

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

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

Audit Period  
January 1, 2011 through December 31, 2011

Report No. 1008381

Issue Date  
**September 20, 2012**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

September 20, 2012

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,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Grays Harbor County  
January 1, 2011 through December 31, 2011**

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# Federal Summary

## Grays Harbor Transit Grays Harbor County January 1, 2011 through December 31, 2011

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 unqualified 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 unqualified 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 did not qualify as a low-risk auditee under OMB Circular A-133.

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Grays Harbor Transit  
Grays Harbor County  
January 1, 2011 through December 31, 2011**

Board of Directors  
Grays Harbor Transit  
Hoquiam, Washington

We have audited the basic financial statements of the Grays Harbor Transit, Grays Harbor County, Washington, as of and for the year ended December 31, 2011, and have issued our report thereon dated September 17, 2012.

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.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the Authority in a separate letter dated September 17, 2012.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

This report is intended for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 17, 2012

# Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Grays Harbor Transit  
Grays Harbor County  
January 1, 2011 through December 31, 2011**

Board of Directors  
Grays Harbor Transit  
Hoquiam, Washington

## **COMPLIANCE**

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 its major federal program for the year ended December 31, 2011. The Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.



## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 17, 2012

# Independent Auditor's Report on Financial Statements

## **Grays Harbor Transit Grays Harbor County January 1, 2011 through December 31, 2011**

Board of Directors  
Grays Harbor Transit  
Hoquiam, Washington

We have audited the accompanying basic financial statements of the Grays Harbor Transit, Grays Harbor County, Washington, as of and for the year ended December 31, 2011, as listed on page 9. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 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 the 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.

Our audit was performed 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

September 17, 2012

# Financial Section

**Grays Harbor Transit  
Grays Harbor County  
January 1, 2011 through December 31, 2011**

***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2011

***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2011  
Statement of Revenues, Expenses and Changes in Net Assets – 2011  
Statement of Cash Flows – 2011  
Notes to Financial Statements – 2011

***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards – 2011  
Notes to the Schedule of Expenditures of Federal Awards – 2011

## 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, 2011. 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, 2011 by \$9,336,476. Of this amount, \$3,421,092 may be used to meet ongoing obligations to provide services to the public and meet future obligations of creditors.

The Transit's net assets decreased \$236,537 from 2010.

### 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 companies in the private sector. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Transit's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenditures and Changes in Net Assets presents information showing how the Transit's net assets changed during the current and prior fiscal periods. All changes to net assets 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.

## Financial Statement Analysis

### Summary Statement for Net Assets

				Net increase (decrease) 2011 vs. 2010
	2011	2010	2009	2010
<b>ASSETS:</b>				
Current Assets	\$ 5,054,319	\$ 4,461,899	\$ 4,521,018	\$ 592,420
Capital Assets (net)	6,042,780	6,483,255	6,793,436	(440,475)
Total Assets	<u>\$ 11,097,099</u>	<u>\$ 10,945,154</u>	<u>\$ 11,314,454</u>	<u>\$ 151,945</u>
<b>LIABILITIES:</b>				
Current Liabilities	\$ 480,280	\$ 429,634	\$ 701,598	\$ 50,646
Noncurrent Liabilities	1,280,343	955,819	666,768	324,524
Total Liabilities	<u>1,760,623</u>	<u>1,385,453</u>	<u>1,368,366</u>	<u>375,170</u>
<b>NET ASSETS:</b>				
Invested in capital assets	5,915,384	6,483,255	6,793,436	\$ (567,871)
Net Assets	3,421,092	3,076,446	3,152,652	344,646
Total Net Assets	<u>\$ 9,336,476</u>	<u>\$ 9,559,701</u>	<u>\$ 9,946,088</u>	<u>\$ (223,225)</u>

For the year ended December 31, 2011, assets exceed liabilities by \$9.3 million.

A majority of the Transit's net assets (64%) reflect its investments in capital assets (e.g. revenue vehicles, passenger facilities and shop equipment). The Transit uses these assets to provide transportation to the community. Therefore, these are committed assets and this portion of the net assets balance is not available for future spending. A portion (\$1.6 million) of the remaining net asset balance of \$3.3 million has been restricted or designated by board action for workers' compensation and liability self-insurance programs. The remaining of 1.7 million is available to support future obligations for transportation operations.

The Transit's net assets decreased \$236,537 during 2011. The following summary Statement of Revenues, Expenses and Changes in Net Assets summarizes how this change in net assets occurred.

### Summary Statement of Revenues, Expenses and Changes in Net Assets

				Increases (Decreases)	
	2011	2010	2009	Change	
Operating Revenue	\$ 771,995	\$ 740,124	\$ 587,338	\$ 31,871	4%
Operating Expenses	8,008,096	7,625,188	8,431,245	382,908	5%
Operating Loss	(7,236,101)	(6,885,064)	(7,843,907)	(351,037)	5%
Subsidies	5,754,274	5,220,830	5,110,116	533,444	10%
Other Nonoperating Rev (net)	1,245,290	1,277,846	2,886,038	(32,556)	-3%
Net Income	(236,537)	(386,388)	152,247	149,851	
Change in Net Assets	\$ (236,537)	\$ (386,388)	\$ 152,247	\$ 149,851	

### REVENUE BY SOURCE

The Transit's revenues streams are summarized below:

#### Revenues by Source

				Increases (Decreases)	
	2011	2010	2009	Change	
Passenger Fares	\$ 754,684	\$ 732,601	\$ 577,247	\$ 22,083	3%
Advertising	17,311	7,523	10,091	9,788	130%
Sales Tax	5,754,274	5,220,830	5,110,116	533,444	10%
Grants	1,367,141	1,472,691	3,033,131	(105,550)	-7%
Investment Income	6,963	11,690	30,218	(4,727)	-40%
Miscellaneous Income	62,054	12,976	9,607	49,078	378%
Total Revenues	\$ 7,962,427	\$ 7,458,311	\$ 8,770,410	\$ 504,116	7%

- 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 3% increase in passenger fares from 2010 to 2011 was a result of an increase of 3% in ridership for fixed route and SVS service and a 27% increase in vanpool ridership
- Advertising revenues increased from 2010 to 2011 by 130% due to local companies advertisements on the busses
- The majority of operating and capital grant revenue is received from the Federal Transit Administration (FTA). Grants received in 2011 totaled \$515,736.
- Investment income decreased again, this time by 40% from 2010 earnings. This decrease was primarily due to a decrease of investable funds and the continued reduction in interest rates.
- Miscellaneous Income increased in 2011 by 378% this increase was due to a 30 foot Gillig coach being totaled in late 2010 and recovery of funds from the insurance company not being received until mid 2011 in the amount of \$46,700.00

## EXPENSES BY DEPARTMENT

Department expenses are summarized below:

### Expenses by Department

	2011	2010	2009	Difference	
Operations	\$ 4,354,377	\$ 4,412,454	\$ 5,000,238	\$ (58,077)	-1%
Maintenance	2,204,792	1,820,228	2,033,976	384,564	21%
Administration	742,969	678,951	705,596	64,018	9%
Total Expenses	\$ 7,302,138	\$ 6,911,633	\$ 7,739,810	\$ 390,505	6%

Total expenses increased an average of 6% during 2011. This increase is due to the increase in costs for parts for the busses and the increase on maintenance to keep our aging bus fleet operating in a safe manner. An increase in fuel cost of 30% in 2011 was a major factor in the increase of maintenance costs.

## EXPENSES BY MODE

Transit expenses type of service are summarized below:

### Expenses by Mode

	2011	2010	2009	Difference	
Fixed Route Services	\$ 4,162,219	\$ 3,939,631	\$ 4,798,683	\$ 222,588	6%
Demand Response Services	3,139,919	2,972,002	2,941,128	167,917	6%
Total Expenses	\$ 7,302,138	\$ 6,911,633	\$ 7,739,811	\$ 390,505	6%

- Fixed Route
- Regularly scheduled busses operating on established routes decreased 6%: Grays Harbor Transit personnel received no increase in wages or benefits in 2011, this coupled with the reduction in service from late 2009 resulted in a slight decrease in fixed route service expenses.
- 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. Labor cost for this service had an increase of 6%: after the reduction in service due to demand response eligible patrons moving back to demand response when the fixed route service reduction was implemented.
- The 21% increase in maintenance cost is a result of increased parts cost, fuel, and the amount of labor time needed to keep an aging fleet operable. A supervisor was moved from operations to maintenance to fill a position that had been vacant since 2009.



## EXPENSES BY OBJECT

Transit expenses by object of expenditure are summarized below:

### Expenses by Object

	2011	2010	2009	Difference	
Wages and Benefits	\$ 5,458,865	\$ 5,357,850	\$ 6,005,963	\$ 101,015	2%
Supplies	1,367,307	1,069,468	1,159,883	297,839	28%
Other Charges and Services	475,966	484,315	573,965	(8,349)	-2%
Capital Outlay	269,084	413,973	2,070,668	(144,889)	-35%
Ambulance	199,911	198,653	195,241	1,258	1%
Total Expenses	\$ 7,771,133	\$ 7,524,259	\$ 10,005,720	\$ 246,874	3%

Grays Harbor Transit's investment in capital assets as of December 31, 2011 totaled \$6,042,780. Capital assets include Administration and Maintenance facility in Hoquiam, Equipment and Vehicles and Passenger facilities located throughout Grays Harbor County.

## ECONOMIC FACTORS AND FUTURE OUTLOOK

- County-wide retail sales, which Grays Harbor Transit relies on for its sales tax, are dependent on consumer confidence and their purchasing habits. Sales tax revenue for 2011 increased by 10%. The 520 bridge pontoon construction project started in March 2011, and construction to increase the size of the grain export facility at the Port of Grays Harbor brought hundreds of construction jobs to Grays Harbor in 2011. Construction jobs and the startup of Cosmos Fiber in Cosmopolis were more than likely the result on the increase of sales tax revenue. The 10% increase in sales tax revenue helped decrease the amount of reserves needed to balance the 2011 budget. It is expected since most of the jobs created in 2011 were construction jobs that the increase in sales tax revenue will only be temporary, it is expected that sales tax revenue for 2012 will be flat or possibly see a slight increase.
- 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 2011-2013 biennium. After Washington State Transit Association worked with State Legislators during the 2011 session the legislature dedicated 9 million dollars for 2012 and 13 million for the remained 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.
- 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 2010 Grays Harbor Transit received ARRA funds to replace 3 fixed route coaches and a livability grant from the SGR program to purchase 4 Mini Busses which will enable us to take vehicles with over a million miles out of service.
- The local economy remains slow reports of Grays Harbor Paper mill and the Hoquiam Plywood mill being sold and possibly restarted would help the local economy.

- Fuel prices continue to be a huge factor in Grays Harbor Transits budget, fuel costs increased 30% in 2011 and continue to remain high.
- Grays Harbor Transit started negotiations with Amalgamated Transit Union Local 1765 in November 2011 by the end of the year there was little progress toward a settlement. The 2012 budget did not allow for wage increases for any personnel. Personnel benefit costs are projected to increase by 5% in 2012. The outcome of labor negotiation could have an impact on the 2012 budget. The 2012 budget again show the necessity of removing funds from reserves to balance the budget.

**Grays Harbor Transportation Authority**  
**DBA Grays Harbor Transit**  
**Statement of Net Assets**  
**As of December 31, 2011**

**ASSETS**

**2011**

**CURRENT ASSETS:**

Cash and Cash Equivalents	\$1,345,126
Investments	1,906,343
Inventory	418,412
Taxes Receivable	925,014
Accounts Receivable	42,484
Interest Receivable	-
Pre-Paid Expense	93,619
Due from other Governments	323,321
Total Current Assets	<u>5,054,319</u>

**CAPITAL ASSETS:**

Property, Plant and Equipment	16,708,898
Construction in Progress	-
Less: Accumulated Depreciation	<u>(10,666,118)</u>
Total Net Capital Assets	<u>6,042,780</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,097,099</u></b>

**LIABILITIES AND EQUITY**

**2011**

**CURRENT LIABILITIES:**

Accounts Payable	\$ 256,691
Salaries, Taxes and Benefits Payable	<u>223,589</u>
Total Current Liabilities	480,280

**NONCURRENT LIABILITIES:**

Notes Payable	127,396
Copier Lease Payable	7,687
Compensated Vacation Payable	226,118
Net OPEB Obligation Payable	<u>919,142</u>
Total Noncurrent Liabilities	<u>1,280,343</u>
<b>TOTAL LIABILITIES</b>	<b>1,760,623</b>

**Net Assets**

Net Investment in Capital Assets	5,915,384
Net Assets	<u>3,421,092</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 9,336,476</u></b>

The accompanying notes are an integral part of this statement.

**Grays Harbor Transportation Authority**  
**DBA Grays Harbor Transit**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year ended December 31, 2011**

	<b>2011</b>
<b>OPERATING REVENUES:</b>	
Transit Fares	\$754,684
Advertising Transit	17,311
Total Operating Revenues	<u>771,995</u>
<b>OPERATING EXPENSES:</b>	
Operations	4,354,377
Maintenance	2,204,792
General Administration	742,969
Depreciation	705,958
TOTAL OPERATING EXPENSES	<u>8,008,096</u>
OPERATING INCOME (LOSS)	<u>(7,236,101)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Sales Tax	5,754,274
Interest Income	6,963
Miscellaneous Income	7,437
Ambulance Contributions	(199,911)
Gain (Loss) on Disposal of Assets	9,043
Recoveries	54,617
Grants (State and Federal)	1,367,141
Total Nonoperating Revenues (Expenses)	<u>6,999,564</u>
Income (loss) before contributions,gains, other revenues and expenses	<u>(236,537)</u>
Capital contributions	<u>(236,537)</u>
Increase (decrease) in net assets	(236,537)
Total Net Assets-Beginning	9,559,701
Prior Period Adjustment	13,312
Beginning total net assets restated 1/1/2011	9,573,013
Total Net Assets-Ending	<u>\$ 9,336,476</u>

The accompanying notes are an integral part of this statement.

**Grays Harbor Transportation Authority**  
**DBA Grays Harbor Transit**  
**Statement of Cash Flows**  
**For the Year ended December 31, 2011**

**2011**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Received From Customers	\$ 761,704
Cash Received From Advertising Transit	17,311
Cash Payments to Suppliers for Goods & Services	(1,977,682)
Cash Payments to Employees for Services	(5,113,715)
Net Cash Used By Operating Activities	<u>(6,312,382)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Sales Tax Received	5,709,974
Miscellaneous Revenue	7,437
Damage Recoveries	54,617
Ambulance Contributions	(199,911)
Net Cash provided by non-capital financing activities	<u>5,572,117</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Proceeds From Federal Grant/State Grant	1,395,626
Proceeds From Sale Capital Assets	12,643
Payment of Notes Payable	-
Payment on Lease Payable	(1,808)
Acquisition of Capital Assets	(269,083)
Net Cash Used by Capital and Related Financing Activities	<u>1,137,378</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on Investments	7,242
Purchase of Investments	(600,000)
Net Cash Provided By Investing Activities	<u>(592,758)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(195,645)
Cash and Cash Equivalents at Beginning of Year	1,540,771
Cash and Cash Equivalents at End of Year	<u>\$ 1,345,126</u>

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

Operating Income (Loss)	\$ (7,236,101)
<b>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO</b>	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Depreciation	705,958
(Increase) Decrease in Inventory	(74,557)
(Increase) Decrease in Accounts Receivable	7,020
(Increase) Decrease in Prepaid Expenses	(91,680)
Increase (Decrease) in Vouchers Payable	31,828
Increase (Decrease) in Salaries, Taxes and Benefits Payable	18,818
Increase (Decrease) in Compensated Vacation Payable	(4,354)
Increase (Decrease) in Net OPEB Contribution Payable	330,686
TOTAL ADJUSTMENTS	<u>923,719</u>
Net Cash Used By Operating Activities	<u>\$ (6,312,382)</u>

The accompanying notes are an integral part of this statement.

**GRAYS HARBOR TRANSPORTATION AUTHORITY  
D.B.A. GRAYS HARBOR TRANSIT  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Grays Harbor Transportation Authority was incorporated on June 1974 and operates under the laws of the state of Washington applicable to transportation authority entity. The financial statements of the transit have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The transit has not elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements-and Management Discussion and Analysis-for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements),

**A. Reporting 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 assets. Their reported fund equity (net total assets) is segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. 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 proprietary 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, 2011 Grays Harbor County Treasurer was holding **\$1,309,750** in short-term residual investments of surplus cash. This amount is classified on the statement of net assets 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 average method. A physical inventory is performed at year end with appropriate adjustments made to recorded inventories. The inventory amount at December 31, 2011, was \$418,412.

#### **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.

<b>Accrued Sick Leave</b>	<b>Cash out rate</b>
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, 2011, the Grays Harbor Transit's investments of \$1,906,343 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

Accumulated depreciation on assets at December 31, 2011 is as follows:

Accumulated Depreciation

Land	\$	-
Plant in Service		954,148
Equipment (Rolling Stock)		7,901,653
Equipment		302,687
Other Improvements		1,507,630
Total	\$	<u>10,666,118</u>

The following is a summary of changes in capital assets during the year ended December 31, 2011:

	Changes in Capital Assets			
	<u>12/31/2010</u>			<u>12/31/2011</u>
	Ending Balance	Additions	Retirements	Ending Balance
Land	\$ 1,274,185	\$ -	\$ -	\$ 1,274,185
Facilities	5,748,647	97,089	-	5,845,736
Equipment, Rolling Stock	9,251,482	171,994	154,371	9,269,105
Equipment, Other	334,373	-	14,501	319,872
Construction in Progress	-	-	-	-
	<u>\$ 16,608,687</u>	<u>\$ 269,083</u>	<u>\$ 168,872</u>	<u>\$ 16,708,898</u>

#### NOTE 4 - CONSTRUCTION IN PROGRESS

There is no current construction in progress.

#### NOTE 5- LONG-TERM DEBT AND LEASES

##### Long-Term Debt

During 2004, 2005 and 2008 the City of Aberdeen demolition services on six city lots on East Market Street in preparation for a Grays Harbor Transit ridership facility. The amounts by year are as follows:

2004	\$	241,478
2005		9,964
2006		225,954
	\$	<u>477,396</u>

The annual debt service requirements are as follows:

	Payments	Balance
2009	\$ 50,000	\$ 127,396
2010	-	127,396
2011	-	127,396
2012	63,698	63,698
2013	63,698	-

The balance as of December 31, 2011 is \$127,396.

### 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:

Sharp MX-3100N Copier	\$ 10,255
Less accumulated Depreciation	48
Total	<u>\$ 10,207</u>

The future minimum lease obligation and the net present value of the minimum lease payments as of December 31, 2011 were as follows:

Year Ending December 31	
2012	2,337
2013	2,337
2014	2,337
2015	1,589
Total Minimum Lease Payments	<u>\$ 8,601</u>
Less Interest	914
Present Value of Minimum Lease Payments	<u>\$ 7,687</u>

### NOTE 6- 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-

**Notes to Financial Statements**

December 31, 2011

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 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:**

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to but not yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
<b>Total</b>	<b>262,285</b>

**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, 2011, were as follows:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
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, 2011 were:

<u>Year</u>	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
2011	\$22,786	\$185,271	\$13,432
2010	\$18,414	\$257,998	\$10,230
2009	\$25,334	\$220,276	\$18,063

## **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, 2011.

**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**

Annual OPEB Cost		
Annual Required Contribution	\$	365,384
Net OPEB Obligation Interest		26,481
Net OPEB Obligation Amortized		(36,126)
Annual OPEB Cost	\$	355,739
Net OPEB Obligation (NOO)		
Starting NOO	\$	588,456
Annual OPEB Cost		355,738
Contributions		(25,052)
Net OPEB Obligation (NOO)	\$	919,142

**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, 1<sup>st</sup> property coverage, boiler and machinery coverage and employee fidelity coverage. At the end of 2011 Grays Harbor Transit (GHT) retained a \$2,500 deductible for its auto physical damage coverage and a \$2,500 deductible for its 1<sup>st</sup> 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 - 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.

#### **NOTE 9 – PRIOR PERIOD ADJUSTMENT**

Grays Harbor Transit has recorded in its financial statements a prior period adjustment for federal grant money in the amount of \$13,313 received in 2010, that should have been a receivable in the 2009 year end.



Grays Harbor Transportation Authority**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****For the Year Ended December 31, 2011**

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award I.D. Number	Expenditures			Foot Note Ref.
				From Pass-Through Awards	From Direct Awards	Total Amount	
Federal Transit Administration (fta), Department Of Transportation	Federal Transit Capital Investment Grants	20.500	083107-03FTA		32,200	32,200	
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Other Than Urbanized Areas	20.509	GCA6165	233,536		233,536	1, 2
Federal Transit Administration (fta), Department Of Transportation/WSDOT	Formula Grants for Other Than Urbanized Areas	20.509	GCA6821	250,000		250,000	1, 2
<b>20.509 Total:</b>				<b>483,536</b>	<b>-</b>	<b>483,536</b>	
<b>Total Federal Awards Expended:</b>				<b>515,736</b>	<b>32,200</b>	<b>515,736</b>	

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

**GRAYS HARBOR TRANSPORTATION AUTHORITY  
NOTES OF THE FEDERAL SCHEDULE OF FINANCIAL ASSISTANCE  
JANUARY 1, 2011 THRU DECEMBER 31, 2011**

**NOTE 1 – BASIS OF ACCOUNTING**

The Schedule of Financial Assistance is prepared on the same basis of accounting as the transit's financial statements. The transit uses the accrual basis of accounting.

**NOTE 2– NOT AVAILABLE**

The award balance at the end of the year is shown as “N/A” when even though all funds were not spent, the grant period has elapsed with no provision to carryover the grant into the next fiscal period. Since the grant has terminated, there is no award balance available.

**NOTE 3 – PROGRAM COSTS**

The amounts shown as current year expenditures represent only federal portion of the program costs. Actual program costs, including the transit's portion, may be more than shown.



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

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
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**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
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