



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

**Mason County Public Transportation
Benefit Area**

(Mason Transit Authority)

Mason County

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

Published September 15, 2014

Report No. 1012549





Washington State Auditor
Troy Kelley

September 15, 2014

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 KELLEY
STATE AUDITOR

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Federal Summary

Mason Transit Authority Mason County January 1, 2013 through December 31, 2013

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 each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
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, 2013 through December 31, 2013**

1. Mason Transit Authority's internal controls were not sufficient to ensure that all program income was deducted from gross expenses.

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:	Department of Transportation
Pass-through Award/Contract Number:	GCA6837
Questioned Cost Amount:	\$20,607

Description of Condition

Mason Transit Authority received \$1,193,172 in federal funding during 2013 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 and the local match required. Any program income received is also required to be deducted from eligible expenses.

The Authority received \$20,607 for contracted services that it did not deduct from allowable expenses; this is considered program income. We reported this in our prior audit.

Cause of Condition

The Finance Manager was not aware they needed to reduce allowable expenses by the amount of program income received.

Effect of Condition and Questioned Costs

The Authority was over reimbursed by \$20,607 of program income. We are reporting this amount as questioned costs.

Federal regulations require us to report known and projected questioned costs when likely questioned costs are greater than \$10,000 for each type of compliance requirement. We question costs when we find an entity has not complied with grant regulations and/or when it does not have adequate documentation to support expenditures.

Recommendation

We recommend the Authority provide training regarding program income to finance personnel and ensure all revenues from grant-funded activities are properly deducted as program income prior to seeking reimbursement of eligible expenses.

Authority's Response

Mason Transit Authority consistently seeks to be a good steward of the public funds entrusted to it and is appreciative of the assistance received from the State Auditor's Office in that endeavor. We also appreciate the Auditor's Office drawing our attention to the importance of and need for training in the area of federal grant accounting and reporting. Mason Transit Authority will make the necessary resources available to ensure that finance staff is adequately trained in those areas.

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.

Section .510 Audit findings:

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor

shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

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.

Schedule of Prior Federal Audit Findings

**Mason Transit Authority
Mason County
January 1, 2013 through December 31, 2013**

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

Audit Period: FY2012	Report Ref. No.: 1010525	Finding Ref. No.: 1	CFDA Number(s): 20.509
Federal Program Name and Granting Agency: Formula Grants for Other Than Urbanized Areas - U.S. Department of Transportation, Federal Transit Administration		Pass-Through Agency Name: Department of Transportation	
Finding Caption: 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.			
Background: 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. These costs were reported as questioned costs.			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>Following the FY2012 audit, Mason Transit's finance staff no longer includes the ineligible contracted service costs in grant reimbursement requests and, starting August 2014, have identified program income and deducted it from grant eligible expenditures prior to submitting reimbursement requests.</i>			

**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, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 9, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

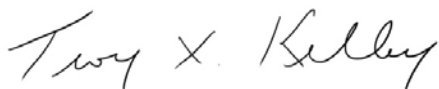
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

September 9, 2014

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

**Mason Transit Authority
Mason County
January 1, 2013 through December 31, 2013**

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, 2013. The Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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.

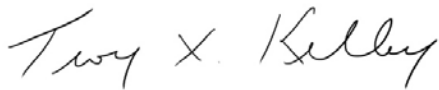
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

PURPOSE OF THIS REPORT

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

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

TROY KELLEY
STATE AUDITOR

September 9, 2014

Independent Auditor's Report on Financial Statements

Mason Transit Authority Mason County January 1, 2013 through December 31, 2013

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 20.

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, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

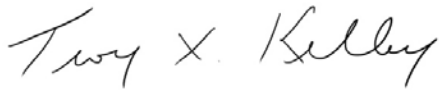
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 9, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

September 9, 2014

Financial Section

**Mason Transit Authority
Mason County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

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

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Mason County Public Transportation Benefit Area'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, 2013. 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 2013

The overall net position for MTA improved in 2013. Highlights include:

- As of December 31, 2013 MTA's assets exceeded its liabilities by \$17,423,356.
- Total Net Position increased by \$1,163,950.
- Cash and cash equivalents decreased by \$326,697.
- Fare revenues decreased by \$11,078 (1.86%) but non-operating revenue increased by \$133,348 (2.35%) from 2012. Non-operating revenue includes local sales tax (increase of \$65,635 or 2.08%), operating grant revenue (increase of \$91,356 or 3.77%), rental income (decrease of \$7,667 or 31.78%), investment income (decrease of \$3,128 or 23.11%) and other non-operating revenue (decrease of \$12,848 or 20.58%)
- Capital grants received totaled \$1,339,034 of which \$400,210 was used for capital construction and \$938,824 was used for purchase of service vehicles.
- MTA's debt ratio is 4.40% and Current Assets are 57.72% of Total Assets.

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 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.

Financial Analysis and Result of Operations

Mason Transit Authority saw an overall financial improvement in 2013. Net position increased by \$1,163,950 due to purchase of capital vehicles and investing in the remodel and construction of the Transit-Community Center in downtown Shelton.

Total cash and cash equivalents for MTA decreased by \$326,697 in 2013. Although sales tax received increased as well as revenue received from the Federal Transit Association and the Washington State Department of Transportation for operating, MTA saw a decrease in cash and cash equivalents due to capital improvements and purchases. MTA continues to have a strong reserve fund that is maintained for cash flow and capital improvements and purchases. At the end of 2013, MTA's reserve fund, which is held by the Mason County Treasurer and invested in the Washington State Investment Pool, equaled \$7,669,106.

MTA operations are subsidized by federal, state and local grants. Operating grant revenue received for 2013 increased by 3.77% and totaled \$2,444,050. 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 was \$17,289 for fourth quarter 2012 and for the first and second quarters of 2013. Legislation has continued 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. MTA's quarterly disbursement increased to \$18,668, which was received in the third and fourth quarters of 2013 and will continue through June 2015. In 2013, MTA received \$71,913 from this grant program.

Statement of Net Position

Net Position

For the year ending December 31, 2013, assets exceeded liabilities by \$17,423,356. Net investment in capital assets increased by \$1,075,621 and unrestricted net position increased by \$88,329, resulting in an increase of \$1,163,950 in the total net position. This is an increase of 7% from 2012 to 2013. 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. MTA continues to be financially secure based on strong cash and cash reserve balances and low debt ratio.

Current Assets decreased by \$168,679 (or 1.6%) and Long-Term Assets increased by \$1,027,158 (or 15.4%), netting an increase of \$858,479 (or 4.94%) to Total Assets. The increase in Total Assets is contributed to the increase in Capital Assets as a result of vehicle purchases and Capital Construction.

Liabilities decreased by \$305,471 (or 27.6%) in 2013 compared to ending balance at year-end 2012. The decrease relates partially to Accounts Payable, decrease in the compensated absences liability, and debt reduction. MTA's debt ratio is low (4.4%) with only one outstanding long-term liability and employee compensated absences.

There are no external restrictions on assets. However, MTA has designated, through Board direction, an operating reserve equal to three months of the current operating budget. For 2013, the designated operating reserve was \$2 million. Additionally, MTA designated \$500,000 for emergency repairs and \$50,000 for emergency insurance reserves.

Capital Assets

Transit is a capital intensive enterprise, with 42.27% of MTA's assets invested in capital assets to provide services to citizens.

In 2013, Capital Assets increased by \$1,027,158, net of acquisitions and disposals. Acquisitions included: six new Champion Minibuses (cutaways) in the amount of \$644,106; one Gillig Coach Bus in the amount of \$402,484; and five minivans for the Vanpool Program in the amount of \$109,325. The acquisitions of vehicles were funded by federal and state grants with a local match portion paid by MTA. Work continued on the Transit-Community Center (T-CC). Work-in-Progress increased by \$646,061 in 2013 for the T-CC.

MTA's net capital assets as of December 31, 2013 amounted to \$7,704,277. 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 15.4% during the year. Accumulated depreciation was increased by \$125,106 (see Note 2). Depreciation expense recorded was \$889,789 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. Johns Prairie Road, just outside Shelton, WA. MTA has encumbered the balance of the note in its reserves. See Note 7 for further detail.

Mason County Public Transportation Benefit Area			
Summary of Net Position			
For The Years Ended December 31, 2013 and December 31, 2012			
	<u>12/31/2013</u>	<u>12/31/2012</u>	Net Increase (Decrease) 2012 vs 2013
ASSETS			
Current Assets	\$ 10,521,607	\$ 10,690,286	\$ (168,679)
Capital Assets	<u>7,704,277</u>	<u>6,677,119</u>	1,027,158
TOTAL ASSETS	<u>\$ 18,225,884</u>	<u>\$ 17,367,405</u>	<u>\$ 858,479</u>
LIABILITIES			
Current Liabilities	\$ 98,845	\$ 339,979	\$ (241,134)
Long-Term Liabilities	<u>703,683</u>	<u>768,020</u>	(64,337)
TOTAL LIABILITIES	<u>\$ 802,528</u>	<u>\$ 1,107,999</u>	<u>\$ (305,471)</u>
NET POSITION			
Invested in capital assets, net of related debt	7,103,690	6,028,069	1,075,621
Unrestricted	<u>10,319,666</u>	<u>10,231,337</u>	88,329
Total Net Position	<u>\$ 17,423,356</u>	<u>\$ 16,259,406</u>	<u>\$ 1,163,950</u>

Statement of Revenues, Expenses and Changes in Fund Net Position

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 Authority remains fare free within Mason County. A fee is charged for the Puget Sound Naval Shipyard (PSNS) Worker/Driver service, vanpool, and for some Special Event Services.

Fares collected during 2013 were as follows:

Out-of-County Fares	\$107,604	Increased	2.59%
PSNS Worker/Driver & Vanpool Fares	\$376,544	Decreased	.55%
Special Contract Fares-Local Government	\$ 97,705	Decreased	10.69%

The Special Contract Fares were collected from 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, Hoodspport and Lake Cushman areas. The funding was again awarded for the project in 2013 with plans of extending service in 2014. Ridership continues to grow on the pilot run with an increase of 29% in 2013.

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 2013 included \$3,215,506 in sales tax, an increase of 2.08% over 2012. Since 2009, sales tax revenue has been relatively flat after the downturn as compared to the years from 2006-2008 when MTA saw its highest sales tax revenue. In August 2013, sales tax began trending upward and MTA anticipates the trend to continue due to construction projects in the area.

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, 2013, MTA has utilized 49.8% of the 2013-2015 operating grant. An operating grant was received from the Lewis-Mason-Thurston Area Agency on Aging in the amount of \$29,100. The total federal, state and other operating grant revenue for 2013 was \$2,515,963. (See Note 8)

Interest income decreased by 23.1% in comparison to 2012. 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 earned through the funds invested with the Mason County Treasurer's office and from sales tax held. Interest earned during 2013 amounted to \$10,403 compared to \$13,531 in 2012.

MTA also includes in non-operating revenue 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 Authority service area to essential appointments. The donations from the Volunteer Driver Program collected during 2013 totaled \$2,786. The donations are included in Other Non-operating Revenue.

Revenue obtained via rental income for a small portion of the facility and from the Transit-Community Center totaled \$16,453 (decrease of 23.1%). The T-CC was closed for the last part of the year in preparation for the remodel and construction; therefore not available for event rental. Other non-operating revenue totaled \$46,791 (decrease of 20.6%) includes: sales of vehicle maintenance services, sales of surplus vehicles, insurance recoveries, T-CC paver donations, and other miscellaneous revenue.

Capital Contributions

MTA received \$1,339,034 in Capital Grant revenue which was used to purchase one coach, six minibuses, and five minivans and work on the T-CC project. (See Note 8)

Operating Expenses

Operating and non-operating expenses, representing costs incurred to provide transportation services, increased during 2013 by \$185,284 (or 2.90%) with employee cost and repairs to an aging facility as

the highest contributing factors to the increase. Operating expenses for 2013, including administrative expenses, were \$6,532,506. This also included an allowance for depreciation in the amount of \$889,789.

Expenses by department were as follows:

- Operations: \$2,895,467 – Responsible for all on-road services, including: Drivers, communications center, communications center supervisor, vanpool coordinator, schedulers, road and training supervisors and an operations manager.
- Maintenance: \$1,420,855 – 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: \$2,216,184 – Responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resources, safety and risk management.
- Depreciation: \$889,789 – (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.

Non-Operating Expenses

Non-Operating Expenses included \$32,334 in loan interest.

Mason County Public Transportation Benefit Area			
Summary Statement of Revenues, Expenses and Changes in Fund Net Position			
For The Years Ended December 31, 2013 and December 31, 2012			
	<u>12/31/2013</u>	<u>12/31/2012</u>	Net Increase (Decrease) 2013 vs 2012
OPERATING REVENUE:			
Fares	\$ 581,853	\$ 592,932	\$ (11,079)
NON-OPERATING REVENUE			
Sales Tax	3,215,506	3,149,871	65,635
Grant Revenue	2,515,963	2,424,607	91,356
Other Non-operating Revenue	<u>76,434</u>	<u>100,076</u>	<u>(23,642)</u>
TOTAL REVENUE	<u>\$ 6,389,756</u>	<u>\$ 6,267,486</u>	<u>\$ 122,270</u>
EXPENSES			
Operating Expenses	\$ 5,642,717	\$ 5,518,282	\$ 124,435
Depreciation	889,789	\$ 825,589	\$ 64,200
Non-Operating Expenses	<u>32,334</u>	<u>\$ 35,685</u>	<u>\$ (3,351)</u>
TOTAL EXPENSES	<u>\$ 6,564,840</u>	<u>\$ 6,379,556</u>	<u>\$ 185,284</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	(175,084)	(112,070)	(63,014)
Capital Contributions-Grants	<u>1,339,034</u>	<u>647,587</u>	<u>691,447</u>
TOTAL CHANGE IN NET POSITION	1,163,950	535,517	628,433
BEGINNING NET POSITION	16,259,406	15,723,889	535,517
ENDING NET POSITION	<u>\$ 17,423,356</u>	<u>\$ 16,259,406</u>	<u>\$ 1,163,950</u>

2013 Budget to Actuals

MTA's Budget to Actuals is depicted in the chart below. It was expected the Transit-Community Center project would be approximately 50% complete in 2013; however, construction did not start until January 2014 with an estimated completion date of January 2015.

Revenue	2013 Budget	2013 Actual	Budget to Actual Variance	Expenses	2013 Budget	2013 Actual	Budget to Actual Variance
Sales Tax Revenue	\$ 3,200,000	\$ 3,215,506	\$ 15,506	Salaries & Benefits	\$ 4,211,433	\$ 4,155,922	\$ (55,511)
Interest Income	11,370	10,403	(967)	Fuel	551,193	471,828	(79,365)
Operating Grants	2,253,114	2,565,541	312,427	Insurance	181,541	182,545	1,004
Fares	471,350	581,854	110,504	Debt Service	37,500	32,334	(5,166)
Misc	55,559	16,452	(39,107)	Other Goods & Services	865,732	832,422	(33,310)
Operating Revenue	5,991,393	6,389,756	398,363	Operating Expenses	5,847,399	5,675,051	(172,348)
T-CC Grant	3,280,000	400,210	(2,879,790)	T-CC	3,788,634	646,061	(3,142,573)
State of Good Repair Grant	871,200	839,824	(31,376)	Vehicles & Equipment	1,089,000	1,155,915	66,915
Other Capital Grants/Revenue	250,000	99,000	(151,000)	Capital Projects	425,000	125,864	(299,136)
Capital Revenue	4,401,200	1,339,034	(3,062,166)	Capital Expenditures	5,302,634	1,927,840	(3,374,794)
Total	\$10,392,593	\$7,728,790	\$(2,663,803)		\$11,150,033	\$7,602,891	\$(3,547,142)
From (To) Fund Balance	757,440	(125,899)	(883,339)				
Balanced Budget	\$ 11,150,033	\$ 7,602,891	\$ (3,547,142)	Total Expenses	\$ 11,150,033	\$ 7,602,891	\$ (3,547,142)

Economic Factors and Future Outlook

Mason Transit Authority's (MTA) financial outlook for 2014 to 2018 is cautiously optimistic. The agency's priority is focused on sustaining existing service levels as well as continuing our developing partnerships with external agencies, particularly the Skokomish and Squaxin Island Tribal Nations, to expand and leverage grant funding opportunities. The badly damaged, very slowly recovering economy and high unemployment has resulted in substantially reduced and stagnated county sales tax revenue – a primary source of MTA's funding. After the crash in 2009 through the first half of 2013, sales tax revenue was flat. Starting in August, 2013, MTA has been seeing continuous moderate improvements in sales tax revenue. It is expected that sales tax revenues will remain below the peak 2007 level in 2014 with projected growth to exceed 2013 by 2.5%.

While the impact of Federal deficit spending remains to be seen, Federal transit spending has been stabilized for the next two years (and slightly increased for rural transit) with the passage of MAP 21. Further, the President's proposed budget for Federal Fiscal Year 2014-2015 significantly increases public transit funding. It is also a positive sign that the State of Washington's 2013-15 transportation budget continues existing funding and once again renewed its sales tax equalization plan, which particularly impacts Mason County. The addition, last year's first-ever State contribution to funding public transit operations, has been continued. Previously only capital investments had been funded at the state level. On a local level, the County's unemployed rate has dipped under double digits for the first time in five years. The two largest private employers, Simpson Lumber and Taylor Shellfish, are projecting higher rates of growth than they have seen in the past five years, and the Puget Sound Naval Shipyard is significantly expanding its workforce in 2014. All of these elements can significantly impact existing service, future service, and vehicle and facility replacement and/or maintenance, and the occurrence of any near-term economic contraction or retraction is not outside the realm of possibility.

This economic climate 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, 65-years old or older, is 18.3 percent of the County's population, which ranks eleventh out of Washington state's 39 counties. Ridership continues to grow and is already outpacing resources on MTA's commuter routes to Olympia and Bremerton as well as in Dial-A-Ride services. While service expansion is warranted to support the growing demand, the financial resources, from all sources, are not currently sufficient to support expansion.

The 2014 budget is focused on sustaining as opposed to expanding services, maintaining MTA's unrestricted net position balance and employing frugal spending practices. MTA continued several fiscally sound initiatives in 2013, 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, 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 wages to a performance-based approach that went into effect in 2014.

MTA's only debt is a promissory note with the Community Development Transportation Lending Services (CDTLS) committed for the Johns Prairie facility acquisition. MTA has no other long or short term debt of any type. The note with CDTLS is a 20 year, 6.25% interest bearing promissory note in the amount of \$1,000,000 to be repaid in equal monthly installments of \$6,710, with the final payment due on July 1, 2023.

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; the State of Washington awarded an additional \$800,000 towards the project in 2013. In 2012-13, MTA selected the project management, architecture/engineering and general contractor/contract management firms. Groundbreaking was conducted on August 1, 2013 with project completion projected for the end of 2014. The MTA Board has encumbered an additional \$2,930,000 in its 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 fiscally responsible manner.

Request for Information

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
790 E Johns Prairie Rd
Shelton, WA 98584
(360) 426-9434 ext.150

Mason County Public Transportation Benefit Area
Statement of Net Position
December 31, 2013

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents:	
Cash on Hand	\$ 300
On Deposit - Mason Co Treasurer	1,482,924
Bank of America Payroll ACH Account	11,975
Mason Co / WA Counties Investment Pool	<u>7,669,106</u>
Total Cash and Cash Equivalents	9,164,305
Other Current Assets:	
Accounts Receivable	39,500
Grants/Contracts Receivable	688,394
Interest Receivable	842
Due from other Governmental Units - Taxes	556,471
Prepaid Expenses	8,463
Deposits	100
Parts Inventory	34,328
Fuel Inventory	<u>29,204</u>
Total Other Current Assets	1,357,302
TOTAL CURRENT ASSETS	<u>10,521,607</u>

NON-CURRENT ASSETS:

CAPITAL ASSETS:	
Capital Assets Not Being Depreciated	
Land	507,778
Construction in Progress	1,155,120
Capital Assets Being Depreciated	
Buildings	3,751,642
Transportation Equipment	8,101,687
Office and Shop Equipment	631,055
Less: Accumulated Depreciation	(6,443,005)
Net Capital Assets Being Depreciated	<u>6,041,379</u>
TOTAL NON-CURRENT ASSETS	<u>7,704,277</u>

TOTAL ASSETS	<u>\$ 18,225,884</u>
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DEFERRED OUTFLOWS OF RESOURCES	\$ -
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LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$ 33,267
CDTLS Facility Loan (Short-term Portion)	32,334
Other Current Liabilities	<u>33,244</u>
TOTAL CURRENT LIABILITIES	98,845

NON-CURRENT LIABILITIES:

Employee Leave Benefits	135,159
CDTLS Facility Loan (Long-term Portion)	<u>568,524</u>
TOTAL NON-CURRENT LIABILITIES	703,683

TOTAL LIABILITIES	<u>\$ 802,528</u>
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DEFERRED INFLOWS OF RESOURCES	\$ -
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NET POSITION

Invested in capital assets, net of related debt	7,103,690
Unrestricted Net Assets	<u>10,319,666</u>

TOTAL NET POSITION	<u>\$ 17,423,356</u>
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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, 2013

OPERATING REVENUES:

Passenger fares	\$	107,604
PSNS Worker/Driver & Vanpool fares		376,544
Special Contract/Event fares		97,705
Total Operating Revenue	\$	581,853

OPERATING EXPENSES:

Wages and Benefits		4,155,921
Contracted services		159,371
Maintenance (Vehicle and Facility)		219,707
Fuel		471,828
Purchased Transportation		85,993
Insurance		182,545
Intergovernmental Audit Fees		18,394
Rent - Park and Ride		5,925
Volunteer driver reimbursements		35,892
Other operating expenses		307,141
Depreciation		889,789
Total Operating Expenses		6,532,506

OPERATING INCOME (LOSS) (5,950,653)

NONOPERATING REVENUES (EXPENSES):

NONOPERATING REVENUES:

Sales tax		3,215,506
Grant revenue		2,515,963
Rental Income		16,453
Investment income		10,403
Other nonoperating revenue		49,578
Total Nonoperating Revenue		5,807,903

NONOPERATING EXPENSES:

CDTLS Loan Interest		32,334
Total Nonoperating Expenses		32,334

Net Nonoperating Revenues (Expenses) 5,775,569

Income (Loss) before capital contributions (175,084)

Capital Contributions-Grants 1,339,034

Increase(Decrease) in Net Position 1,163,950

Net Position - January 1, 2013 16,259,406

Net Position - December 31, 2013 \$ 17,423,356

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

Mason County Public Transportation Benefit Area
Statement of Cash Flows
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 594,468
Payments to suppliers	(1,735,099)
Payments to employees	(4,175,417)
Net cash provided (used) by operating activities	<u>\$ (5,316,048)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Sales Tax	\$ 3,184,327
Cash Received from Grants	2,386,259
Other nonoperating revenue	66,030
Net Cash provided from noncapital activities	<u>\$ 5,636,616</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital contributions (capital grants)	\$ 1,339,034
Purchases of capital assets	(1,916,947)
Principal paid on capital debt	(48,193)
Interest paid on capital debt	(32,334)
Net cash provided (used) by capital and related financing activities	<u>\$ (658,440)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends	\$ 11,175
Net cash provided by investing activities	<u>\$ 11,175</u>

Net increase (decrease) in cash and cash equivalents	\$ (326,697)
Balances - beginning of the year	<u>9,491,002</u>
Balances - end of the year	<u>\$ 9,164,305</u>

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

Operating income (loss)	<u>\$ (5,950,652)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	\$ 889,789
Change in assets and liabilities:	
Decrease in accounts receivable	12,615
Increase in prepaid expenses	(8,563)
Increase in parts and fuel inventory	(1,958)
Decrease in accounts payable	(238,284)
Decrease in other-current liabilities	500
Increase in employee benefits payable	(19,496)
Net cash provided by operating activities	<u>\$ (5,316,048)</u>

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, 2013 through December 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mason County Public Transportation Benefit Area (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.

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 sales tax, 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 nine elected officials from the following: Three elected members of the Mason County Commission; one elected member of the City of Shelton Commission; one elected member of the Hood Canal School District; one elected member from the Shelton School District; one elected member from the Mary M. Knight School District or Southside School District serving alternating two year terms; one elected member of the Mason County Public Hospital District No 2 or North Mason School District serving alternating two year terms; and one elected member of the Grapeview School District or Pioneer School District serving alternating two year terms. 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 all potential component units. 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 cost for services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the *Statement of Net Position* (or Balance Sheet). Their reported fund net position is segregated into net investment in capital assets, restricted and unrestricted components of net position. Operating statements present increases (revenue and gains) and decreases (expenses and losses) in total net position. MTA discloses changes in cash flows by a separate statement that presents their operating, non-capital financing and investing activities.

The accounting policy of MTA expresses the intent to conform to generally accepted accounting principles (GAAP) applicable to governmental enterprise units and with Washington State's Budgeting and Accounting Reporting System (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, 2013, MTA had \$9,164,305 in cash and cash equivalents, a decrease of \$326,697 from 2012.

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, 2013, 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. Total interest earned on account (net of Mason County Treasurer's administrative fees) for 2013 was \$9,972, a decrease of 20.5% from the previous year.

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 2013 was approximately \$1,454,341, with a year-end balance of \$1,482,924. An ACH depository account is used for the purpose of payroll. The average balance maintained during 2013 was approximately \$3,380, with a year-end balance of \$11,975.

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, 2013:

Description / Purpose	Held By / On Deposit With	Balance: 12/31/2013
Depository (Operating) Fund	Mason County Treasurer	\$1,482,924
Cash on Hand	MTA	300
Payroll ACH Account	Bank of America	11,975
WA State Investment Pool	Mason County Treasurer	7,669,106
Subtotal (Current Assets)		\$9,164,305
Total Cash and Cash Equivalents		\$9,164,305

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

2. Short-Term Investments

See Note 1 – C1 Cash and Cash Equivalents.

3) Receivables

Taxes receivable consists of sales tax and sales tax interest.

As of December 31, 2013, MTA had \$556,471 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 \$52.

The following sales tax amounts were accrued as of December 31, 2013:

November 2013 Sales Tax Received January 2014	\$243,571
December 2013 Sales Tax Received February 2014	\$312,900

The following sales tax interest amounts were accrued as of December 31, 2013

November 2013 Sales Tax Interest	\$26
December 2013 Sales Tax Interest	\$26

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, 2013, the receivables associated with these types of transactions totaled \$39,500.

4) Amounts Due to and From Other Governments

As of December 31, 2013, MTA had \$688,394 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, 2013, Interest Receivable totaled \$790.

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, 2013, MTA had the following inventories:

Maintenance Parts Inventory	\$34,328
Fuel Inventory	\$29,204

6) Restricted Assets and Liabilities

There are no external restricted assets or liabilities.

7) Capital Assets and Depreciation

See Capital Assets Note 2 for detail.

8) Other Property and Investments

Other Property

Mason Transit Authority holds in capital assets three properties. The property located at 790 E. Johns Prairie Rd, Shelton, WA is the 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. The property located at 536 W. Railroad Ave has a building that is currently leased as office space. MTA has debt only related to the main transit facility. (See Note 7)

Investments

See Deposits and Investments, Note 5.

9) Other Assets and Debts

Prepaid Expenses

MTA has \$8,563 in Prepaid and Other Expenses as of December 31, 2013. The Prepaid Expenses is for a yearly maintenance fee that was paid in December but is for year 2014. It will be expensed on a monthly basis throughout 2014. Other prepaids included a deposit to rent a facility in April 2014.

Accounts Payable

As of December 31, 2013, MTA had \$33,267 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.

Work-In-Progress

At the end of 2013, MTA had two Work-In-Progress projects. New software for the Maintenance Department was purchased and in the process of implementation at the close of the year. The other project is the Transit-Community Center remodel and construction of new LEEDS building. See Note 2 – Capital Assets for detail.

10) Deferred Outflows/Inflows of Resources

Mason Transit Authority has no deferred outflows or inflows of resources to report.

11) Custodial Accounts

Mason Transit Authority holds \$1,600 as of December 31, 2013 for customer or rental deposits.

12) Compensated Absences

Compensated Absences are absences for which employees will be paid, such as vacation leave, and represent vacation earned by employees but not taken at year end. 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 (240 hours in 2014) and is payable upon end of employment. Sick leave benefits are earned 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 Compensated Absences for accrued vacation at December 31, 2013 equaled \$135,159.

13) Other Accrued Liabilities

Accrued Wages and Employee Benefits

As of December 31, 2013, MTA had \$31,548 in wages and employee related liabilities recognized in the current period that are included in Other Current Liabilities.

14) Long-Term Debt

See Note 7, Long-Term Debt and Note 6, Leases.

NOTE 2– CAPITAL ASSETS AND DEPRECIATION

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/or 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 Position*.

An allowance for funds used during Work 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, 2013 consists of the following projects:

Transit-Community Center Feasibility Study and Preliminary Design	\$255,596
Transit-Community Center Construction	866,844
Facility Improvements/Capital Projects	<u>32,680</u>
TOTAL	<u>\$1,155,120</u>

A summary of vehicle lives and capital asset activity for 2013 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, 2013

Category	Beginning Cost 12/31/2012	Acquisitions and Current Year Increases	Dispositions and Reclassification (Decreases)	12/31/2013 Cost Basis
Capital assets, not being depreciated:				
Land	\$ 507,778	\$ -	\$ -	\$ 507,778
Work in Progress	483,667	759,248	(87,795)	1,155,120
Capital assets, being depreciated:				
Buildings	3,674,740	76,903		3,751,642
Vehicles	7,667,069	1,155,915	(721,297)	8,101,687
Equipment	661,764	12,677	(43,386)	631,055
Total Capital assets being depreciated:	\$ 12,003,573	\$ 1,245,494	\$ (764,683)	\$ 12,484,384
Less Accumulated Depreciation for:				
Buildings	1,304,346	185,479		1,489,825
Vehicles	4,507,666	673,230	(721,297)	4,459,599
Equipment	505,887	31,080	(43,386)	493,581
Total Accumulated Depreciation	\$ 6,317,899	\$ 889,789	\$ (764,683)	\$ 6,443,005
Total capital assets being depreciated, net	\$ 5,685,674	\$ 355,705	\$ (0)	\$ 6,041,379

NOTE 3 – CONSTRUCTION COMMITMENTS

Mason Transit Authority has one active construction project as of December 31, 2013. The project noted is the Transit-Community Center in downtown Shelton.

At year-end, MTA's commitments with contractors were as follows:

Project	Spent to Date	Remaining Commitment
Transit-Community Center	\$ 866,844	\$ 6,907,382

Of the committed balance of \$6,907,382 MTA will not be required to raise any funds through future financing. The project is being funded through a Federal Transit Administration Grant, a State ASK, and local funds.

NOTE 4 – CONTINGENCIES AND LITIGATION

Contingencies

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.

Litigation

As of December 31, 2013, Mason Transit had one active litigation involving employment law.

MTA paid the deductible expense of \$5,000, the agency's responsible portion of the active litigation, in 2013. The case was settled in March of 2014 with no additional cost to MTA. All claims and cost of the litigation were covered through the agency's insurance policy through the Washington State Transit Insurance Pool. (See Note 11)

NOTE 5 – 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-1)

NOTE 6 – 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 \$2,021.28 for the year ended December 31, 2013. The future minimum lease payments for this lease are:

Year Ending December 31	Amount	Terms	# of Payments
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

NOTE 7 – LONG-TERM DEBT

Long-Term Debt

Mason County Transit Authority's long-term debt consists of debt in which Mason County Transportation Authority and lender, Community Development Transportation Lending Services, 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. Johns 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 2013. For information on Compensated Benefits, see Note No 1, Item C-12.

MCAG NO. 0674

Schedule 09

**Mason County Public Transportation Benefit Area
Schedule of Liabilities
For the Year Ended December 31, 2013**

I.D. NO.	Description	Maturity/Payment Due Date	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013
General Obligations						
CDTLS-03-4 263.61	CDTLS	7/1/2023	649,050		48,193	600,857
259.11	Accrued Vacation Benefits		154,655		19,495	135,160
Total Liabilities			803,705		67,688	736,017

**Mason County Public Transportation Benefit Area
Schedule of Long-Term Debt
For the Year Ended December 31, 2013**

MCAG NO. 0674

Schedule 09

	Note #1	
	Principal	Interest
2014	50,532	29,995
2015	53,223	27,304
2016	56,057	24,469
2017	58,356	22,170
2018	61,463	19,063
2019-2021	204,739	36,839
2022-2023	116,487	4,302
	600,857	164,141

NOTE 8 – OTHER DISCLOSURES

Intergovernmental Assistance Programs

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 and again for the period of July 1, 2013 through June 30, 2015. MTA was awarded two capital vehicle acquisition grants during the two biennium. Another operating grant was received from the Lewis-Mason-Thurston Area Agency on Aging in the amount of \$29,100. Through the Public Transportation Grant Program, MTA received \$71,913 directly from the Department of Revenue in 2013 for the purpose of operating. The State of Washington awarded MTA a grant for the Vanpool Investment Program to replace vanpool vehicles. Grants require a matching of funds depending on the type of grant. Consolidated Grant Contractor Funds (match) for operating grants range up to 50%. Capital construction/improvements and vehicle acquisitions require a 20% match and Vanpool program requires 10% match.

The total federal, state and other operating and capital grant revenues for 2013 was \$3,854,997 as shown in the *Schedule of Expenditures of Federal Awards* and the *Schedule of State and Local Financial Assistance* below.

**MASON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2013**

Federal Agency Name/ Pass-Through agency Name	Federal Program Name	CFDA Number	Other ID Number	EXPENDITURES	
				From Pass- Through Awards	Total
FTA/WSDOT	Fixed Guideway Capital Investment Grants	20.500	FTA5309 GCB1222	\$ 839,824	\$ 839,824
FTA/WSDOT	Fixed Guideway Capital Investment Grants	20.500	FTA5309 GCB1292	\$ 400,210	\$ 400,210
<i>Subtotal: CFDA #20-500</i>				\$ 1,240,034	\$ 1,240,034
FTA/WSDOT	Formula Grants for Rural Areas	20.509	FTA5311 GCA6837	\$ 518,112	\$ 518,112
FTA/WSDOT	Formula Grants for Rural Areas	20.509	FTA5311 GCB1624	\$ 675,060	\$ 675,060
<i>Subtotal: CFDA #20-509</i>				\$ 1,193,172	\$ 1,193,172
TOTAL: FTA/WSDOT				\$ 2,433,206	\$ 2,433,206
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	\$ 10,597	\$ 10,597
TOTAL: Department of Health and Human Services				\$ 10,597	\$ 10,597
TOTAL FEDERAL AWARDS EXPENDED:				\$ 2,443,803	\$ 2,443,803

* DHHS - Older Americans Act -- \$10,596.72 of the total \$ 29,100 award amount is Title 3B Federal Funds
The \$18,503.28 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.

**MASON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
SCHEDULE OF STATE AND LOCAL FINANCIAL ASSISTANCE
For The Year Ended December 31, 2013**

Grantor	Program Title	Identification Number	Total
WSDOT	Formula Grants for Rural Areas State Paratransit/Special Needs	20.509 GCA6837	\$ 114
WSDOT	Formula Grants for Rural Areas State Paratransit/Special Needs	20.509 GCB1624	\$ 256,079
WSDOT	Formula Grants for Rural Areas Rural Mobility Competitive	20.509 GCA6837	\$ 67,591
WSDOT	Formula Grants for Rural Areas Rural Mobility Tax Equalization	20.509 GCA6837	\$ 457,660
WSDOT	Formula Grants for Rural Areas Rural Mobility Tax Equalization	20.509 GCB1624	\$ 440,118
WSDOT	Formula Grants for Rural Areas Rural Transportation Assistance Program	20.509 GCA6837	\$ 216
WSDOT	Vanpool Investment Program Grant	GCD1440	\$ 99,000
Dept. of Revenue	Public Transportation Grant Program		\$ 71,913
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	\$ 18,503
Total State and Local Expended:			\$ 1,411,194
<p>* DHHS - Older Americans Act -- \$10,596.72 of the total \$ 29,100 award amount is Title 3B Federal Funds The 18,503.28 balance is State Funds</p> <p><u>Note 1 - Basis of Accounting</u></p> <p>The Schedule of State and Local Financial Assistance is prepared using the accrual basis of accounting, as are the financial statements.</p> <p><u>Note 2 - Program Costs</u></p> <p>The amounts shown as current year expenses represent only the State portion of the program costs. Actual program costs, including those of the Authority, generally exceed those shown here.</p>			

Major Receivables

Sales Tax

MTA received \$3,215,506 in Sales Tax revenue in 2013. 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 \$556,471 for tax revenues earned but not received as of December 31, 2013.

Violation of Finance-Related Legal or Contractual Provisions

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

NOTE 9 – PENSION PLANS

Substantially all Mason Transit Authority 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 GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 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; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 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.

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 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 2013, 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, in lieu of any retirement benefit, 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 from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

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.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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 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, if hired prior to May 1, 2013:

- 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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. Members who do not choose a contribution rate default to a 5 percent rate. 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 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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.

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.

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

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

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.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

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

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% for Plan 2.

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

Both MTA and the employees made the required contributions. Mason Transit Authority's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$2,504	\$299,779	\$63,747
2012	\$7,896	\$254,354	\$44,571
2011	\$16,004	\$227,167	\$31,826

NOTE 10 – RESTRICTED COMPONENT OF NET POSITION

Mason Transit has no restricted component of net position.

NOTE 11 – INSURANCE/RISK MANAGEMENT

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. 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.

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 \$12,096 in claims during 2013.

NOTE 12 – SHORT-TERM DEBT

MTA has no short-term debt other than the current portion of long-term debt as recapped in Note 7 - 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 13 – TERMINATION BENEFITS

In 2013, Mason Transit Authority paid out severance benefits for two employees due to involuntary termination. The first employee (terminated November 2012) was given Severance Pay in the amount of \$12,000 in 2013 and continued health care coverage from December 1, 2012 through December 31, 2013 in the amount of \$8,826. The second employee was terminated in March 2013 and given \$13,120 in Severance Pay and continued health care coverage from April 1, 2013 through December 31, 2013 in the amount of \$6,736. MTA was reimbursed by the agency's insurance policy \$15,395 and \$8,248 respectively for the terminations. Neither employee was terminated for wrongful misconduct nor are there further obligations to the employees owed by MTA.

Mason County Public Transportation Benefit Area
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures		Footnote Ref
				From Pass-Through Awards	From Direct Awards	
Federal Transit Administration (fta), Department Of Transportation/Department of Transportation	Federal Transit_Capital Investment Grants	20.500	GCB1222	839,824		839,824
Federal Transit Administration (fta), Department Of Transportation/Washington State Department of Transportation	Federal Transit_Capital Investment Grants	20.500	GCB1292	400,210		400,210
Total CFDA 20.500				1,240,034	0	1,240,034
Federal Transit Administration (fta), Department Of Transportation/Washington State Department of Transportation	Formula Grants for Rural Areas	20.509	GCA6837	518,112		518,112
Federal Transit Administration (fta), Department Of Transportation/Washington State Department of Transportation	Formula Grants for Rural Areas	20.509	GCB1624	675,060		675,060
Total CFDA 20.509				1,193,172	0	1,193,172
Administration For Community Living, Department Of Health And Human Services/Washington State Department of Social and Health Services	Special Programs for the Aging_ Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	Title III Part B	10,597		10,597
Total Federal Awards Expended:				2,443,803	0	2,443,803

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

Notes to the Schedule of Expenditures of Federal Awards

* DHHS - Older Americans Act -- \$10,596.72 of the total \$ 29,100 award amount is Title 3B Federal Funds
The \$18,503.28 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.

Corrective Action Plan for Findings Reported Under OMB Circular A-133

Mason Transit Authority Mason County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Transit. The State Auditor's Office has reviewed the information as presented by the Transit.

Finding ref number: 1	Finding caption: Mason Transit Authority's internal controls were not sufficient to ensure that all program income was deducted from gross expenses
Name, address, and telephone of auditee contact person: Mary Ann Norquist, Finance Manager Mason Transit Authority 790 E. Johns Prairie Road Shelton, WA 98584 (360) 432-5750	
Corrective action the auditee plans to take in response to the finding: <i>Mason Transit Authority will ensure that finance personnel partake in the training necessary to ensure the proper accounting and reporting of program income for federal grants.</i>	
Anticipated date to complete the corrective action: March 31, 2015	

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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