 30,268 | 50,709 | 258,262 | 11,924 | 1,465,180 |
| Product loads | 871,184 | 139,864 | 26,879,734 | 650,768 | 197,875 | 428,177 | (39,934) | 29,127,668 |
| Total assets | 3,012,595 | 331,270 | 48,513,113 | 897,581 | 1,381,224 | 9,166,138 | 857,522 | 64,159,443 |
| LIABILITIES | | | | | | | | |
| Current liabilities | | | | | | | | |
| Accounts payable and accrued liabilities: | | | | | | | | |
| Capital | 3,676 | 916 | 17,537 | 1,870 | 2,738 | 3,387 | 1,676 | 31,800 |
| Operating | 58,741 | 10,301 | 664,860 | 23,165 | 38,871 | 197,544 | 9,128 | 1,002,610 |
| Cardholder and participant claim funds | 114,371 | 9,728 | 1,149,455 | 12,589 | 59,064 | 471,927 | 53,550 | 1,870,684 |
| Due to agencies: | | | | | | | | |
| Capital | - | - | - | - | - | - | 44,429 | 44,429 |
| Operating | - | - | 303,260 | - | - | 311,714 | - | 614,974 |
| Unearned receipts | 1,484,633 | 126,848 | 14,864,852 | 174,771 | 736,510 | 6,153,408 | 792,235 | 24,333,257 |
| Undistributed receipts | 2,731,903 | 90,312 | 23,401,375 | 443,953 | 611,968 | 8,960,254 | 21,924 | 36,261,689 |
| Total liabilities | 4,393,324 | 238,105 | 40,401,339 | 656,348 | 1,449,151 | 16,098,234 | 922,942 | 64,159,443 |
| Net position | \$ (1,380,729) | \$ 93,165 | \$ 8,111,774 | \$ 241,233 | \$ (67,927) | \$ (6,932,096) | \$ (65,420) | \$ - |

See accompanying independent auditors' report

REGIONAL FARE COORDINATION SYSTEM

Schedule of Net Position by Agency

| | December 31, 2016 | | | | | | | |
|--|----------------------|--------------------|----------------------|--------------------|--------------------|---------------------|-----------------------------|----------------------|
| | Community Transit | Everett Transit | King County | Kitsap Transit | Pierce Transit | Sound Transit | Washington State Ferries | Total |
| Usage | | | | | | | | |
| E-purse | \$ 3,486,856 | \$ 289,100 | \$ 33,798,371 | \$ 607,170 | \$ 1,433,734 | \$ 18,407,628 | \$ 3,158,027 | \$ 61,180,886 |
| Regional pass | 3,044,750 | 235,297 | 30,520,332 | 157,379 | 2,063,576 | 13,904,752 | - | 49,926,086 |
| Business accounts | 8,984,410 | 186,694 | 71,560,962 | 576,050 | 941,527 | 32,162,842 | - | 114,412,485 |
| Total usage | 15,516,016 | 711,091 | 135,879,665 | 1,340,599 | 4,438,837 | 64,475,222 | 3,158,027 | 225,519,457 |
| Operating revenue | | | | | | | | |
| Agency billings | 427,491 | 73,989 | 4,960,236 | 162,925 | 269,050 | 1,511,164 | 68,757 | 7,473,612 |
| Card fee income | 17,162 | 2,970 | 199,134 | 6,541 | 10,801 | 60,667 | 2,760 | 300,035 |
| Interest income | 8,739 | 1,512 | 101,396 | 3,330 | 5,500 | 30,891 | 1,406 | 152,774 |
| Total operating revenue | 453,392 | 78,471 | 5,260,766 | 172,796 | 285,351 | 1,602,722 | 72,923 | 7,926,421 |
| Total operating revenue and usage | 15,969,408 | 789,562 | 141,140,431 | 1,513,395 | 4,724,188 | 66,077,944 | 3,230,950 | 233,445,878 |
| Operating expenses | | | | | | | | |
| Services | 274,163 | 47,451 | 3,181,154 | 104,489 | 172,550 | 969,157 | 44,096 | 4,793,060 |
| Wages and benefits | 71,500 | 12,375 | 829,625 | 27,250 | 45,000 | 252,750 | 11,500 | 1,250,000 |
| Card production costs | 60,413 | 10,456 | 700,981 | 23,025 | 38,022 | 213,558 | 9,716 | 1,056,171 |
| Bank card fees | 37,327 | 6,460 | 433,111 | 14,226 | 23,493 | 131,950 | 6,004 | 652,571 |
| Bad debt | 6,547 | 1,133 | 75,959 | 2,495 | 4,120 | 23,141 | 1,053 | 114,448 |
| Telephone | 2,069 | 358 | 24,003 | 788 | 1,302 | 7,312 | 333 | 36,165 |
| Office supplies | 1,373 | 238 | 15,933 | 523 | 864 | 4,854 | 221 | 24,006 |
| Operating expenses | 453,392 | 78,471 | 5,260,766 | 172,796 | 285,351 | 1,602,722 | 72,923 | 7,926,421 |
| Net ORCA receipts | 15,516,016 | 711,091 | 135,879,665 | 1,340,599 | 4,438,837 | 64,475,222 | 3,158,027 | 225,519,457 |
| Transfers to agencies | (12,647,326) | (626,600) | (111,701,521) | (1,168,749) | (3,843,510) | (52,924,495) | (3,126,159) | (186,038,360) |
| Undistributed receipts | \$ 2,868,690 | \$ 84,491 | \$ 24,178,144 | \$ 171,850 | \$ 595,327 | \$11,550,727 | \$ 31,868 | \$ 39,481,097 |

See accompanying independent auditors' report

REGIONAL FARE COORDINATION SYSTEM

Schedule of Net Position by Agency

| | December 31, 2015 | | | | | | | |
|--|----------------------|--------------------|----------------------|--------------------|--------------------|---------------------|-----------------------------|----------------------|
| | Community Transit | Everett Transit | King County | Kitsap Transit | Pierce Transit | Sound Transit | Washington State Ferries | Total |
| Usage | | | | | | | | |
| E-purse | \$ 3,235,196 | \$ 287,148 | \$ 32,270,780 | \$ 407,513 | \$ 1,410,629 | \$ 13,794,059 | \$ 2,688,356 | \$ 54,093,681 |
| Regional pass | 2,997,444 | 254,430 | 30,464,430 | 150,973 | 2,130,148 | 11,960,558 | - | 47,957,983 |
| Business accounts | 8,441,420 | 201,751 | 66,556,029 | 3,272,639 | 916,905 | 26,146,227 | - | 105,534,971 |
| Total usage | 14,674,060 | 743,329 | 129,291,239 | 3,831,125 | 4,457,682 | 51,900,844 | 2,688,356 | 207,586,635 |
| Operating revenue | | | | | | | | |
| Agency billings | 430,558 | 75,072 | 4,881,866 | 170,015 | 284,831 | 1,450,650 | 66,976 | 7,359,968 |
| Card fee income | 16,710 | 2,914 | 189,468 | 6,598 | 11,054 | 56,301 | 2,600 | 285,645 |
| Interest income | 2,705 | 472 | 30,673 | 1,068 | 1,790 | 9,114 | 421 | 46,243 |
| Total operating revenue | 449,973 | 78,458 | 5,102,007 | 177,681 | 297,675 | 1,516,065 | 69,997 | 7,691,856 |
| Total operating revenue and usage | 15,124,033 | 821,787 | 134,393,246 | 4,008,806 | 4,755,357 | 53,416,909 | 2,758,353 | 215,278,491 |
| Operating expenses | | | | | | | | |
| Services | 247,804 | 43,208 | 2,809,723 | 97,850 | 163,932 | 834,912 | 38,548 | 4,235,977 |
| Wages and benefits | 81,794 | 14,262 | 927,416 | 32,298 | 54,110 | 275,581 | 12,723 | 1,398,184 |
| Card production costs | 76,816 | 13,394 | 870,976 | 30,333 | 50,817 | 258,811 | 11,949 | 1,313,096 |
| Bank card fees | 32,930 | 5,742 | 373,380 | 13,003 | 21,785 | 110,950 | 5,123 | 562,913 |
| Bad debt | 6,638 | 1,157 | 75,265 | 2,621 | 4,391 | 22,365 | 1,033 | 113,470 |
| Telephone | 2,228 | 388 | 25,262 | 880 | 1,474 | 7,507 | 347 | 38,086 |
| Office supplies | 1,763 | 307 | 19,985 | 696 | 1,166 | 5,939 | 274 | 30,130 |
| Operating expenses | 449,973 | 78,458 | 5,102,007 | 177,681 | 297,675 | 1,516,065 | 69,997 | 7,691,856 |
| Net ORCA receipts | 14,674,060 | 743,329 | 129,291,239 | 3,831,125 | 4,457,682 | 51,900,844 | 2,688,356 | 207,586,635 |
| Transfers to agencies | (11,942,157) | (653,017) | (105,889,864) | (3,387,172) | (3,845,714) | (42,940,590) | (2,666,432) | (171,324,946) |
| Undistributed receipts | \$ 2,731,903 | \$ 90,312 | \$ 23,401,375 | \$ 443,953 | \$ 611,968 | \$ 8,960,254 | \$ 21,924 | \$ 36,261,689 |

See accompanying independent auditors' report

REGIONAL FARE COORDINATION SYSTEM

NOTE TO SUPPLEMENTAL ALLOCATION SCHEDULES

1. PRODUCTS COLLECTED ON BEHALF OF PARTICIPATING AGENCIES AND EXPENDITURE ALLOCATION METHODOLOGY

E-Purse Product

Funds received from cardholders for loading e-purse value are allocated to each agency based on actual trip value. For trips involving multiple agencies (linked trips) that involve e-purse transfer credits, the total fare is allocated based on actual reappropriation that occurs 30 days later in proportion to the value of the fare each agency would have otherwise been charged for the service as a non-linked trip.

Regional Pass Product

Funds received for the purchase of regional pass product are apportioned to the agencies 30 days after the end of the month for which the product was valid. The purchase price of the product is allocated to the transit service provider based the proportionate share of the total value of trips taken during the month. Funds not distributed to the agencies as fare revenue are allocated to the agencies based on the prior three months of regional pass revenue earned.

Business Account Products

A business account may elect to choose either a business account “choice” agreement or a business account “passport” agreement subject to established program requirements. The business “choice” agreement revenues are allocated in accordance with the rules for e-purse and regional pass products. Business account “passport” products are allocated to each agency based on either a flat rate or per trip basis.

Capital Expenditures

The allocation for regionally shared ORCA capital expenditures is determined by the total value of each agency’s vendor contract equipment purchases and the vendor installation costs. This allocation is fixed for future years and will only be subject to revision as necessary to accommodate an addition or withdrawal of an agency.

Operating Expenses

The allocation for regionally shared ORCA operating expenses is based on the proportion to agency estimated ridership numbers, as adjusted to account for ridership that did not occur using the ORCA fare payment system.