Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Mason County Public Transportation Benefit Area (Mason Transit Authority)

Mason County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010525

Issue Date
September 30, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

September 30, 2013

Board of Directors
Mason Transit Authority
Shelton, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Mason County
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Federal Summary

Mason Transit Authority
Mason County
January 1, 2012 through December 31, 2012

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

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

We reported 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:

CFDA No.	Program Title
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.

Schedule of Federal Audit Findings and Questioned Costs

Mason Transit Authority
Mason County
January 1, 2012 through December 31, 2012

1. Mason Transit Authority's internal controls were not sufficient to ensure only eligible costs were charged to the Formula Grants for Other Than Urbanized Areas grant and did not report all program income received.

CFDA Number and Title:	20.509 – Formula Grants for Other Than Urbanized Areas
Federal Grantor Name:	U.S. Department of Transportation Federal Transit Administration
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Washington State Department of Transportation
Pass-through Award/Contract Number:	GCA6837
Questioned Cost Amount:	$16,468

Description of Condition

Mason Transit Authority received $844,072 in federal funding during 2012 under the Formula Grants for Other Than Urbanized Areas program. The program provides funding to sustain existing Dial-A-Ride services for general public and special needs persons, to sustain zone and fixed-route service county-wide and to sustain regional transportation connectivity services between Mason County and nearby county transit systems.

The Authority manually calculates costs eligible for grant funding by deducting ineligible costs from total operating costs; however it did not deduct contracted service expenses which are unallowable.

The Authority also received $7,699 for other contracted services that it did not report as program income.

Cause of Condition

The Authority does not adequately track costs within its accounting system to clearly identify project costs and determine if they are eligible grant expenditures. Also, based on their understanding of information received from the grantor, the Authority staff did not believe that the revenue received from contracted services was program income.

In addition, the Authority did not reduce allowable expenses by the amount of the program income received.

Effect of Condition and Questioned Costs

The Authority charged ineligible costs of $8,769 to the operating grant and did not report $7,699 of program income. We are reporting these amounts as questioned costs.

Recommendation

We recommend that the Authority review its method for accounting for reportable grant revenues and costs and ensure that it clearly identifies project costs so only eligible expenses are claimed.

We also recommend that the Authority provide training regarding program income to finance personnel and ensure all revenues from grant funded activities are properly reported as program income.

Authority's Response

MTA has implemented several new processes to better track and properly code revenue and expenses to the correct funding source in the accounting system. First, a new timesheet process has been implemented for employees to document exceptions when working outside of the operating grant funding. The Operations Department will also provide a work schedule of all driving staff detailing which route(s) are in the block of work assigned. This will help the finance department to easily code time and effort to the proper grant source.

The second change is additional lower level codes have been set up in the accounting system for the different grant or program income MTA has so that reports can be ran by the funding source not just the department. Codes at the second level were already in place but have now been expanded to include programs that have been added. This will help determine and define all revenue and cost that are charged or allocated to a program.

Thirdly, when submitting a reimbursement request, all costs will be clearly defined on the back up documentation so it can be easily determined what costs are listed as eligible and which are ineligible. Therefore, during an audit process, an auditor or the grantor on a yearly site visit can see what has been charged against a program, what costs are considered ineligible, and what program income there may be.

MTA will ensure all appropriate staff attend training offered by the grantor at the beginning of each new biennium award.

Auditor's Remarks

We appreciate the Authority's commitment to resolve this finding and thank the Authority for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix A, states in part:

> C. Basic Guidelines
>
> 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
>
>> a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
>>
>> b. Be allocable to Federal awards under the provisions of this Circular.
>>
>> d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
>>
>> e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
>>
>> j. Be adequately documented.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

> Subpart C—Auditees
> §___.300 Auditee responsibilities.
>
> The auditee shall:
>
>> (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
>>
>> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>>
>> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Washington State Department of Transportation's *Guide to Managing Your Public Transportation Grant*, Chapter 2, states in part:

> Eligible Services
> The grant agreement with WSDOT outlines the eligible services under each project. It also identifies the funding sources used for the project(s)

and the eligible service modes (fixed route, demand response, etc.). Only services identified in the grant agreement are eligible for reimbursement.

Compliance With OMB Circulars
To comply with the OMB circulars, grantees are required to keep a separate set of accounts (or a section within an accounting system) that clearly identifies project costs and associated revenue.

Code of Federal Regulations, Title 49, states in part:

§ 18.25 Program income.
(a) General. Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them.
(b) Definition of program income. Program income means gross income received
by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period. ''During the grant period'' is the time between the effective date of the award and the ending date of the award reflected in the final financial report.
(g) Use of program income. Program income shall be deducted from outlays which may be both Federal and non-Federal as described below, unless the Federal agency regulations or the grant agreement specify another alternative (or a combination of the alternatives).

The Federal/State Operating Grant Agreement between Washington State Department of Transportation and Mason County Transportation Authority, Section 7, states in part:

B. Program Income. The CONTRACTOR shall comply with program Income provisions in 49 CFR § 18.25 or 49 CFR § 19.24, whichever is applicable, and prepare a quarterly report of the gross income, as defined in WSDOT's *Guide to Managing Your Public Transportation Grant*, 2011 version, and any amendments thereto received by CONTRACTOR that is directly generated by the Project activity supported by the funding in this AGREEMENT.

Washington State Department of Transportation's *Guide to Managing Your Public Transportation Grant*, Appendix B, states in part:

Quarterly Program Income
This form collects program income received from a federal grant-funded project. Program income is any revenue (i.e., money), except fares, received by a grantee that is directly generated by a grant supported asset or activity.

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*

Mason Transit Authority
Mason County
January 1, 2012 through December 31, 2012

Board of Directors
Mason Transit Authority
Shelton, 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 Mason Transit Authority, Mason County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 16, 2013. During the year ended December 31, 2012, the Authority implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2013

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

Mason Transit Authority
Mason County
January 1, 2012 through December 31, 2012

Board of Directors
Mason Transit Authority
Shelton, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Mason Transit Authority, Mason County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1. Our opinion on each major federal program is not modified with respect to these matters.

Authority's Response to Findings

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Authority's Response to Findings

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2013

Independent Auditor's Report on Financial Statements

Mason Transit Authority
Mason County
January 1, 2012 through December 31, 2012

Board of Directors
Mason Transit Authority
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Mason Transit Authority, Mason County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mason Transit Authority, as of December 31, 2012, 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 1 to the financial statements, in 2012, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. 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 16 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 16, 2013

Financial Section

Mason Transit Authority
Mason County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012
Statement of Revenues, Expenses and Changes in Net Position – 2012
Statement of Cash Flows – 2012
Notes to Financial Statements – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012
Notes to the Schedule of Expenditures of Federal Awards – 2012

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Mason County Public Transportation Benefit Authority's (MTA; Mason Transit Authority) Annual Financial Report presents management's overview and analysis of MTA's financial performance for the fiscal year ended December 31, 2012. This section should be read in conjunction with the financial statements and notes to the financial statements that follow this section.

Introduction

Mason Transit Authority is a public transportation benefit area providing services to Mason County citizens. Services include:

- Local and express bus services
- Connectivity to other counties' transit services
- Puget Sound Naval Shipyard Worker/Driver program
- General Dial-A-Ride services
- Vanpool and volunteer programs

Financial Highlights for 2012

The overall financial position for MTA improved in 2012. Highlights include:

- As of December 31, 2012 MTA's assets exceeded its liabilities by $16,259,406.
- Total net position increased by $535,517.
- Cash and cash equivalents increased by $242,722.
- Fare revenues increased by $87,069 (17.21%) but non-operating revenue decreased by $714,078 (11.18%) from 2011. Non-operating revenue includes local sales tax (decrease of $49,080 or 1.53%), operating grant revenue (decrease of $690,517 or 22.17%), rental income (decrease of $13,015 or 35.05%), investment income (decrease of $541 or 3.85%) and other non-operating revenue (increase of $39,075 or 167.34%)
- Capital grants used for service vehicles totaled $647,587.

Overview of the Financial Statements

This Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements.

The financial statements of MTA report information about the organization using accounting methods similar to those used by private sector companies to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The *Statement of Net Position* presents information on all of MTA's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in the net position may serve as a useful indicator of whether the financial position of the organization is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing changes in MTA's net position occurring during the fiscal year. All changes in net position are reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to MTA, and earned but unused vacation leave).

The *Statement of Cash Flows* presents information on MTA's cash receipts, cash payments, and changes in cash and cash equivalents during the fiscal year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and can be found in this report.

Mason County Public Transportation Benefit Area

Summary of Net Position

	12/31/2012	12/31/2011	Net Increase (Decrease) 2011 vs 2012
ASSETS			
Current Assets	10,690,286	10,558,210	132,076
Capital Assets	6,677,119	6,342,723	334,396
TOTAL ASSETS	**17,367,405**	**16,900,933**	**466,472**
LIABILITIES			
Current Liabilities	339,979	332,798	7,181
Long-Term Liabilities	768,020	844,247	(76,227)
TOTAL LIABILITIES	**1,107,999**	**1,177,045**	**(69,046)**
NET POSITION			
Invested in capital assets, net of related debt	6,028,069	5,898,915	129,154
Unrestricted	10,231,337	9,824,974	406,363
Total Net Position	**16,259,406**	**15,723,889**	**535,517**

Summary Statement of Revenues, Expenses and Changes in Fund Net Position
For The Years Ended December 31, 2012 and December 31, 2011

	12/31/2012	12/31/2011	Net Increase (Decrease) 2011 vs 2012
OPERATING REVENUE			
Fares	592,932	505,863	87,069
NON-OPERATING REVENUE			
Sales Tax	3,149,871	3,198,951	(49,080)
Grant Revenue	2,424,607	3,115,124	(690,517)
Other Non-operating Revenue	100,076	74,557	25,519
TOTAL REVENUE	6,267,486	6,894,495	(627,009)
EXPENSES			
Operating Expenses	5,518,282	5,369,172	149,110
Depreciation	825,589	793,711	31,878
Non-Operating Expenses	35,685	37,149	(1,464)
TOTAL EXPENSES	6,379,556	6,200,032	179,524
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	(112,070)	694,463	(806,533)
Prior Period Adjustment	-	260,539	(260,539)
Capital Contributions-Grants	647,587	1,017,132	(369,545)
TOTAL CHANGE IN NET POSITION	535,517	1,972,134	(1,436,617)
BEGINNING NET POSITION	15,723,889	13,751,755	1,972,134
ENDING NET POSITION	**16,259,406**	**15,723,889**	**535,517**

Financial Analysis and Result of Operations

Mason Transit saw an overall financial improvement in 2012. Net position increased by $535,517 due to purchase of capital vehicles, land in downtown Shelton, and an increase in cash and cash equivalents.

Total cash and cash equivalents of MTA increased by $242,722 in 2012, although there was a decrease in sales tax and other revenue from 2011 and $1,000,000 was moved from the investment pool account into the general account held by Mason County Treasurer. Cash and Cash Equivalents have increased in comparison with prior years partially because of timely reimbursement of grant submittals. Operating revenue from fares increased by 17.21%, which is a reflection of increased ridership and the Skokomish Pilot Project.

MTA operations are subsidized by federal, state and local grants. Grant revenue received for 2012 decreased by 22.17% due in part to 2011 being a split biennium where MTA's previous Consolidated Grant Award was higher. Federal and State grants are received on a reimbursement basis, by quarterly submission of operational and expenditure reports. MTA continues to aggressively seek all available transit grants. The grant amounts fluctuate depending on the success of grant applications and funding availability for our specific region. In the fourth quarter of 2012, MTA received the first distribution of $17,289 from the newly created "Public Transportation Grant Program Account." In the 2012 legislative session, $9 million was appropriated into the account to be distributed to public transit agencies for operating expenses. MTA's share is $17,289 for fourth quarter 2012 and for the first and second quarters of 2013. It is expected legislation will continue the distribution through the next biennium with $13 million being appropriated yearly and divided quarterly to transit agencies based on the formula of 1/3 each revenue miles, revenue hours, and trips.

Net Position

For the year ending December 31, 2012, assets exceeded liabilities by $16,259,406. Investments in capital assets, net of related debt increased by $129,154 and unrestricted net position increased by $406,363, resulting in an increase of $535,517 in total net position. Although an increase in net position can be viewed as an indicator of financial improvement, it must be considered in conjunction with other financial indicators.

Transit is a capital intensive enterprise, with 41.07% of MTA's assets invested in capital assets to provide services to citizens.

In 2012, Capital Assets Being Depreciated increased by $47,972, net of acquisitions and disposals. Nine new Champion Challenger Minibuses (cutaways) were purchased in the amount of $802,723. The acquisitions of vehicles were funded by federal and state grants with a local match portion paid by MTA. A 15,000-lb lift was purchased for maintenance in the amount of $7,692. Property with a building was purchased in downtown Shelton behind the Transit-Community Center in the amount of $165,769.42, which included due diligence performed prior to the purchase. Work continued on the Transit-Community Center. Work-in-Progress increased by $220,782 in 2012 for the Transit-Community Center.

Fleet maintenance parts inventory levels decreased 23.78% during 2012. It was expected that inventory levels would decrease slightly as older vehicles were replaced with new equipment requiring fewer repairs. A new Coach and six cutaways will be added in 2013 to improve the age of the vehicle inventory. The acquisitions of vehicles will be funded by federal and state grants with a local match portion paid by MTA. This trend of replacement should continue provided economic trends and attainable funding allow for replacement at prescribed intervals. Additionally, management is using a "just-in-time" parts inventory management/purchasing system more to reduce the "on-hand" inventory of parts and supplies.

There are no external restrictions on assets. However, MTA has designated an operating reserve equal to three months of the current operating budget. For 2012, the designated reserve was $1.5 million. Additionally, MTA designated $50,000 for emergency repairs and $50,000 for emergency insurance reserves.

Capital Assets

MTA's capital assets as of December 31, 2012 amounted to $6,677,119. Capital assets consist of transit buses and other vehicles, a transit facility, a downtown transit-community center, land and a building in downtown Shelton, bus shelters, construction in progress, and equipment. Net capital assets increased by 5.27% during the year. The increase was the net result of the purchase of the property in downtown Shelton, the purchase of nine cutaways and the surplus of three vans, eight cutaways, and one coach. Accumulated depreciation was increased by $54,508 (see Note 3). Depreciation expense recorded totaled $825,589 for the year.

Long-Term Debt

On June 26, 2003 Mason Transit Authority executed a 20 year, 6.25% interest bearing promissory note in the amount of $1,000,000. Proceeds from this note were used to acquire real property, the transit facility located at 790 E. John's Prairie Road, just outside Shelton, WA. See Note 8 for further detail.

Operating Revenues

Operating Revenues are primarily generated by sales of transportation services. MTA was primarily a fare-free system until November 1, 2001, at which time a fare per one-way out-of-county trip was implemented on routes to and from Olympia, Bremerton, and Brinnon. As of January 1, 2009 these fares are $1.50 for adults and youth and $.50 for seniors and persons with disabilities. Mason Transit remains fare free within Mason County. A fee is charged for the Puget Sound Naval Shipyard (PSNS) Worker/Driver service and for some Special Event Services.

Fares collected during 2012 were as follows:

Out-of-County Fares & Volunteer Donations	$104,882	Increased	6.86%
PSNS Worker/Driver & Vanpool Fares	$378,647	Decreased	5.28%
Special Events Fees	$109,403	Increased	1,276.83%

MTA also includes in operating revenues donations collected in connection with the Volunteer Driver Program funded in large part by a grant from the Lewis-Mason-Thurston Area Agency on Aging. This contract requires MTA to provide volunteer transportation services to individuals aged sixty (60) years and above. Individuals who are eligible under the Washington State Senior Citizens Services Act, and/or provisions of the Older Americans Act of 1965, as amended, travel within or outside of the Mason Transit service area to medical appointments. The donations from the Volunteer Driver Program collected during 2012 totaled $2,033 while other donations were $17. All donations are included in General Public passenger fares.

The Special Event Fee increase in part was the result of the Skokomish Pilot Project. The Skokomish Tribal Nation was awarded federal funds under the FTA Tribal Transit Grant Program for a pilot public transit enhancement project. Mason Transit Authority was chosen to operate the service on behalf of the Skokomish Tribe, providing vehicles and drivers. Starting in April 2012, a service route was added to run along Highway 101 between Shelton, Hoodsport and Lake Cushman areas. The funding for the project has been extended through 2013 with anticipation of the Skokomish Tribe securing funds for future years.

Non-Operating Revenues

Non-operating revenues include amounts received that do not directly correspond with receipt of goods or services, such as sales tax, grant proceeds, interest and other miscellaneous sources.

MTA's non-operating revenue for 2012 included $3,149,871 in sales tax, a decrease of 1.53% over 2011. This is a slight downturn from the previous upward trend MTA had been experiencing since 2009 when MTA saw a large decrease from 2008 in sales tax revenue. Sales tax revenue in 2008 was $3,523,749 compared to $3,123,326 in 2009. Since 2009 sales tax revenue has been relatively flat, with increases in both 2010 ($3,168,848) and 2011 ($3,189,130).

Interest income decreased by 3.84% in comparison with 2011. The decrease trend MTA has seen over the last several years is attributed to the economic downturn which resulted in a drop in interest revenue through the funds invested with the Mason County Treasurer's office. The most contributing factor for the decrease in interest earned for 2012 was reallocating funds from the investment account into the checking account for cash flow. Interest earned during 2012 amounted to $13,531 compared to $14,072 in 2011.

A large portion of non-operating revenue was attributed to grant revenues derived from federal, state and local grants. The Washington State Department of Transportation and Federal Transportation Administration awarded MTA consolidated rural mobility and paratransit/special needs formula-based operating grants as well as capital vehicle acquisition grants. As of December 31, 2012, MTA has utilized 85.4% of the 2011-2013 operating grant. An operating grant was received from the Lewis-Mason-Thurston Area Agency on Aging. The total accrual basis federal, state and other operating and capital grant revenues for 2012 was $3,072,194. (See Note 11, Item B)

Revenue obtained via rental income for a small portion of our facility and from the Transit-Community Center totaled $24,120. Other non-operating revenue totaled $62,425 includes:

- $17,861 for sales of vehicle maintenance service to outside clients in the transportation industry
- $11,302 for sales of surplus vehicles
- $12,317 in insurance recoveries
- $2,500 for security upgrades from MTA's insurance risk pool
- $17,290 for miscellaneous operating costs from the Department of Revenue
- $1,155 in miscellaneous revenue

Total Revenue for 2012: $592,932 plus $5,674,554 in non-operating revenue and $647,587 in capital grant revenue equaled $6,915,073.

Operating Expenses

Operating expenses, representing costs incurred to provide transportation services, increased during 2012 as a result of the increase in fuel prices, insurance and other benefit costs. Total operating expenses for 2012, including administrative expenses were $6,343,871. This also included an allowance for depreciation in the amount of $825,589.

Non-Operating Expenses

Non-Operating Expenses included $35,685 in loan interest. Audit fees are included in Operating Expenses.

Total expenses by department were as follows:

- Operations: $2,956,561 – Responsible for all on-road services, including: Drivers, communications center, communications center supervisor, vanpool coordinator, schedulers, field services representative, and road and training supervisors.
- Maintenance: $1,394,665 – Responsible for vehicle and facility upkeep and fuel. Fuel is the most significant expense in maintenance. Of this amount $256,168 is attributed to facility maintenance.
- Administration: $2,028,330 – Responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resources, safety and risk management.
- Depreciation: $825,589 – (Included in Administration above). The estimated pro-ration of the cost of capital assets over the useful life of the asset. Capital Assets are depreciated based on their actual costs spread over their useful lives.
- Total Operating Expenses: $6,343,871 plus Non-Operating Expenses: $35,685 equaled $6,379,556.

Economic Factors and Future Outlook

MTA's financial outlook for 2013 to 2018 is cautiously optimistic, with the agency's priority focused on sustaining existing service levels and developing partnerships with external agencies, particularly the Skokomish and Squaxin Island Tribal Nations, to expand and leverage grant funding opportunities. The badly damaged and very slow recovering economy and resulting high unemployment has resulted in substantially reduced and stagnated county sales tax revenue – a primary source of Mason Transit's funding. During 2012, the sales tax revenue for the year decreased by 1.53% over 2011 as compared to a .96% increase in 2011 over 2010 and 1.4% increase in 2010 over 2009. This three-year pattern of sales tax revenue growth has continued to stay slow and flat. While the rest of the State public transit agencies are seeing improvements in their sales tax revenues, Mason County tends to lag behind, and it is expected that sales tax revenues will remain below the 2007 level in 2012 but continue to remain close to the monthly fluctuating trends we have seen in previous years.

While the impact of Federal deficit spending and the sequester remains to be seen, Federal transit spending has been stabilized (and slightly increased for rural transit) with the passage of MAP 21, if for only the next two years. Further, the President's proposed budget for Federal Fiscal Year 2013-2014 increases rural transit funding by 31% and tribal transit funding is doubled. It is also a positive sign that the State of Washington just passed its transportation budget that continues existing funding and once again renewed its sales tax equalization plan, which particularly impacts Mason County, as well as continued last year's first-ever State contribution to funding public transit operations (previously, only capital investments had been funded at the state level). Further, on a local level, the County's two largest private employers, Simpson Lumber and Taylor Shellfish, are projecting higher rates of growth than they have seen in the past five years. All of these elements can significantly impact existing service, future service, and vehicle and facility replacement and/or maintenance. The occurrence of any near-term economic contraction or retraction is not outside the realm of possibility.

This presents a unique challenge at a time when Mason County's population has grown by 23 percent since the 2000 census, making it the fourth fastest growing county in Washington State. Additionally the senior population, residents 65-years old or older, is 18.3 percent of the County's population, which ranks eleventh out of Washington State's 39 counties.

The 2012 budget was focused on sustaining as opposed to expanding services, maintaining MTA's unrestricted net position balance and employing frugal spending practices. Mason Transit continued several fiscally sound initiatives in 2012, including no employee cost-of-living allowance (COLA) and continuation of a line item budget to further identify and drill down costs. Along with continuing these efforts, moving forward, the agency has begun pursuing alternate sources of grant funding. In addition, with continued projections of high levels in the cost of fuel and annual growth in the cost of employee health care benefits, and with changes in employee compensation notwithstanding, beginning January 1, 2013, MTA implemented employee contributions of 5% to the premium costs of benefits. Lastly, MTA has initiated a transition from the unsustainable practice of providing annual automatic step increases to employee pay to a performance-based approach that will go into effect in 2014.

In 2006, MTA bought the Washington National Guard Armory in downtown Shelton to renovate and use as a combined transit-community center. In 2011, MTA was awarded a $3.28 million Federal Transit Administration grant to begin the construction, with a 20% local match of $820,000 which has been encumbered in MTA's cash investment account. In 2012, MTA selected project management, architecture/engineering and general contractor/contract management firms with ground breaking scheduled for August 1, 2013 and project completion at the end of 2014. In April 2013, the MTA Board has encumbered an additional $2,930,000 in the cash investment account to expedite the construction and completion of the project.

MTA remains committed to meeting the public transit needs of Mason County in a financially responsible manner.

<u>Request for Information</u>

This financial report is designed to provide a general overview of Mason County Public Transportation Benefit Authority's financial position for all those who have an interest in this agency's finances.

Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to:

Finance Manager
Mason County Public Transportation Benefit Authority
P.O. Box 1880
Shelton, WA 98584
(360) 426-9434 ext.150

MCAG No. 0674

Mason County Public Transportation Benefit Area

Statement of Net Position

December 31, 2012

ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents:	
Cash on Hand	300
On Deposit - Mason Co Treasurer	1,817,574
Bank of America Payroll ACH Account	4,022
Mason Co / WA Counties Investment Pool	7,669,106
Total Cash and Cash Equivalents	9,491,002
Other Current Assets:	
Accounts Receivable	52,115
Grants/Contracts Receivable	558,690
Interest Receivable	1,614
Due from other Governmental Units - Taxes	525,293
Parts Inventory	39,364
Fuel Inventory	22,209
Total Other Current Assets	1,199,285
Total Current Assets	**10,690,286**
NON-CURRENT ASSETS:	
CAPITAL ASSETS:	
Capital Assets Not Being Depreciated	
Land	507,778
Construction in Progress	483,667
Capital Assets Being Depreciated	
Buildings	3,674,740
Transportation Equipment	7,667,069
Office and Shop Equipment	661,764
Less: Accumulated Depreciation	(6,317,899)
Net Capital Assets Being Depreciated	5,685,674
Total Non-Current Assets	**6,677,119**
TOTAL ASSETS	**17,367,405**
DEFERRED OUTFLOWS OF RESOURCES	**0**
LIABILITIES	
CURRENT LIABILITIES:	
Accounts / Warrants Payable	303,193
CTAA Facility Loan (Short-term Portion)	35,685
Other Current Liabilities	1,100
Total Current Liabilities	339,978
NON-CURRENT LIABILITIES:	
Employee Leave Benefits	154,655
CTAA Facility Loan (Long-term Portion)	613,365
Total Non-Current Liabilities	768,020
Total Liabilities	**1,107,999**
DEFERRED INFLOWS OF RESOURCES	**0**
NET POSITION	
Invested in capital assets, net of related debt	6,028,069
Unrestricted Net Assets	10,231,337
TOTAL NET POSITION	**16,259,406**

The Notes to Financial Statements are an integral part of this Statement

Mason County Public Transportation Benefit Area

Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2012

OPERATING REVENUES:	**12/31/2012**
Passenger fares	104,882
PSNS Worker/Driver & Vanpool fares	378,647
Special event fares	109,403
Total Operating Revenue	592,932
OPERATING EXPENSES:	
Payroll	3,953,352
Contracted services	271,791
Maintenance	279,075
Fuel	516,598
Insurance	188,643
Rent - Park and Ride	5,925
Volunteer driver reimbursements	28,823
Other operating expenses	274,075
Depreciation	825,589
Total Operating Expenses	6,343,871
OPERATING INCOME (LOSS)	(5,750,939)
NONOPERATING REVENUES (EXPENSES):	
NONOPERATING REVENUES:	
Sales tax	3,149,871
Grant revenue	2,424,607
Rental Income	24,120
Investment income	13,531
Other nonoperating revenue	62,425
Total Nonoperating Revenue	5,674,554
NONOPERATING EXPENSES:	
CTAA Loan Interest & Origination Fee	35,685
Total Nonoperating Expenses	35,685
Net Nonoperating Revenues (Expenses)	5,638,869
Excess or deficiency before capital contributions	(112,070)
Capital Contributions-Grants	647,587
Increase(Decrease) in Net Position	535,517
Net Position - January 1, 2012	**15,723,889**
Net Position - December 31, 2012	**16,259,406**

The Notes to Financial Statements are an integral part of this Statement

MCAG No. 0674

Mason County Public Transportation Benefit Area

Statement of Cash Flows

For the Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	551,484
Payments to suppliers	(1,535,904)
Payments to employees	(3,992,430)
Net cash provided (used) by operating activities	(4,976,850)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Sales Tax	3,186,115
Cash Received from Grants	2,526,606
Other nonoperating revenue	86,700
Net Cash provided from noncapital activities	5,799,421
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions (capital grants)	647,587
Purchases of capital assets	(1,159,984)
Principal paid on capital debt	(44,842)
Interest paid on capital debt	(35,685)
Net cash provided (used) by capital and related financing activities	(592,924)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	13,075
Net cash provided by investing activities	13,075
Net increase (decrease) in cash and cash equivalents	242,722
Balances - beginning of the year	9,248,280
Balances - end of the year	9,491,002

Reconciliation of Operating income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating income (loss)	(5,750,939)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	825,589
Change in assets and liabilities:	
Increase in accounts receivable	(41,448)
Increase in parts and fuel inventory	14,152
Decrease in accounts payable	16,436
Decrease in other-current liabilities	(1,562)
Increase in employee benefits payable	(39,078)
Net cash provided by operating activities	(4,976,850)

The Notes to Financial Statements are an integral part of this Statement

MASON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
Notes to the Financial Statements
January 1, 2012 through December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mason County Public Transportation Benefit Authority (MTA; Mason Transit Authority) is a special purpose district formed pursuant to Chapter 36.57A of the Revised Code of Washington (RCW). Mason Transit Authority, as a public transit agency, provides accessible public transportation throughout Mason County, with regional connections to adjacent counties. The financial statements of MTA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

MTA implemented the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012.

A) Reporting Entity

Mason Transit Authority is a special purpose district organized to provide public transportation services for Mason County, Washington. MTA utilizes a combination of fixed-route, route deviation, demand response (Dial-A-Ride) service, vanpool and worker/driver programs, and coordinated volunteer transportation. Funding is provided through interest income, state grants, federal transit operating and capital grants, Federal Department of Health and Human Services funds, general public fares for out of county trips only (effective November 1, 2001), Puget Sound Naval Shipyard Worker/Driver and Vanpool fares and Special Event fees.

The governing body consists of: Three elected members of the Mason County Commission; one elected member of the City of Shelton Commission; one elected member of the North Mason School District; one elected member from the Mary M. Knight School District serving in even years, rotating to one elected member from the Southside School District serving in the odd years; one elected member of the Mason County Public Hospital District No 2; one elected member of the Hood Canal School District; one elected member from Mason County Fire Protection District No. 3, 5, or 11 starting with the Fire Protection District No. 3; Fire Protection District No. 5 and Fire Protection District No. 11 and then rotating annually in that order thereafter. The members of the board serve terms consistent with their terms in the City, County or district positions.

In evaluating how to define the entity for financial purposes, management has considered whether MTA is a component unit of another primary government and all potential component units of MTA are reported upon. The Mason County Public Transportation Benefit Area's (PTBA) general purpose financial statements include the financial position and results of the operations of MTA. A review, using the criteria set forth by other local governments indicates there are no additional entities or funds for which Mason Transit Authority has reporting responsibility.

B) Basis of Accounting and Presentation

The accounting records of the MTA are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. MTA uses the Budgeting, Accounting and Reporting System (BARS) for Transits in the State of Washington.

Funds are accounted for on an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with MTA's activity are included on the *Statement of Net Position* (or Balance Sheet). The reported net position is segregated by amount invested in capital assets (net of related debt), restricted and unrestricted components of net position. Operating statements present increases (revenue and gains) and decreases (expenses and losses) in net position. MTA discloses changes in cash flows by a separate statement that presents operating, non-capital financing and investing activities.

The accounting policy of MTA expresses the intent to conform to GAAP applicable to governmental enterprise units and with Washington State's BARS guidelines for Transit Districts. The Governmental

Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. MTA defines operating revenue and expenses as transactions directly related and generated by the every-day operation of the transit service. The non-operating revenue and expenses are all transactions which are exterior to the day-to-day operation of the transit service.

Mason Transit Authority is a single enterprise fund and, on the advice of the Office of the State Auditor, uses the full-accrual basis of accounting which recognizes revenue when earned, rather than when received, and expenses are recognized when incurred. MTA revenue includes taxes, grants, fares, and income from investment. Operating expenses are recognized when incurred rather than when paid. These include wages and benefits, supplies and miscellaneous expenses.

The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

C) Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

As of December 31, 2012, MTA had $9,491,002 in cash and cash equivalents, an increase of $242,722 over 2011.

It is MTA's practice to invest cash temporarily idle during the year in the State Investment Pool through the Mason County Treasurer. The Mason County Treasurer oversees MTA's investment activities. At December 31, 2012, the Mason County Treasurer was holding $7,669,106 in short-term residual investments (Washington State Investment Pool) of surplus cash. This amount is classified on the *Statement of Net Position* as cash and cash equivalents.

The amounts reported as cash and cash equivalents also include two depository accounts. A depository account is maintained for payments of services rendered and is held by Mason County Treasurer on behalf of MTA. The average balance maintained during 2012 was approximately $1,271,768, with a year-end balance of $1,817,574. An ACH depository account is used for the purpose of payroll. The average balance maintained during 2012 was approximately $14,094, with a year-end balance of $4,022.

For purposes of the *Statement of Cash Flows*, MTA considers cash and cash equivalents to encompass all highly liquid investments with a maturity of three months or less.

Cash and cash equivalents as of December 31, 2012:

Description / Purpose	**Held By / On Deposit With**	**Balance: 12/31/2012**
Depository (Operating) Fund	Mason County Treasurer	$1,817,574
Cash on Hand	MTA	300
Payroll ACH Account	Bank of America	4,022
WA State Investment Pool	Mason County Treasurer	7,669,106
Subtotal (Current Assets)		$9,491,002
Total Cash and Cash Equivalents		$9,491,002

Bank Balance of Deposits does not materially differ from book balance.

2. Short-Term Investments

See Deposits and Investments – Note No. 2

3) Receivables

Taxes receivable consists of sales tax and sales tax interest.

As of December 31, 2012, MTA had $525,293 in Sales Tax Receivable. Sales tax revenue is accrued in the period earned and received two months later. Accrued interest receivable on sales tax held totaled $117.

The following sales tax amounts were accrued as of December 31, 2012:

November 2012 Sales Tax Received January 2013	$234,915
December 2012 Sales Tax Received February 2013	$290,378

The following sales tax interest amounts were accrued as of December 31, 2012

November 2012 Sales Tax Interest	$47
December 2012 Sales Tax Interest	$70

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services and any reimbursable amount outstanding associated with grants from non-government agencies. At December 31, 2012, the receivables associated with these types of transactions totaled $52,115

4) Amounts Due to and From Other Governments

As of December 31, 2012, MTA had $558,690 due from state and federal grant funds.

Interest receivable due consists of outstanding amounts earned on MTA's investment with the Washington State Investment Pool at the end of the year. At December 31, 2012, Interest Receivable totaled $1,497.

5) Inventory

The Maintenance Manager and staff are responsible for maintenance of all Mason Transit vehicles. Sufficient parts and fuel inventory are maintained on hand to ensure continuous service of all transit vehicles. No general or administrative expenses are included in an inventory valuation. MTA monthly values Maintenance Parts Inventory on a cost basis while fuel is valued on the FIFO method.

As of December 31, 2012, MTA had the following inventories:

Maintenance Parts Inventory	$39,364
Fuel Inventory	$22,209

6) Restricted Assets and Liabilities

There are no external restricted assets or liabilities.

7) Capital Assets and Depreciation

See Capital Assets and Depreciation Note No.3 for detail.

8) Other Property and Investments

Other Property

Mason Transit Authority holds in capital assets property at 790 E. Johns Prairie Rd for its main transit facility operations and administration. The property located at 601 W. Franklin in downtown Shelton is the Transit-Community Center that is currently a capital project and will house a transit information office as well as community space, programs and retail. In 2012, MTA purchased property on Railroad Ave behind the Transit-Community Center. A building is located on the property with future plans to lease the space.

Investments

See Deposits and Investments Note No.2

9) Accounts Payable

As of December 31, 2012, MTA had $176,578 owed in Accounts Payable.

Accounts Payable are expenses unrelated to wages and employee related liabilities recognized in the current period and paid in a future period.

As of December 31, 2012, MTA had $126,615 in wages and employee related liabilities recognized in the current period.

10) Deposits and Other Payables

Mason Transit Authority holds $1,100 as of December 31, 2012 for customer or rental deposits.

11) Employee Leave Benefits

Employee Leave Benefits are absences for which employees will be paid, such as vacation leave. MTA records unpaid vacation leave for accrued compensated absences as an expense and liability when incurred. Full time employees earn vacation pay at the rate of 12 to 24 days per year based on longevity; part time employees earn vacation on a percentage of hours worked. Vacation may be accumulated up to a maximum 480 hours and is payable upon resignation, retirement, or death. Sick leave benefits are accrued at 8 hours per month for full-time and pro-rated for part-time employees. Sick leave balance is capped at 960 hours and is only available during employment.

The Employee Leave Benefits for accrued vacation at December 31, 2012 equaled $154,655.

12) Net Assets, Invested in Capital Assets, Net of Related Debt

Mason Transit Authority had $6,028,069 in Net Assets, Invested in Capital Assets, Net of Related Debt.

All capital assets are reported as invested in *Capital Assets, Net of Related Debt,* regardless of restrictions and reflect total value of capital assets less accumulated depreciation.

See Capital Assets and Depreciation Note No. 3 for further detail.

13) Net Assets, Unrestricted

As of December 31, 2012, Mason Transit Authority had $10,231,337 in Net Assets, Unrestricted. *Net Assets*, *Unrestricted* is the balance of all other net assets that do not meet the criteria for *Invested in Capital Assets, Net of Related Debt* and *Net Assets, Restricted*.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Mason Transit Authority's deposits 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). (See Note 1, Item C)

Investments

The only investment in which Mason Transit Authority currently participates is the Washington State Investment Pool.

The Mason County Treasurer oversees the MTA's investment activities with Washington State Investment Pool. Interest income is recorded using the accrual method. Mason County Treasurer was holding, in the Washington State Investment Pool, an investment of $7,669,106 at December 31, 2012 compared to $8,669,106 at December 31, 2011.

Total interest earned on investments (net of Mason County Treasurer's administrative fees) for 2012 totaled $12,543.

For cash flow purposes, $1,000,000 was transferred from the Washington State Investment Pool to the depository (operating) fund. Idle cash was not moved back to the investment pool with the anticipation of the transit-community center project beginning and the need for cash to meet the costs of the architectural/engineering phase until MTA can begin drawing from the awarded grant.

The Washington State Department of Revenue remits interest on Sales Tax held and the interest earned for 2012 was $988.

NOTE 3– CAPITAL ASSETS AND DEPRECIATION

A. Capital Assets

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized at total acquisition cost, provided that such cost exceeds $5,000 and has an expected useful life of at least three years. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Mason Transit Authority has acquired certain assets with funding provided by Washington State Department of Transportation (WSDOT) and federal financial assistance programs. Depending on the terms of the agreements involved, WSDOT and the federal government could retain an equity interest in these assets. However, MTA has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets with the applicable account.

The original cost of capital property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of an asset, the original cost is removed from MTA's asset 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 via Other Non-operating Revenue on the *Statement of Revenues, Expenses and Changes in Net Assets.*

An allowance for funds used during Construction in Progress is capitalized as part of the cost of the asset, but not depreciated until completion of the project.

An asset's useful life is prescribed by Generally Accepted Accounting Principles and is based on guidelines provided by the Federal Transportation Administration (FTA) for the various vehicles by type. The transit facility's buildings, based on age and Washington Engineering's assessment, have been assigned a 20 year life.

Depreciation expense is recorded on all depreciable capital assets using the straight-line method.

Work in Progress as of December 31, 2012 consists are the following projects:

Transit-Community Center	$476,378.42
Main Facility Improvements	7,288.18
TOTAL	$483,666.60

A summary of vehicle lives and capital asset activity for 2012 are as follows.

Vehicle Lives

Vans and Minivans	4 Year Life
Minibuses with four wheels	5 Year Life
Minibuses with dual rear wheels (Wheelbase length up to 158")	6 Year Life
Minibuses with dual rear wheels (Wheelbase length 159"-181")	9 Year Life
Minibuses, cutaway with truck chassis and dual rear wheels (Wheelbase length 158"-181")	10 Year Life
Buses with dual rear wheels (Gross Vehicle Weight less than 19,000 lbs.)	9 Year Life
Buses with dual rear wheels (Gross Vehicle Weight 19,000 to 24,000 lbs.)	9 Year Life
Buses with dual rear wheels (Gross Vehicle Weight greater than 24,000 lbs.)	12 Year Life

MASON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
Capital Asset Activity for the Year Ended December 31, 2012

Category	Beginning Cost 12/31/2011	Acquisitions and Current Year Increases	Dispositions and Reclassification (Decreases)	12/31/2012 Cost Basis
Capital assets, not being depreciated:				
Land	$ 399,912	$ 107,865		$ 507,778
Work in Progress	305,109	377,280	(198,723)	$ 483,667
Capital assets, being depreciated:				
Buildings	3,595,398	79,342		$ 3,674,740
Vehicles	7,651,600	802,723	(787,253)	$ 7,667,069
Equipment	654,094	7,692	(22)	$ 661,764
Total Capital assets being depreciated:	$ 11,901,092	$ 889,757	$ (787,275)	$ 12,003,573
Less Accumulated Depreciation for:				
Buildings	1,122,539	181,807		$ 1,304,346
Vehicles	4,667,428	611,319	(771,081)	$ 4,507,666
Equipment	473,423	32,464		$ 505,887
Total Accumulated Depreciation	$ 6,263,390	$ 825,589	$ (771,081)	$ 6,317,899
Total capital assets being depreciated, net	$ 5,637,702	$ 64,167	$ (16,195)	$ 5,685,674

NOTE 4– STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

MTA is required to disclose all known violations of finance-related legal or contractual provisions and what steps are being taken to resolve the deficit.

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

NOTE 5 – PENSION PLANS

Substantially all MTA 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 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; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 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

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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.

PERS members 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 exercised an option to transfer their membership to Plan 3. PERS members 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 Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to 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 is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS 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 monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. 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 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 3 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 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and 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 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. [1] Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	**261,705**

<u>Funding Policy</u>
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. 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, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	7.21%**	7.21%**	7.21%***
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 10.74% for Plan 1 and 7.21% 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 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Mason Transit Authority contributed the following amounts per plan for employees:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$7,896	$254,354	$44,571
2011	$16,004	$227,167	$31,826
2010	$12,572	$202,132	$31,453

NOTE 6 – INSURANCE/RISK MANAGEMENT

A. Public Entity Risk Pool

Mason County Transit Authority (MTA) 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 MTA auto liability, general liability, public official's liability coverage, auto physical damage coverage, 1st property coverage, boiler and machinery coverage and employee fidelity coverage. At the end of 2012 MTA retained a $2,500 deductible for its auto physical damage coverage and a $2,500 deductible for its 1st party property coverage through WSTIP. MTA 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.

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 WSTIP must remain members for a minimum of 36 months; a member may withdraw from WSTIP after that time by giving 12 months' notice. Any member who withdraws will not be allowed to rejoin WSTIP for a period of 36 months. Transit authorities applying for membership in WSTIP may do so on approval of a simple majority vote of the Board of WSTIP. WSTIP underwriting and rate-setting policies have been established after consultation with actuaries. WSTIP members are subject to a supplemental assessment in the event of deficiencies. If the assets of WSTIP were to be exhausted, members would be responsible for its liabilities. WSTIP is regulated by the Washington State Risk Manager and audited yearly by the Washington State Auditor. A complete annual report, including financial statements, may be obtained by writing to: WSTIP, 2626 12th Ct SW, Olympia, WA 98502.

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

B. Unemployment Insurance

MTA maintains insurance against most normal hazards except for unemployment insurance, where it has elected to become self-insured as a "reimbursable employer," as allowed by the State of Washington Employment Security Department.

Claims are processed by the Employment Security Department and billed to Mason Transit Authority quarterly. MTA had $12,080 in claims during 2012.

NOTE 7 – SHORT-TERM DEBT

MTA has no short-term debt other than the current portion of long- term debt as recapped below in Note 8 - Long-term debt. Current liabilities include the current portion of long-term debt, recognizing the principal amounts due under contract for the next twelve months.

NOTE 8 – LONG-TERM DEBT AND LEASES

A. Long-Term Debt

Mason County Transit Authority's long-term debt consists of debt in which Mason County Transportation Authority and lender, Community Transportation Association of America, executed a 20 year, 6.25% interest bearing promissory note in the amount of $1,000,000 on June 26, 2003. The long-term debt is to be repaid in equal monthly installments of $6,710, with the final payment due on July 1, 2023. Proceeds from this note were used to acquire real property, the transit facility located at 790 E. John's Prairie Road, just outside Shelton, WA. The following *Schedule of Long-Term Debt* provides a listing of the outstanding debt of the Mason Transit Authority and summarizes debt transactions for the year 2012.

Mason County Public Transportation Benefit Area
Schedule of Long-Term Debt*
For the Year Ended December 31, 2012

I.D. No	Description	Date of Original Issue	Date of Maturity	Beginning Balance 12/31/2011	Amount Issued in 2012	Amount Redeemed in 2012	Ending Balance 12/31/2012
CDTLS-03-4	Facility Loan from Community Development Transportation Lending Services	08/01/2003	7/1/2023	$693,892	$0	$44,842	$649,050

*Excluding Employee Leave Benefits (See Note 1, Item C-11)

Mason County Transportation Benefit Authority
Schedule of Long-Term Debt
For the Year Ended December 31, 2012

MCAG NO. 0674 Schedule 09

	Note #1	
	Principal	Interest
2013	47,977	32,550
2014	50,532	29,995
2015	53,223	27,304
2016	56,057	24,469
2017	58,356	22,170
2018-2021	266,202	55,902
2022-2023	116,704	17,507
	649,050	209,896

B. Leases

1) Operating Leases

Mason Transit Authority had one equipment lease under non-cancelable operating leases with a remaining lease term of more than one year. Total cost for such lease was $673.76 for the year ended December 31, 2012. The future minimum lease payments for this lease are:

Year Ending December 31	**Amount**	**Terms**	# of Payments
2012	$168.44	Monthly	4
2013	$168.44	Monthly	12
2014	$168.44	Monthly	12
2015	$168.44	Monthly	12
2016	$168.44	Monthly	12
2017	$168.44	Monthly	6

2) Capital Leases

MTA has no capital leases.

NOTE 9 – RESTRICTED COMPONENT OF NET POSITION

Mason Transit has no restricted component of net position.

NOTE 10 – CONTINGENCIES AND LITIGATION

As of December 31, 2012, Mason Transit had one active litigation involving employment law.

MTA 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 MTA will have to make payment. In the opinion of management, MTA's insurance policies are adequate to pay all known and pending claims.

Mason Transit Authority participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. MTA's management believes that such disallowance, if any, would be immaterial.

NOTE 11 – OTHER DISCLOSURES

A. Taxes Received – Restrictions – Recognition Methodology

MTA received $3,149,871 in Sales Tax revenue in 2012. The tax revenues are intended for public transportation purposes. In 1991, voters authorized to levy a sales tax at the rate of two-tenths (2/10) of one percent; and on September 18, 2001, voters authorized an additional four-tenths (4/10) of one percent sales tax. The sales and use tax is collected by Washington State Department of Revenue and remitted to MTA monthly, via the Mason County Treasurer.

Tax revenues are accrued in the period earned. MTA accrued $525,293 for tax revenues earned but not received as of December 31, 2012.

B. Grants

Grant revenues were derived from federal, state and local grants. Washington State and Federal Transportation Administration awarded MTA a consolidated rural mobility and paratransit/special needs formula-based operating grant for the period from July 1, 2011 through June 30, 2013 as well as two capital vehicle acquisition grants. Another operating grant was received from the Lewis-Mason-Thurston Area Agency on Aging in the amount of $27,157. The total accrual basis federal, state and other operating and capital grant revenues for 2012 was $3,072,194 as shown in the *Schedule of Expenditures of Federal Awards* below.

MASON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Agency Name/	Federal Program Name	CFDA Number	Other ID Number	EXPENDITURES From Pass-Through Awards	EXPENDITURES Total
FTA/WSDOT	Formula Grants for Other Than Urbanized Areas FTA5311 2011-2013	20.509	FTA5311 GCA6837	$ 844,072	$ 844,072
Subtotal:	*CFDA #20-509*			*$ 844,072*	*$ 844,072*
FTA/WSDOT	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	FTA5310 GCA6836	$ 647,587	$ 647,587
Subtotal:	*CFDA #20-500*			*$ 647,587*	*$ 647,587*
TOTAL:	***FTA/WSDOT***			***$ 1,491,658***	***$ 1,491,658***
Dept. of Health & Human Services*/WA Dept. of Social & Health Services	Special Programs for the Aging,Title III, Part B,Grants for Supportive Services and Senior Centers	93.044	Title III Part B Part B	$ 9,415	$ 9,415
TOTAL:	***Department of Health and Human Services***			***$ 9,415***	***$ 9,415***
TOTAL FEDERAL AWARDS EXPENDED:				**$ 1,501,073**	**$ 1,501,073**

* DHHS - Older Americans Act -- $9415.17 of the total $ 27,156.52 award amount is Title 3B Federal Funds
  The 17,741.35 balance is State Funds

Note 1 - Basis of Accounting

This schedule is prepared in the same basis of accounting as MTA's financial statements. MTA uses the accrual basis of accounting.

Note 2 - Program Costs

The amounts shown as current year expenses represent only the Federal portion of the program costs.
Actual program costs, including those of the Authority, generally exceed those shown here.

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.

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.

State Auditor	**Troy Kelley**
Chief of Staff	**Doug Cochran**
Director of State and Local Audit	**Chuck Pfeil, CPA**
Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
Deputy Director of Quality Assurance	**Barb Hinton**
Deputy Director of Communications	**Thomas Shapley**
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