



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

Grays Harbor Transportation Authority

Grays Harbor County

For the period January 1, 2015 through December 31, 2015

Published December 1, 2016

Report No. 1018005





Washington State Auditor's Office

December 1, 2016

Board of Directors
Grays Harbor Transportation Authority
Hoquiam, Washington

Report on Financial Statements

Please find attached our report on the Grays Harbor Transportation Authority's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Grays Harbor Transportation Authority Grays Harbor County January 1, 2015 through December 31, 2015

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

Audit Period: January 1, 2014 through December 31, 2014	Report Ref. No.: 1015220	Finding Ref. No.: 2014-001	CFDA Number(s): 20.509
Federal Program Name and Granting Agency: Formula Grants for Rural Areas; Federal Transit Administration		Pass-Through Agency Name: Washington State Department of Transportation	
Finding Caption: The Authority does not have adequate internal controls to ensure compliance with grant requirements.			
Background: The Authority did not have a process in place to ensure only allowable costs were charged to the program and that reimbursement requests were accurately compiled. Our audit identified the following unallowable costs were charged to the grant and reported as eligible expenses on the reimbursement reports: <ul style="list-style-type: none"> Insurance costs of \$201,652 that were not attributable to the grant period. Capital outlay expenses of \$288,948 were charged to the operating grant. \$194,240 of Emergency Medical Services (EMS) training costs. <p>Our audit found the Authority did not check the status of five out of the six vendors that we tested who were paid in excess of \$25,000 in federal funds. For one contracts involving the purchase two mini-buses, the Authority checked the suspension and debarment status of the bus manufacturer, but did not verify the status of the bus dealership from whom they purchased the buses.</p>			
Status of Corrective Action: <div style="display: flex; justify-content: space-between;"> <div> <input checked="" type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>			
Corrective Action Taken: <i>The parties involved in the Grant billing immediately contacted WSDOT and set up a meeting with some of their staff. They came to our office, went over all our revenues and expenses and then helped us build a spreadsheet to separate ineligible expenses from eligible. We use the</i>			

spreadsheet for every grant billing quarter. We attended training on our grants management and will continue training in the future.

On vendor eligibility, our procurement officer is now responsible for checking the status of suspension and debarment on all current vendors every six months and after an initial check for every new vendor.

**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 Transportation Authority
Grays Harbor County
January 1, 2015 through December 31, 2015**

Board of Directors
Grays Harbor Transportation Authority
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 Transportation Authority, Grays Harbor County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements, and have issued our report thereon dated November 15, 2016. As discussed in Note 5 to the financial statements, during the year ended December 31, 2015, the Transit Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Transit 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 Transit Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Transit 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 Transit 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.

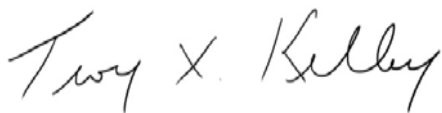
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Transit Authority's financial statements are free from material misstatement, we performed tests of the Transit 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 Transit 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 Transit 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

OLYMPIA, WA

November 15, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Grays Harbor Transportation Authority Grays Harbor County January 1, 2015 through December 31, 2015

Board of Directors
Grays Harbor Transportation Authority
Hoquiam, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Grays Harbor Transportation Authority, Grays Harbor County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Transit 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 Transit 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 Transportation Authority, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 5 to the financial statements, in 2015, the Transit Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

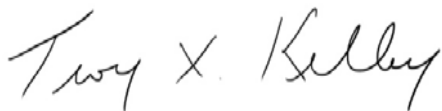
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 17, information on postemployment benefits other than pensions on page 36 and pension plan information on pages 37 through 38 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016 on our consideration of the Transit 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 Transit Authority's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

November 15, 2016

FINANCIAL SECTION

**Grays Harbor Transportation Authority
Grays Harbor County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Other Postemployment Benefits Plan (OPEB) – Schedule of Funding Progress – Schedule of Employer Contributions – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 – 2015

Schedule of Employer Contributions – PERS 1 and PERS 2/3 and Notes – 2015

GRAYS HARBOR TRANSPORTATION AUTHORITY
D.B.A. GRAYS HARBOR TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Grays Harbor Transit's Annual Financial Report represents management's overview and analysis of Grays Harbor Transit's financial performance for the year ended December 31, 2015. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

Introduction

Grays Harbor Transit is a public transportation benefit area corporation providing public transportation services to the Grays Harbor community. Services include:

- Local and intercounty bus services
- Paratransit services for the elderly and disabled
- A vanpool program

Financial Highlights for 2015

- As of December 31, 2015 Grays Harbor Transit's assets exceeded its liabilities by \$6,657,127.
- The Transit's net position decreased \$2,319,340 from 2014.
- Capital grants amounted to \$125,408.
- The Transit's major source of funding is from local sales taxes which increased \$429,553 from 2014.

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 financials 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 private sector businesses.

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 assets may serve as a useful indicator in determining whether the Authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Transit's net position changed during the fiscal year. All changes to net position are reported as soon as the event occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows present information on cash receipts, cash payments and net changes in cash and cash equivalents from the prior year.

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.

Statement of Financial Position

Summary Statement of Net Position

			Net increase (decrease) 2015 vs. 2014
	2015	2014	2014
Assets			
Current Assets	\$ 6,845,401	\$ 5,272,057	\$ 1,573,344
Capital Assets (net)	5,620,338	5,905,094	(284,756)
Total Assets	\$ 12,465,739	\$ 11,177,151	\$ 1,288,588
Deferred outflows of resources - pension	\$ 334,817	\$ -	\$ 334,817
Liabilities			
Current Liabilities	\$ 685,817	\$ 470,444	\$ 215,373
Noncurrent Liabilities	5,122,795	1,819,536	3,303,259
Total Liabilities	5,808,612	2,289,980	3,518,632
Deferred inflows of resources - pension	\$ 424,112	-	\$ 424,112
Net Position			
Net Invested in Cap. Assets	\$ 5,620,338	5,905,094	\$ (284,756)
Unrestricted	947,494	2,982,077	(2,034,583)
Total Net Position	\$ 6,567,832	\$ 8,887,171	\$ (2,319,340)

For the year ended December 31, 2015, assets exceed liabilities by \$6.7 million.

Forty five percent of the Transit's net assets is its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). This decrease from 2014's 53% is due to the aging of the capital assets. The Transit uses these assets to provide transportation to the community.

The Transit's net position decreased \$2,319,340 during 2015 due to the one time reduction of \$3,160,113 to implement for GASB pronouncements 68 and 71.

Statement of Revenues, Expenses and Changes in Net Position

The following summary Statement of Revenues, Expenses and Changes in Net Position summarizes how this change in net assets occurred.

Summary Statement of Revenues, Expenses and Changes in Net Position

	2015	2014	Increases (Decreases)	
			Change	
Operating Revenues:				
Transit Fares	\$ 720,900	\$ 717,433	\$ 3,467	0.48%
Advertising	18,850	18,034	816	4.52%
Nonoperating Revenues:				
Subsidies	8,088,044	7,777,592	310,452	3.99%
Other Revenues	39,411	34,676	4,735	13.65%
Total Revenues	8,867,205	8,547,735	319,470	3.74%
Expenses:				
Operating and Maintenance	6,339,728	6,274,757	64,971	1.04%
General Administration	968,532	917,216	51,316	5.59%
Depreciation	691,554	659,725	31,829	4.82%
Nonoperating Expenses	152,025	194,240	(42,215)	-21.73%
Total Expenses	8,151,839	8,045,938	105,901	1.32%
Net Income (Loss) before Contributions	715,366	501,797	213,569	42.56%
Capital contributions	125,408	184,063	(58,655)	-31.87%
Total Change in Net Position	840,774	685,860	154,914	22.59%
Total net position - beginning of period	8,887,171	8,201,311	685,860	8.36%
Change in Accounting Principle	3,160,113		3,160,113	
Adjusted Beginning Balance	5,727,058	8,201,311	(2,474,253)	
Ending Net Position	\$ 6,567,832	\$ 8,887,171	\$ (2,319,339)	-26.10%

REVENUE BY SOURCE

The Transit's revenues streams are summarized below:

Revenues by Source		Increases (Decreases)	
	2015	2014	Change
Passenger Fares	\$ 720,900	\$ 717,433	\$ 3,467 0.48%
Advertising	18,850	18,034	816 4.52%
Sales Tax	6,840,594	6,411,041	429,553 6.70%
Grants	1,372,858	1,550,614	(177,756) -11.46%
Investment Income	12,764	3,100	9,664 311.74%
Miscellaneous Income	26,647	31,576	(4,929) -15.61%
Total Revenues	\$ 8,992,613 (a)	\$ 8,731,798 (a)	\$ 260,815 2.99%

(a) Includes Capital Contributions

- 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 nearly 1/2% increase in passenger fares from 2014 to 2015 was a result of an increase in summer service May thru September of 2015.
- Advertising revenues increased from 2014 to 2015 by 4.52%, this increase is a result of an increase of advertizing on busses.
- The majority of operating and capital grant revenue is received from Federal Transit Administration (FTA) and State awarded Grants. Grants received in 2015 totaled \$1,372,858.
- Investment income increased by over 300% from 2014 earnings. This increase was primarily due to an increase in investments, and a slow climb in interest rates.
- Miscellaneous Income decreased in 2015 by over 15%.

EXPENSES BY DEPARTMENT

Department expenses are summarized below:

Operating Expenses by Department

	<u>2015</u>	<u>2014</u>	<u>Difference</u>	
Operations	\$ 4,283,735	\$ 4,006,148	\$ 277,587	7%
Maintenance	2,057,713	2,268,609	(210,896)	-9%
Administration/Depreciation	1,660,086	1,576,941	83,145	5%
Total Expenses	\$ 8,001,534 (a)	\$ 7,851,698 (a)	\$ 149,836	2%

(a) Excludes Ambulance Contribution

Total expenses increased an average of 2% during 2015. This increase in expenses was a result of aging busses that required additional service and repairs to maintain.

EXPENSES BY MODE

Transit expenses by type of service are summarized below:

Operating Expenses by Mode

	<u>2015</u>	<u>2014</u>	<u>Difference</u>	
Fixed Rout Services	\$ 5,200,997	\$ 5,574,706	\$ (373,709)	-7%
Demand Response Services	2,800,537	2,276,992	523,544	23%
Total Expenses	\$ 8,001,534 (a)	\$ 7,851,698 (a)	\$ 149,836	2%

(a) Excludes Ambulance Contribution

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 2015 increased by 5.86% due to the remarkable tourism industry year on the Harbor in 2015
- 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 2013 session the legislature dedicated 9 million dollars for 2014 and 13 million for the remainder of the biennium to be divided among all transits in the State of Washington. The State funds were divided according to the amount of miles and hours operated and passengers transported; being a rural agency this formula will only provide approximately \$58,520 per year to help in operating costs. As a rural transit agency Grays Harbor Transit also receives State direct operating funds. These funds have declined each year over the past few years. In 2015 Grays Harbor Transit received State direct operating for the first and second quarter but those funds ceased at the end of June 2015.
- Taxable retail sales in Grays Harbor County were up 3% from 2014 to 2015. This was due to the area revitalization efforts and the remarkable year in tourism with a 12% increase in County Hotel/Motel Tax revenues.
- 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. Grays Harbor Transit's goal is to purchase two or three busses each year to minimize the matching funds that must be taken from the general fund, which is normally 20% of the purchase.
- Our local economy has seen a very slight improvement but not as much as other areas of the State and other parts of the Country have seen, Unemployment was at 10.8% at the end of 2014 but finally ended the year at 9.4% (December 2015).
- Grays Harbor Transit is going through a three year automation and upgrading period. These actions will affect: the dispatching, operator work scheduling, customer accessibility software, equipment upgrade at the shop, transit stations and staff work realignment. The combination of all of the above activities will help the agency become more budget conscious, provide more service with the same level of finances and streamline the job responsibilities.

- The reinstatement of Saturday service proved to be much needed. GHTA provides an average of 800 rides per Saturday. Also the summer time Sunday service provides an average 400 rides per day.
- Grays Harbor Transit has plans to increase/restart the linkage to the neighboring counties, providing more transportation options to the area residents when and if the finances allow us to do so. The newest addition to the system will be the service to Raymond via Tokeland which is slated for early 2016. GHTA will be the only public transit service provider to Tokeland.

Grays Harbor Transportation Authority
D.B.A. Grays Harbor Transit
Statement of Net Position
As of December 31, 2015

ASSETS

2015

Current Assets:

Cash and Cash Equivalents	\$ 4,885,540
Inventory	381,434
Taxes Receivable	1,073,085
Accounts Receivable	46,052
Pre-Paid Expense	92,267
Due from other Governments	367,023
Total Current Assets	6,845,401

Noncurrent Assets:

Capital Assets Not Being Depreciated	
Land	1,401,539
Capital Assets Being Depreciated	
Plant in Service	1,361,144
Improvements other than Buildings	4,644,414
Rolling Stock	7,622,446
Equipment	215,878
Intangible Assets - Computer Software	110,742
Less: Accumulated Depreciation	(9,735,825)
Total Noncurrent Assets	5,620,338

TOTAL ASSETS

\$ 12,465,739

Deferred outflows of resources - Pension	334,817
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 75,730
Salaries, Taxes and Benefits Payable	211,482
Copier Lease Payable, Current Portion	2,361
Compensated Absences, Current Portion	396,244
Total Current Liabilities	685,817

Noncurrent Liabilities:

Copier Lease Payable	8,932
Compensated Absences	195,784
Net OPEB Obligation	2,069,557
Net Pension Liability	2,848,522
Total Noncurrent Liabilities	5,122,795

TOTAL LIABILITIES

\$ 5,808,612

Deferred inflows of resources - Pension	424,112
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NET POSITION

Net Investment in Capital Assets	5,620,338
Unrestricted	947,494
TOTAL NET POSITION	\$ 6,567,832

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

Grays Harbor Transportation Authority

D.B.A. Grays Harbor Transit

Statement of Revenues, Expenses and Changes in Net Position For the Year ended December 31, 2015

	<u>2015</u>
OPERATING REVENUES:	
Transit fares	\$ 720,900
Advertising transit	18,850
Total operating revenues	<u>739,750</u>
 OPERATING EXPENSES:	
Operations	4,282,015
Maintenance	2,057,713
General Administration	968,532
Depreciation	691,554
Total operating expenses	<u>7,999,814</u>
Operating income (loss)	<u>(7,260,064)</u>
 NON-OPERATING REVENUES (EXPENSES):	
Sales tax	6,840,594
Interest income	12,764
Miscellaneous revenue	21,647
Ambulance contributions	(152,025)
Gain (loss) on disposal of assets	5,000
Grants (state and federal)	1,247,450
Total nonoperating revenues (expenses)	<u>7,975,430</u>
 Income (loss) before capital contributions	715,366
Capital contributions	125,408
Increase (decrease) in net position	<u>840,774</u>
Total net position - beginning of period	8,887,171
Cumulative Effect of a Change	
Accounting Principle	3,160,113
Adjusted Beginning Balance	5,727,058
Total net position-end of period	<u>\$ 6,567,832</u>

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

Grays Harbor Transportation Authority
D.B.A. Grays Harbor Transit
Statement of Cash Flows
For the Year ended December 31, 2015

2015

CASH FLOWS from OPERATING ACTIVITIES:

Receipts from customers	\$ 715,880
Receipts from advertising	18,850
Payments to suppliers	(1,481,701)
Payments to employees	(5,341,483)
Net cash used by operating activities	<u>(6,088,454)</u>

CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES:

Sales tax	6,875,308
Operating grants	1,429,423
Miscellaneous receipts	21,289
Ambulance contributions	(152,025)
Net cash provided by non-capital financing activities	<u>8,173,995</u>

CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES:

Capital federal grant/state grants	69,408
Sale of capital assets	5,000
Payment of Lease Payable	(1,553)
Acquisition of Capital Assets	(395,147)
Net cash used by capital and related financing activities	<u>(322,292)</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest	12,764
Net cash provided by investing activities	<u>12,764</u>

Net increase (decrease) in cash and cash equivalents	1,776,013
Balance - beginning of the Year	3,109,527
Balance - end of the year	<u>\$ 4,885,540</u>

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

Operating Income (Loss)	\$ (7,260,064)
Adjustments to reconcile operating income to net	
Depreciation	691,554
Change in assets and liabilities	
Inventory	49,495
Receivables	(5,020)
Pre-paids	(2,493)
Vouchers payable	42,451
Salaries, taxes and benefits payable	107,967
Compensated absences	174,357
Increase (Decrease) in Net OPEB Contribution Payable	335,595
Change in Deferrals	89,295
PPA - Change I Accounting Principle	(3,160,113)
Increase (Decrease) in Net Pension Payable	2,848,522
Net cash used by operating activities	<u>\$ (6,088,454)</u>

Schedule of Noncash Investing, Capital, and Financing Activities

Capital Grants and Contributions contain no noncash capital contributions .
The leased equipment was a noncash transaction.

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

GRAYS HARBOR TRANSPORTATION AUTHORITY
D.B.A. GRAYS HARBOR TRANSIT
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Grays Harbor Transportation Authority was incorporated in June 1974 and operates under the laws of the state of Washington applicable to a transportation authority entity. The financial statements of the transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

During the year ending December 31, 2015, two new accounting standards (Statement No. 68 and 71 related to accounting and financial reporting for pensions) issued by the GASB became effective and were implemented by the Transit. These requirements revise existing requirements and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The statements have had a material impact on the Transit's financial statements.

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

A. Reporting Entity

The Transit is a special purpose government and provides public transportation service to the general public and is supported primarily through grants, 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 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.

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position. Their reported fund net position is segregated into net investment in capital assets, restricted and unrestricted net position.

Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. 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.

The 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 ones. Operating revenues and expenses 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.

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, 2015 the Transit had \$4,885,540 with the Grays Harbor Treasurer and demand deposits. 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. Short-Term Investments - See Note 2, Deposits and Investments.

3. Receivables

Taxes receivable consists of amounts from sales tax.

Customer accounts receivable consist of amounts owed from private individuals or organizations for 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 specific identity, where appropriate and first in first out for all other items. A physical inventory is performed at year end with appropriate adjustments made to the amount recorded. The inventory amount at December 31, 2015, was \$381,434.

5. Capital Assets and Depreciation - See Note 3, Capital Assets

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.

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 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	4-9	120
10-14	160	10-14	144
15+	216	15-19	192
20	240	20-24	240
		25	280

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.

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, 2015, the Grays Harbor Transit's investments of \$4,056,343 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

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 known 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 credited 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

Accumulated depreciation on assets at December 31, 2015 is as follows:

Land	\$	-
Plant in Service		(3,265,041)
Equipment (Rolling Stock)		(6,281,141)
Equipment		(163,787)
Computer Software		(25,856)
Total	\$	<u>(9,735,825)</u>

The following is a summary of changes in capital assets during the year ended December 31, 2015:

	<u>12/31/2014</u>			<u>12/31/2015</u>
	Beginning	Additions	Retirements	Ending
	Balance			Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 1,274,185	\$ 127,354	\$ -	\$ 1,401,539
Subtotal	1,274,185	127,354	-	1,401,539
Capital Assets, Being Depreciated:				
Facilities	5,984,228	62,522	41,192	6,005,558
Equipment, Rolling Stock	8,739,049	89,068	1,205,671	7,622,446
Equipment, Other	317,872	55,490	157,484	215,878
Computer Software	38,378	72,364	-	110,742
Subtotal	15,079,527	279,444	1,404,347	13,954,624
Less Accumulated Depreciation for:				
Facilities	(3,097,571)	(208,662)	(41,192)	(3,265,041)
Equipment, Rolling Stock	(7,030,023)	(456,789)	(1,205,671)	(6,281,141)
Equipment, Other	(310,462)	(10,809)	(157,484)	(163,787)
Computer Software	(10,562)	(15,294)	-	(25,856)
Subtotal	<u>(10,448,618)</u>	<u>(691,554)</u>	<u>(1,404,347)</u>	<u>(9,735,825)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 5,905,094</u>	<u>\$ (284,756)</u>	<u>\$ -</u>	<u>\$ 5,620,338</u>

NOTE 4 - LONG-TERM DEBT AND LEASES

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

	<u>12/31/2014</u>			<u>12/31/2015</u>	<u>Due</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>	<u>Within</u>
	<u>Balance</u>			<u>Balance</u>	<u>One Yr</u>
Lease Payable	\$ 1,553	\$ 11,651	\$ 1,943	\$ 11,261	\$ 2,361
Net Pension Liability		2,848,522		2,848,522	
OPEB/Medical	1,733,962	381,914	46,319	2,069,557	
Compensated Absences	417,671	174,358	-	592,029	396,244
Total	\$ 2,153,186	\$ 3,416,445	\$ 48,262	\$ 5,521,369	\$ 398,605

The Transit has entered into a lease agreement for financing a copier. 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-4141N Digital Copier	\$ 11,651
Less accumulated Depreciation	389
Total	\$ 11,261

The future minimum lease obligation and the net present value of the minimum lease payments as of December 31, 2015 were as follows:

Year Ending December 31	
2016	2,330
2017	2,330
2018	2,330
2019	2,330
2020	1,941
Total Minimum Lease Payments	\$ 11,261
Less Interest	-
Present Value of Minimum Lease Payments	\$ 11,261

NOTE 5 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$2,848,522
Pension assets	\$ -
Deferred outflows of resources	\$ 334,817
Deferred inflows of resources	\$ 424,112
Pension expense	\$ 129,117

State Sponsored Pension Plans

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

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

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

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

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, No. 27, No.68 (an amendment of GASB No. 27), and No.71 (an amendment of GASB No. 68).

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

PERS was established in 1947, and its retirement benefits provisions are contained in chapter 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement systems composed of three separate pensions plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement

programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The Transit's actual contributions to the plan were \$159,580 for the year ended December 31, 2015.

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

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

PERS Plan 2/3 members hired on or after May 1, 2014 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The Transit's actual contributions to the plan were \$185,646 for the year ended December 31, 2015.

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of NPL

The table below presents the Transit's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Transit's proportionate share of the net pension

liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,929,198	\$1,584,533	\$1,288,191
PERS 2/3	\$3,695,911	\$1,263,969	\$(598,078)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the Transit reported a total pension liability of \$2,848,522 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$1,584,553
PERS 2/3	1,263,969
TOTAL	\$2,848,522

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	.032473%	.030292%	.002181%
PERS 2/3	.035253%	.035375%	.000013%

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

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

Pension Expense

For the year ended December 31, 2015, the Transit recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (28,748)
PERS 2/3	157,865
TOTAL	\$ 129,117

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	86,692
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	88,996	-
TOTAL	\$88,996	\$86,692
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$134,360	\$ -
Net difference between projected and actual investment earnings on pension plan investments		337,420
Changes of assumptions	2,037	-
Changes in proportion and differences between contributions and proportionate share of contributions	3,926	
Contributions subsequent to the measurement date	105,499	
TOTAL	\$ 245,821	\$337,420

Deferred outflows of resources related to pensions resulting from the transit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Plan 1
2016	\$ 88,996
2017	\$ -
2018	\$ -
2019	\$ -
2020	\$ -
Thereafter	\$ -

Year ended December 31:	Plan 2/3
2016	\$ 1,155
2017	\$ 1,155
2018	\$ 1,155
2019	\$ 462

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

NOTE 6 - RISK MANAGEMENT

The transit 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 the Transit automobile 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 2015, the Transit retained a \$5,000 deductible for its auto physical damage coverage and a \$5,000 deductible for its 1st party property coverage through WSTIP. The Transit 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.

The Transit has not presented any claims to WSTIP in the last three years that exceeded its current coverage limits through WSTIP.

A complete annual report, including financial statements, may be obtained by writing to:

WSTIP
2629 12th Ct SW
Olympia, WA 98502

NOTE 7 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

In 2009, the Grays Harbor Transit implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*, which establishes accounting and reporting standards for benefits that are earned during a employee's active service but will not be paid until after the employee retires.

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, 2009.

C. OPEB Measurement Method – The 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, 2014 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide PEBB study performed in 2014. 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

	2015	2014	2013
Annual OPEB Cost			
Annual Required Contribution	\$ 412,830	\$ 299,033	\$ 291,446
Net OPEB Obligation Interest	69,358	59,981	50,776
Net OPEB Obligation Amortized	(100,275)	(86,718)	(73,409)
Annual OPEB Cost	381,914	272,296	268,813
			-
Net OPEB Obligation (NOO)			
Starting NOO	1,733,962	1,499,531	1,269,390
Annual OPEB Cost	381,914	272,296	268,813
Contributions	(46,319)	(37,865)	(38,672)
Net OPEB Obligation (NOO)	\$ 2,069,557	\$ 1,733,962	\$ 1,499,531
Increase in Net OPEB	335,595	234,431	230,141
Employer percentage Contributions	12%	14%	14%

NOTE 8 – ACCOUNTING AND REPORTING CHANGES

In accordance with GASB Statement No. 68, *Accounting and Reporting for Pensions*, The Transit has recorded its proportionate share of the net position liability along with the deferred inflows and outflows related to the pension plan administered by the Washington State Department of Retirement Systems. This Statement is a change in accounting method and establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as detailed in Note 5 – Pension Plans. The implementation of GASB Statement No. 68 resulted in a Prior Period Adjustment of the Statement of Revenue, Expenses and Changes in Fund Net Position. For details of the Cumulative Affect of the change in accounting principle please see Note 9.

NOTE 9 – CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE

As a result of implementing GASB Statement No 68, which requires recognition of the Transit's share of the underfunded pension liability, the Transit reported a Cumulative Change in Accounting Principle reduced the beginning Net Position for the year ended December 31, 2015. The adjustment represents pension costs for the prior periods of \$3,160,113.

NOTE 10 - 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.

GHT has no substantial subsequent events to report.

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
12/31/12	-	3,937,092	3,937,092	-	3,620,507	92%
12/31/13	-	3,058,728	3,058,728	-	3,462,668	113%
12/31/14	-	3,139,996	3,139,996	-	3,460,133	110%
12/31/15	-	4,085,192	4,085,192	-	3,743,685	92%

Schedule of Employer Contributions

	Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2012	-	387,438	37,190	10%	919,142
12/31/2013	-	268,813	38,672	14%	1,269,390
12/31/2014	-	272,296	37,865	14%	1,499,531
12/31/2015	-	381,913	46,319	12%	2,069,557

Schedules of Required Supplementary Information
SCHEDULE OF THE GRAYS HARBOR TRANSIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS Pension Plans
Last 10 Fiscal Years*

<u>PERS # 1</u>		<u>2015</u>	<u>2014</u>	<u>2013</u>
Transit's proportion of the net pension liability (asset)		0.0303%	0.0325%	0.0390%
Transit's proportionate share of the net pension liability (asset)		1,584,553	1,635,843	2,279,804
Transit's covered-employee payroll		150,568	3,457,131	3,204,053
Transit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		1052.38%	47.32%	71.15%
Plan fiduciary net position as a percentage of the total pension liability		59.10%	61.19%	57%
<u>PERS # 2/3</u>		<u>2015</u>	<u>2014</u>	<u>2013</u>
Transit's proportion of the net pension liability (asset)		0.035375%	0.035253%	0.0397%
Transit's proportionate share of the net pension liability (asset)		1,263,969	712,590	1,694,513
Transit's covered-employee payroll		3,286,931	2,582,024	2,952,003
Transit's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		38.45%	27.60%	57.40%
Plan fiduciary net position as a percentage of the total pension liability		89.20%	93.29%	84.60%

* The amounts presented for each fiscal year were determined as of the June year-end that occurred within the fiscal year.

SCHEDULE OF THE TRANSIT CONTRIBUTIONS

Pension Plans

Last 10 Fiscal Years*

	<u>PERS # 1</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	64,476	60,314	33,251
Contributions in relation to the contractually required contribution	<u>(64,476)</u>	<u>(60,314)</u>	<u>(33,251)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Transit's covered-employee payroll	150,568	3,457,131	3,204,053
Contributions as a percentage of covered-employee payroll	42.82%	1.74%	1.04%
	<u>PERS # 2/3</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	78,099	72,233	62,977
Contributions in relation to the contractually required contribution	<u>(78,099)</u>	<u>(72,233)</u>	<u>(62,977)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Transit's covered-employee payroll	3,286,931	2,582,024	2,952,003
Contributions as a percentage of covered-employee payroll	2.38%	2.80%	2.13%

Notes to Required Supplementary Information for the Year Ended September 30, 2015

Changes of benefit terms: There were no changes in the benefit terms for the Pension Plans.

Changes of assumptions: Amounts reported in 2015 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. Amounts reported in 2015 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 2007 and later, the expectation of retired life mortality was based on the Office of the State Actuary (OSA) 2007-2012 Experience Study Report.

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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