



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

**Grays Harbor Transportation Authority
(Grays Harbor Transit)**

Grays Harbor County

For the period January 1, 2013 through December 31, 2013

Published September 15, 2014

Report No. 1012558





Washington State Auditor
Troy Kelley

September 15, 2014

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Grays Harbor County
January 1, 2013 through December 31, 2013**

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Federal Summary

Grays Harbor Transit Grays Harbor County January 1, 2013 through December 31, 2013

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.509	Formula Grants for Other Than Urban Areas

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

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

Schedule of Prior Federal Audit Findings

Grays Harbor Transit Grays Harbor County January 1, 2013 through December 31, 2013

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Grays Harbor Transit. The State Auditor's Office has reviewed the status as presented by the Authority.

Audit Period: January 1, 2012 - December 31, 2012	Report Ref. No.: 1010568	Finding Ref. No.: 1	CFDA Number(s): 20.500
Federal Program Name and Granting Agency: Federal Transit Capital Investment Grants - U.S. Department of Transportation, Federal Transit Administration		Pass-Through Agency Name: Department of Transportation	
Finding Caption: Grays Harbor Transportation Authority does not have adequate internal controls to ensure compliance with federal requirements.			
Background: The objective of the Federal Transit Capital Investment Grants is to assist in financing the planning, acquisition, construction, preventive maintenance, and improvement of facilities and equipment in public transportation services. In 2012 the Authority purchased three 35-foot buses and four mini buses with federal funding, totaling \$1,360,983. Of this amount, \$1,123,142 was American Recovery and Reinvestment Act (ARRA) funding.			
<u>Suspension/Debarment</u> Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the entity must ensure the vendor or subrecipient is not suspended or debarred. The Authority purchased the buses from two different vendors. The federal status of these two vendors was not checked to determine if they had been suspended or debarred prior to making the purchase.			
<u>Equipment</u> Federal regulations require grant recipients to keep accurate property records. Such records must include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.			

Additionally, at least every two years, the Authority must also perform a physical inventory of equipment purchased with federal funds.

The Authority's equipment list did not specify which equipment was purchased with federal funds. It also did not include certain required information on the equipment list, such as acquisition cost, location or year acquired. Additionally, the Authority did not have a process in place to ensure a periodic inventory of federal equipment was performed within the prescribed timeframe.

Reporting

The Authority was required to submit quarterly progress reports to the Washington State Department of Transportation (WSDOT). However, the Authority did not have a process in place to ensure the required reports were actually submitted.

Status of Corrective Action: (check one)

☒ Fully
Corrected

☐ Partially
Corrected

☐ No Corrective
Action Taken

☐ Finding is considered no
longer valid

Corrective Action Taken:

Suspension/Debarment

Transit staff involved in procurement will be instructed to review Federal Transit Administration regulations and best practices. Classes are being scheduled with WSDOT for procurement and best practice training.

Equipment

A property and equipment list was developed and implemented which includes all requirements included in Federal Transit Regulation Title 44 Section 1332.

Reporting

With the training given by WSDOT, Grays Harbor Transit is developing a checklist, with their help, listing the elements that need to be included and a timeline for each item. Corrective action has been taken to ensure that the Capital Vehicle and Equipment Project-Quarterly Progress Report are submitted when we receive our next busses.

All the above actions will be added to the checklist which will be included in each grant folder.

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*

**Grays Harbor Transit
Grays Harbor County
January 1, 2013 through December 31, 2013**

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Grays Harbor Transit, Grays Harbor County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 8, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

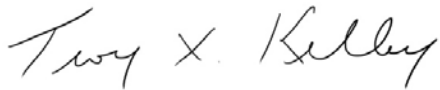
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

September 8, 2014

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

**Grays Harbor Transit
Grays Harbor County
January 1, 2013 through December 31, 2013**

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

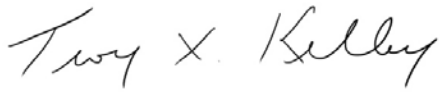
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

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

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 8, 2014

Independent Auditor's Report on Financial Statements

Grays Harbor Transit Grays Harbor County January 1, 2013 through December 31, 2013

Board of Directors
Grays Harbor Transit
Hoquiam, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Grays Harbor Transit, Grays Harbor County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grays Harbor Transit, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

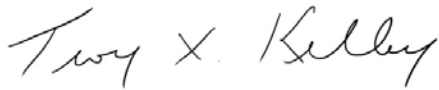
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 21 and information on postemployment benefits other than pensions on pages 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 8, 2014

Financial Section

**Grays Harbor Transit
Grays Harbor County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

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

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB) – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Following is management's overview and analysis of Grays Harbor Transit's financial activities for the year ended December 31, 2013. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

Financial Highlights

Grays Harbor Transit's assets exceeded its liabilities at December 31, 2013 by \$8,201,311. Of this amount, \$1,958,104 may be used to meet ongoing obligations to provide services to the public and meet future obligations of creditors.

The Transit's net position decreased \$1,006,599 from 2012.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Transit's basic financial statements. The notes to the financial statements contain more detail on the information presented in the financial statements. The financial statements present information about the Authority's using accounting methods similar to those used by companies in the private sector. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position presents information on all of the Transit's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator in determining whether the Authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenditures and Changes in Net position presents information showing how the Transit's net position changed during the current and prior fiscal periods. All changes to 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 reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Statement of Cash Flows present information on cash receipts, cash payments and net changes in cash and cash equivalents from the prior year. Generally accepted governmental accounting principles require that cash flows be classified into one of four categories:

- Cash flows from operating activities
- Cash flows from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities

Grays Harbor Transit's financial statements follow in this section of the report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided with the financial statements. These notes follow the financial statements in this report.

2013 2012
Summary Statement of Net Position

			Net increase (decrease) 2013 vs. 2012
	2013	2012	
Assets			
Current Assets	\$ 3,788,932	\$ 4,026,619	\$ (237,687)
Capital Assets (net)	6,243,207	6,816,272	(573,065)
Total Assets	\$ 10,032,139	\$ 10,842,891	\$ (810,752)
Liabilities			
Current Liabilities	\$ 107,820	\$ 151,754	\$ (43,934)
Noncurrent Liabilities	1,723,008	1,483,227	239,781
Total Liabilities	1,830,828	1,634,981	195,847
Net Position			
Net Invested in Cap. Assets	6,243,207	6,816,272	\$ (573,065)
Unrestricted	1,958,104	2,391,638	(433,534)
Total Net Position	\$ 8,201,311	\$ 9,207,910	\$ (1,006,599)

For the year ended December 31, 2013, assets exceed liabilities by \$8.2 million.

A majority of the Transit's net position (62%) reflect its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). (See Note 3) The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the net position balance is not available for future spending. A portion (\$1.0 million) of the remaining net position balance of \$3.8 million has been restricted or designated by board action for workers' compensation and liability self-insurance programs. The remaining of 2.8 million is available to support future obligations for transportation operations.

The Transit's net position decreased \$1,006,599 during 2013. The following summary Statement of Revenues, Expenses and Changes in Net position summarizes how this change in net position occurred.

Summary Statement of Revenues, Expenses and Changes in Net Position

			Increases (Decreases)	
	2013	2012	Change	
Operating Revenues:				
Transit Fares	\$ 729,606	\$ 763,652	\$ (34,046)	-4%
Advertising	14,152	23,869	(9,717)	-41%
Nonoperating Revenues:				
Subsidies	6,228,619	6,400,818	(172,199)	-3%
Other Revenues	<u>21,062</u>	<u>44,507</u>	<u>(23,445)</u>	-53%
Total Revenues	<u>6,993,439</u>	<u>7,232,846</u>	<u>(239,407)</u>	-3%
Expenses:				
Operating and Maintenance	6,324,751	6,915,273	(590,522)	-9%
General And Administration	791,377	784,524	6,853	1%
Depreciation	776,341	860,158	(83,817)	-10%
Nonoperating Expenses	<u>187,100</u>	<u>192,846</u>	<u>(5,746)</u>	-3%
Total Expenses	<u>8,079,569</u>	<u>8,752,801</u>	<u>(673,232)</u>	-8%
Net Income (Loss) before Contribution	<u>(1,086,130)</u>	<u>(1,519,955)</u>	<u>433,825</u>	-29%
Capital contributions	79,531	1,391,389	(1,311,858)	-94%
Total Change in Net Position	(1,006,599)	(128,566)	(878,033)	683%
Beginning Net Position	<u>9,207,910</u>	<u>\$ 9,336,476</u>	<u>(128,566)</u>	-1%
Ending Net Position	<u>\$ 8,201,311</u>	<u>\$ 9,207,910</u>	<u>(1,006,599)</u>	-11%

REVENUE BY SOURCE

The Transit's revenues streams are summarized below:

Revenues by Source

			Increases (Decreases)	
	2013	2012	Change	
Passenger Fares	\$ 729,606	\$ 763,652	\$ (34,046)	-4%
Advertising	14,152	23,869	(9,717)	-41%
Sales Tax	5,211,942	5,099,811	112,131	2%
Grants	1,096,208	2,692,396	(1,596,188)	-59%
Investment Income	3,143	5,191	(2,048)	-39%
Miscellaneous Income	<u>17,919</u>	<u>39,316</u>	<u>(21,397)</u>	-54%
Total Revenues	<u>\$ 7,072,970</u>	<u>\$ 8,624,235</u>	<u>\$ (1,551,265)</u>	-18%

- Grays Harbor Transit's fares consist of revenues from the sale of passes and tokens as well as cash fares collected on-board revenue vehicles and Vanpool. The 4% decrease in passenger fares from 2012 to 2013 was a result of a decrease in service implemented in September of 2013. The decrease in service was an elimination of weekend service along with other adjustments to the schedule that resulted in the layoff of seven employees. This reduction in service was necessary to balance the budget for 2014.
- Advertising revenues decreased from 2012 to 2013 by 41%, this decrease is a result of a decrease of advertising on busses.
- The majority of operating and capital grant revenue is received from Federal Transit Administration (FTA) and State awarded Grants. Grants received in 2013 totaled \$1,096,208.
- Investment income decreased again, this time by 39% from 2012 earnings. This decrease was primarily due to a decrease of investable funds and the continued reduction in interest rates.
- Miscellaneous Income decreased in 2013 by 54%.

EXPENSES BY DEPARTMENT

Department expenses are summarized below:

Operating Expenses by Department

	2013	2012	Difference	
Operations	\$ 4,172,929	\$ 4,356,022	\$ (183,093)	-4%
Maintenance	2,151,822	2,559,251	(407,429)	-16%
Administration/Depreciation	1,567,718	1,644,682	(76,964)	-5%
Total Expenses	<u>\$ 7,892,469</u>	<u>\$ 8,559,955</u>	<u>\$ (667,486)</u>	-8%

Total expenses decreased an average of 8% during 2013. This decrease in expenses was a result of a 10% decrease in hours of service compared to 2012.

EXPENSES BY MODE

Transit expenses type of service are summarized below:

Operating Expenses by Mode

	2013	2012	Difference	
Fixed Route Services	\$ 4,498,707	\$ 4,879,174	\$ (380,467)	-8%
Demand Response Services	3,393,762	3,680,781	(287,019)	-8%
Total Expenses	<u>\$ 7,892,469</u>	<u>\$ 8,559,955</u>	<u>\$ (667,486)</u>	-8%

Fixed Route

- Regularly scheduled busses operating on established routes throughout Grays Harbor County.

Demand Response

- Demand response service provides transportation in accordance with ADA regulations for patrons with disabilities who are unable to ride the fixed route service.

ECONOMIC FACTORS AND FUTURE OUTLOOK

- County wide retail sales, which Grays Harbor Transit relies on for its sales, are dependent on consumer confidence and their purchasing habits. Sales tax revenue for 2013 increased slightly by 2%. Grays Harbor County's economy is still struggling from the loss of jobs over the past several years.
- Grays Harbor Transit relies upon sales tax revenues, fare revenues and grant funds from the State and Federal governments. Federal and State grants were reduced for the 2013-2015 biennium. After Washington State Transit Association worked with State Legislators during the 2012 session the legislature dedicated 9 million dollars for 2013 and 13 million for the remainder of the biennium to be divided among all transits in the State of Washington. These funds will be divided according to the amount of miles and hours operated and passengers transported; being a rural agency this formula will only provide approximately \$80,000 per year to help in operating costs. As a rural transit agency Grays Harbor Transit also receives sales tax equalization funds which have declined each year over the past few years, 2013 saw a dramatic decrease of over \$400,000 due to the increase of sales tax revenue in 2012 from the construction of the pontoon construction site.
- Throughout the next six years, capital spending will focus on maintaining existing equipment and facilities in a good state of repair. In past years our vehicle fleet has been replaced by using Federal earmark funds. In 2013 Grays Harbor Transit was awarded a State of Good Repair Federal 5310 grant to purchase 3 fixed route coaches and 2 mini busses. This type of schedule of purchasing two or three busses each is followed to minimize the matching funds that must be taken from the general fund, which is normally 20% of the purchase.
- Our local economy has not seen the improvements that other areas of the State and other parts of the Country have seen, unemployment is still near 12%. Grays Harbor Transits Governing Board decided in August of 2013 that due to the planned reduction in service and the loss of revenue that a proposition should be placed before the voters on the November 2013 ballot. The proposition placed on the ballot in November 2013 was for an increase in county wide sales tax of one tenth of one percent to support public transportation. The proposition passed with an overwhelming margin of 76%. This increase of sales tax is expected to generate approximately \$850,000 in revenue annually. Collection of this new sales tax will start April 1, 2014, Transit should see an increase in revenue on its June sales tax receipts.

Grays Harbor Transportation Authority
DBA Grays Harbor Transit
Statement of Net Position
As of December 31, 2013

ASSETS

2013

CURRENT ASSETS:

Cash and Cash Equivalents	\$1,707,388
Inventory	478,456
Taxes Receivable	874,547
Accounts Receivable	52,138
Prepayments	80,305
Due from other Governments	596,098
Total Current Assets	<u>3,788,932</u>

CAPITAL ASSETS

Property, Plant and Equipment	18,042,977
Less: Accumulated Depreciation	<u>(11,799,770)</u>
Total Net Capital Assets Net	<u>6,243,207</u>
TOTAL ASSETS	<u>\$ 10,032,139</u>

LIABILITIES

CURRENT LIABILITIES:

Salaries, Taxes and Benefits Payable	\$ 105,650
Copier Lease Payable, Current Portion	<u>2,170</u>
Total Current Liabilities	<u>107,820</u>

NONCURRENT LIABILITIES:

Copier Lease Payable	1,553
Compensated Vacation Payable	221,924
Net OPEB Obligation Payable	<u>1,499,531</u>
Total Noncurrent Liabilities	<u>1,723,008</u>
TOTAL LIABILITIES	<u>\$ 1,830,828</u>

NET POSITION

Net Investment in Capital Assets	6,243,207
Unrestricted	<u>1,958,104</u>
TOTAL NET POSITION	<u>\$ 8,201,311</u>

See Accompanying notes to the financial statements.

Grays Harbor Transportation Authority
DBA Grays Harbor Transit
Statement of Revenues, Expenses and Changes in Net Position
For the Year ended December 31, 2013

	2013
OPERATING REVENUES:	
Transit Fares	\$729,606
Advertising Transit	14,152
Total Operating Revenues	<u>743,758</u>
OPERATING EXPENSES:	
Operations	4,172,929
Maintenance	2,151,822
General Administration	791,377
Depreciation	776,341
TOTAL OPERATING EXPENSES	<u>7,892,469</u>
OPERATING INCOME (LOSS)	<u><u>(7,148,711)</u></u>
NONOPERATING REVENUES (EXPENSES)	
Sales Tax	5,211,942
Interest Income	3,143
Miscellaneous Income	10,538
Ambulance Contributions	(187,100)
Gain (Loss) on Disposal of Assets	7,381
Operating Grants	1,016,677
Total Nonoperating Revenues (Expenses)	<u>6,062,581</u>
Income (loss) before contributions, extraordinary and special items	(1,086,130)
Capital contributions	79,531
Increase (Decrease) in Net Position	(1,006,599)
Beginning Net Position	9,207,910
Ending Net Position	<u><u>\$ 8,201,311</u></u>

See Accompanying notes to the financial statements.

Grays Harbor Transportation Authority
DBA Grays Harbor Transit
Statement of Cash Flows
For the Year ended December 31, 2013

2013

CASH FLOWS from OPERATING ACTIVITIES:

Cash Received From Customers	\$ 715,131
Cash Received From Advertising Transit	14,152
Cash Payments to Suppliers for Goods & Services	(1,735,208)
Cash Payments to Employees for Services	(5,227,800)
Net cash provided (used) by operating activities	<u>(6,233,725)</u>

CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES:

Sales Tax Received	5,175,323
Miscellaneous Revenue	12,017
Ambulance Contributions	(187,100)
Net cash provided (used) by non-capital financing activities	<u>5,000,240</u>

CASH FLOWS from CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds From Federal Grant/State Grant	816,474
Proceeds From Sale Capital Assets	7,381
Payment on Lease Payable	(2,170)
Acquisition of Capital Assets	(204,627)
Net cash provided (used) by capital and related financing activities	<u>617,058</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest on Investments	<u>3,143</u>
Net cash provided (used) by investing activities	<u>3,143</u>

Net increase (decrease) in cash and cash equivalents	(613,284)
Balances -beginning of Year	<u>2,320,672</u>
Balances -end of Year	<u>\$ 1,707,388</u>

Continued to the following page.

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:

Operating Income (Loss)	\$ (7,148,711)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Depreciation expense	776,341
Change in assets and Liabilities:	
(Increase) Decrease in Inventory	(54,015)
(Increase) Decrease in Accounts Receivable	(14,475)
(Increase) Decrease in Prepaid Expenses	9,246
Increase (Decrease) in Vouchers Payable	(24,140)
Increase (Decrease) in Salaries, Taxes and Benefits Payable	(19,922)
Increase (Decrease) in Compensated Vacation Payable	11,810
Increase (Decrease) in Net OPEB Contribution Payable	230,141
Net Cash Used By Operating Activities	<u>\$ (6,233,725)</u>

Schedule of Noncash Investing, Capital, and Financial Activities

Capital Grants and Contributions contain no noncash capital contributions.

See Accompanying notes to the financial statements.

GRAYS HARBOR TRANSPORTATION AUTHORITY

DBA Grays Harbor Transit

Notes to Financial Statements

January 1, 2013 through December 31, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Grays Harbor Transportation Authority, dba Grays Harbor Transit, was incorporated on June 1974 and operates under the laws of the state of Washington applicable to transportation authority entity.

Grays Harbor Transit is a special purpose government and provides public transportation service to the general public and is supported primarily through local taxes and user charges

Grays Harbor Transit is governed by an appointed six-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Grays Harbor Transit has no component units.

B. Basis of Accounting and Reporting

The accounting records of the Grays Harbor Transit are maintained in accordance with methods prescribed by the State Auditor and the authority of Chapter 43.09 RCW. The Grays Harbor Transit uses the *Budgeting, Accounting and Reporting System for Transit Districts* in the State of Washington.

The Fund is accounted for on the flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statement of net position. Their reported fund equity (net total assets) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. Grays Harbor Transit discloses changes in cash flows by a separate statement that presents its operating, noncapital financing, capital and related financing and investing activities.

Grays Harbor Transit uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund.

The Transit distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a propriety fund's principle ongoing operations. The principle operating revenues of Grays Harbor Transit are charges to customers in the form of bus fares. Operating expenses for the fund include the cost of providing transit service, administrative expenses, and depreciation on capital assets. Tax revenue and grants used to finance operations and expenses not related to the provision of transit service are reported as non-operating revenues and expenses. Reserved resources are used to replace capital assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in proprietary fund financial statements to the extent that those standards do not conflict or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Transit has not elected to follow subsequent private-sector guidance

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the Grays Harbor Transit's policy to invest all temporary cash surpluses. At December 31, 2013 Grays Harbor County Treasurer was holding \$1,631,486 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as cash and cash equivalents.

For purposes of the statement of cash flows, the transit considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There are no assets restricted by outside sources

2. Temporary Investments - See Note 2

3. Receivables

Taxes receivable consists of amounts from sales tax. Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

4. Inventories

Inventories consist of vehicle maintenance supplies and tires. They are valued using the weighted cost average method. A physical inventory is performed at year end with appropriate adjustments made to recorded inventories. The inventory amount at December 31, 2013, was \$478,457.

5. Capital Assets and Depreciation - See Note 3

6. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. The authority records unpaid leave for compensated absences as an expense and liability when incurred.

Bus operators and maintenance personnel are covered under the agreement between Grays Harbor Transit and the Amalgamated Transit Union, Local Division 1765, AFL-CIO. All other employees are non-union and are covered under the Grays Harbor County agreement.

All employees who work at least 90 hours per month accumulate sick leave at a rate of 8 hours per month. Employees are not permitted to accumulate in excess 1,296 hours. Sick leave is expensed as it is used.

Upon separation of employment, under non-disciplinary circumstances and with at least five (5) years of employment with employer; each employee shall be paid for all accumulated sick leave at the following rates.

Accrued Sick Leave	Cash out rate
0 to 500	1 to 5 for hours 1 to 500
501 to 900	1 to 3 for hours 1 to 900
901 to 1296	1 to 2 for hours 1 to 1296

The following is a recap of the vacation policies covering union and non-union employees:

UNION		NON-UNION	
YEARS OF SERVICE	ANNUAL VACATION HOURS	YEARS OF SERVICE	ANNUAL VACATION HOURS
1	40	1	96
2	80	2	104
3-6	120	3	112
7-9	144	4	120
10-14	160	5	128
15+	216	6-9	136
20	240	10-14	144
		15-19	192
		20-24	240

Employees are not permitted to carry past their anniversary date (hire date) more than one-half of the current years' accrual. Total accrued vacation leave is limited to a maximum of 30 days (240 hours). Vacation leave is paid at a rate equal to the rate of pay at the time the leave is taken, not the rate of pay at the time the vacation is accrued. No compensation for accrued vacation leave is payable upon termination of employment.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Grays Harbor County Treasurer is custodian for the investment of the Grays Harbor Transit's Funds. The Grays Harbor Transit's deposits and certificates of deposit 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). Investments for Grays Harbor Transit are reported at cost value. Grays Harbor Transit's investments are categorized in category 1, which are either insured, registered or held by Grays Harbor Transit or its agent in the Grays Harbor Transit's name.

The investment practices of Grays Harbor Transit are governed by the investment regulations established for the investment of public funds by state law, Chapter 39.58 RCW.

At December 31, 2013, the Grays Harbor Transit's investments of \$1,306,343 were entirely in certificates of deposit maintained by the Washington State Investment Pool of the Washington State Treasurer Office. A resolution was adopted to establish a cumulative reserve fund for acquisition, construction, alteration and repair.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital assets (over \$5,000), including major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not know/or estimated market value for donated assets).

The Grays Harbor Transit 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, the Grays Harbor Transit has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. In the case of the sale of a significant operating unit or system, the original cost is removed from the Grays Harbor Transit plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credit or charged to income.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives assigned to new assets as follows;

Land	Not Depreciated
Plant in Service	40 Years
Equipment (Rolling Stock)	5-10 Years
Equipment	5-7 Years
Other Improvements	5 Years

The following table summarizes changes in capital assets.

	<u>12/31/2012</u>			<u>12/31/2013</u>
	Beginning	Additions	Retirements	Ending
	Balance			Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 1,274,185	\$ -	\$ -	\$ 1,274,185
Subtotal	1,274,185	-	-	1,274,185
Capital Assets, Being Depreciated:				
Facilities	5,958,403	25,825	-	5,984,228
Equipment, Rolling Stock	10,513,780	178,802	225,890	10,466,692
Equipment, Other	317,872	-	-	317,872
Subtotal	16,790,055	204,627	225,890	16,768,792
Less Accumulated Depreciation for:				
Facilities	(2,683,016)	(207,081)		(2,890,097)
Equipment, Rolling Stock	(8,260,265)	(565,980)	224,539	(8,601,706)
Equipment, Other	(304,687)	(3,280)		(307,967)
Subtotal	(11,247,968)	(776,341)	224,539	(11,799,770)
Total Capital Assets, Net of Accumulated Depreciation	\$ 6,816,272	\$ (571,714)	\$ 450,429	\$ 6,243,207

NOTE 4- LONG-TERM DEBT AND LEASES

Capital Leases

The Transit has entered into a lease agreement for financing a copier with a down payment of \$389.56.

This lease agreement meets the criteria a capital lease for accounting purposes, there fore, has been recorded at the present value of their future minimum lease payments as of the inception date.

The asset acquired through capital lease is as follows:

Asset	
Sharp MX-3100N Copier	\$ 10,255
Less accumulated Depreciation	6,666
Total	<u>\$ 3,589</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of December 31, 2013 were as follows:

Year Ending December 31	
2014	2,337
2015	1,558
Total Minimum Lease Payments	\$ 3,896
Less Interest	203
Present Value of Minimum Lease Payments	\$ 3,692

NOTE 5- PENSION PLANS

Substantially all Grays Harbor Transit full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

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

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to but not yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25%**	7.25%**	7.25%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 7.89% for Plan 1 and 5.31% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 3.89% for Plan 2.

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

Both Grays Harbor Transit and the employees made the required contributions. The Grays Harbor Transit's required contributions for the years ended December 31, 2013 were:

Year	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$21,817	\$244,954	\$16,909
2012	\$25,549	\$220,393	\$14,498
2011	\$22,786	\$185,271	\$13,423

NOTE 6 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. The statement establishes standards for the measurement and recognition of "other post employment benefits" (OPEB). The provisions of this statement are

effective for fiscal years beginning after December 15, 2008, and have been implemented prospectively by Grays Harbor Transit in accordance with the statement.

- A. **Plan Description** – Grays Harbor Transit participates in the Public Employees Benefit Board (PEBB) health plan administered by the State of Washington Health Care Authority. It is a multiple employer plan which provides both active employee benefits and elective post employment benefits. Grays Harbor Transit retirees are eligible to participate in the group plan on a self-pay basis.
- B. **Funding Policy** – Group premium rates are established by the PEBB and paid on a monthly basis by Grays Harbor Transit based upon the established rates for its active employee membership. Retirees make premium payments on a self-pay basis. Blending retiree and active employee rates creates an implicit rate subsidy and future post-employment benefit liability. Grays Harbor Transit has recorded its unfunded Net OPEB Obligation (NOO) in its financial statements beginning with the year ended December 31, 2013.
- C. **OPEB Measurement Method** - Grays Harbor Transit has used the alternative measurement method permitted under GASB Statement No. 45 for employers with fewer than one hundred plan members to determine the Actuarial Accrued Liability (AAL). A single retirement age of 62.20 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the Public Employer Retirement System plan 2 rates used in the June 30, 2007 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Mercer and used by OSA in the state-wide PEBB study performed in 2008. The results were based on group data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.
- D. **OPEB Measurements and NOO Calculation**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual OPEB Cost			
Annual Required Contribution	\$ 291,446	\$ 402,504	\$ 365,384
Net OPEB Obligation Interest	50,776	41,362	26,481
Net OPEB Obligation Amortized	(73,409)	(56,428)	(36,126)
Annual OPEB Cost	\$ 268,813	\$ 387,438	\$ 355,739
	-		
Net OPEB Obligation (NOO)			
Starting NOO	\$ 1,269,390	\$ 919,142	\$ 588,456
Annual OPEB Cost	268,813	\$ 387,438	355,738
Contributions	(38,672)	\$ (37,190)	(25,052)
Net OPEB Obligation (NOO)	\$ 1,499,531	\$ 1,269,390	\$ 919,142

Funded Status and Funding Progress: The disclosures for the funded status and funding progress are presented immediately after the Notes to the Financial Statements in the required supplementary information section.

NOTE 7 - RISK MANAGEMENT

Grays Harbor Transit (GHT) is a member of the Washington State Transit Insurance Pool (WSTIP). WSTIP is a 25 member self insurance program located in Olympia, Washington. WSTIP supplies Grays Harbor Transit (GHT) auto liability, general liability, public official's liability coverage, auto physical damage coverage, 1st property coverage, boiler and machinery coverage and employee fidelity coverage. At the end of 2013 Grays Harbor Transit (GHT) retained a \$2,500 deductible for its auto physical damage coverage and a \$2,500 deductible for its 1st party property coverage through WSTIP. Grays Harbor Transit (GHT) has a \$5,000 deductible for public official's liability coverage and maintains first dollar coverage for its auto and general liability risks covered by WSTIP.

The Washington State Transit Insurance Pool (WSTIP) was formed by Interlocal Agreement on January 1, 1989, pursuant to Chapters 48.61 and 39.34 RCW. The purpose for forming WSTIP was to provide member Transit Systems programs of joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12 months notice. Any member who withdraws will not be allowed to rejoin the Pool for a period of 36 months. Transit authorities applying for membership in the Pool may do so on approval of a simple majority vote of the Board of the Pool. The Pool underwriting and rate-setting policies have been established after consultation with actuaries. The Pool members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited yearly by the Washington State Auditor.

Grays Harbor Transit (GHT) has not presented any claims to WSTIP in the last three years that exceeded its current coverage limits through WSTIP.

NOTE 8 – NEW PRONCEMENTS

In 2013, Grays Harbor Transit implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement identifies net position as the residual of all other elements presented in a statement of financial position, and renames that measure as net position, rather than net position. This statement also provides financial reporting guidance for deferred outflows and inflows of resources. These elements are defined as consumption or acquisition of net position that is applicable to a future reporting period.

NOTE 9 - CONTINGENCIES AND LITIGATION

The Grays Harbor Transit has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the Grays Harbor Transit will have to make payment. In the opinion of management, the Grays Harbor Transit's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

Required Supplementary Information

Other Postemployment Benefits Plan (OPEB) Schedule of Funding Progress

Actuarial Validation Date	Actuary Value Assets	Actuary Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/2011	\$ -	\$ 3,611,297	\$ 3,611,297	0%	\$ 3,506,328	97%
12/31/2012	-	3,937,092	3,937,092	0%	3,620,507	92%
12/31/2013	-	3,058,728	3,058,728	0%	3,462,668	113%

Schedule of Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2011	\$ 355,738	\$ 25,052	7%	\$ 919,142
12/31/2012	387,438	37,191	10%	1,269,390
12/31/2013	268,813	38,672	14%	1,499,531

GRAYS HARBOR TRANSPORTATION AUTHORITY

1 Federal Agency Name/ Pass-Through Agency Name (Grant Acty/Description)	2 Federal Program Name	3 CFDA Number	4 Other Identification Number	5 Expenditures		6 Foot- Note Ref.
				From Pass- Through Awards	From Direct Awards	
USDOT - Federal Transit Admin / pass-through from WA State DOT	Federal/ State					
FTA 5311 - Operating Assistance	Consolidated Grant Agreement	20.509	GCA 1608	\$ 325,000	\$ 325,000	1,2
FTA 5311 - Operating Assistance	Formula Grants for Rural Areas	20.509	GCA-6821	225,492	225,492	1,2
			Subtotal 20.509	550,492	\$0 \$550,492	
			TOTAL FEDERAL AWARDS EXPENDED	\$550,492	\$0 \$550,492	1,2

The following notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule:

Note 1 - Basis of Accounting

Notes to Financial Statements

Note 2 - Program Costs and Income

Amounts shown above represent only the federal portion of the program costs. Total program costs are funded by a combination of local, state and federal funding according to the match requirements of each grant.

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.

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