



**Office of the Washington State Auditor**  
**Pat McCarthy**

**Financial Statements and Federal Single Audit  
Report**

**Mason County Public Transportation  
Benefit Area  
(Mason Transit Authority)**

**For the period January 1, 2016 through December 31, 2016**

**Published September 25, 2017**

**Report No. 1019904**





**Office of the Washington State Auditor**  
**Pat McCarthy**

September 25, 2017

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,

Pat McCarthy  
State Auditor  
Olympia, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Mason Transit Authority  
Mason County  
January 1, 2016 through December 31, 2016**

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Mason Transit Authority are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### Internal Control over Financial Reporting:

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

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

### Federal Awards

#### Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.509	Formula Grants for Rural Areas

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Authority qualified as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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, 2016 through December 31, 2016**

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, 2016, 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 18, 2017.

**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.

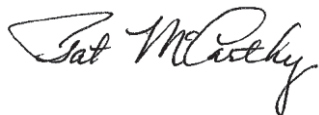
## **COMPLIANCE AND OTHER MATTERS**

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.



Pat McCarthy

State Auditor

Olympia, WA

September 18, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**Mason Transit Authority  
Mason County  
January 1, 2016 through December 31, 2016**

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) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## **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 the Uniform Guidance, 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 the Uniform Guidance. 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 18, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Mason Transit Authority Mason County January 1, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 14.

#### **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, 2016, 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***

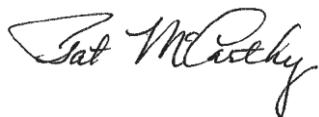
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 21 and pension plan information on pages 43 through 44 be presented to supplement the basic financial statements. Such information, although not a part of 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 18, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

September 18, 2017

## FINANCIAL SECTION

**Mason Transit Authority**  
**Mason County**  
**January 1, 2016 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of the Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3  
– 2016

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016

## 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, 2016. It 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 since 1992. 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 2016

- As of December 31, 2016 MTA's Net Position equaled \$19,356,253.
- Total net position decreased by \$63,282.
- Cash and cash equivalents increased by \$2,601,970.
- Fare revenues increased by \$35,882 or 7.9%.
- Non-operating revenue increased by \$1,228,622 or 20.4%. Non-operating revenue includes local sales tax, grant revenue, rental income, investment income, sales of maintenance service and miscellaneous non-operating revenue.
- Capital grants received totaled \$385,907; the total amount was used for capital construction.

### 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 *Statement of Net Position* presents information on all of MTA's assets, deferred outflows, liabilities and deferred inflows, with the difference being 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 years.

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

Mason Transit Authority remained stable in 2016. MTA's total cash and cash equivalents increased by \$2,601,970 at year-end 2016. Receipt of an outstanding capital grant receivable of \$1,474,999, plus increased fare revenue, sales tax and operating grant revenues contributed to the increase. At year end, there was \$1,187,660 in grant fund receivables outstanding. MTA continues to have a reserve fund that is maintained for cash flow and capital improvements and purchases. At the end of 2016,

MTA's reserve fund which is held by the Mason County Treasurer and invested in the Washington State Investment Pool, equaled \$5,369,105, a \$1,774,999 increase over 2015.

Sales Tax Revenue increased by \$237,571 or 6.2% from 2015 to 2016. Sales Tax Revenue received by MTA has continued to trend upward.

MTA operations are subsidized by federal, state and local grants. Operating grant revenue for 2016 was \$2,979,192; capital grant revenue was \$385,907. Federal and State grants are received on a reimbursement basis, by quarterly submission of operational and expenditure reports. The grant amounts fluctuate depending on the success of grant applications and funding availability for our specific region.

### **Statement of Net Position**

#### **Net Position**

For the year ending December 31, 2016, assets plus deferred outflows exceeded liabilities and deferred inflows by \$19,356,253, a decrease of \$63,282 from December 31, 2015.

Unrestricted net position increased by \$710,284 or 15.4%, the result of improved cash flow from outstanding grant receipt.

After recording depreciation, acquisitions and disposals, MTA's investment in capital assets decreased by \$773,566. This is a decrease of 5.2% from 2015 to 2016. Although changes in net position can be viewed as an indicator of financial sustainability or 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 no externally-funded debt.

Current assets increased by \$777,292 or 10%, non-current assets decreased by \$773,566, netting an increase of \$3,726 or 0.02% to total assets.

GASB 68 entries for the year reported on the Statement of Net Position represented deferred outflows in the amount of \$615,323 and deferred inflows in the amount of \$63,644.

Current liabilities increased by \$50,779 or 14.3% in 2016 compared to ending balance at year-end 2015. Current liabilities include accounts payable and wages and benefits payable. Non-current liabilities increased by \$561,548 or 19.9% - pension liability increased \$545,935, and compensated absence increased by \$15,613.

There are no external restrictions on assets. MTA has designated, through Authority Board direction, an operating reserve equal to three months of the current operating budget. For 2016, the designated operating reserve was \$2 million. Additionally, MTA designated \$881,956 for project and grant match, \$150,000 for emergency repairs, \$50,000 for emergency insurance reserves, \$175,000 for bus replacement, and \$28,000 for van replacement.

#### **Capital Assets**

Transit is a capital intensive enterprise, with 72.5% of MTA's assets invested in capital assets to provide services to the citizens of Mason County. Capital Assets increased in 2016 by \$193,090; the result of purchasing 2 minibuses, roof replacement, generator installation and the disposal of 3 minibuses, 4 vans and the salvage of boilers at the Transit Community Center (T-CC).

MTA's investment in capital assets as of December 31, 2016 was \$14,033,758. 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.

Depreciation expense recorded was \$1,282,761 for the year.



**Long-Term Debt**

MTA has no long-term debt as of October 2014.

**Deferred Outflows/Inflows of Resources**

The 2016 Statement of Net Position includes Deferred Outflows/Inflows of Resources as part of the GASB 68 accounting policy. Deferred Outflows refer to consumption of net assets that is applicable to a future period and Deferred Inflows refer to an acquisition of net assets that is applicable to a future period.

**Summary Table of Net Position**

Below is the Summary of Net Position for December 31, 2016, as compared to December 31, 2015.

<b>Mason County Public Transportation Benefit Area</b>			
<b>Summary of Net Position</b>			
<b>For The Years Ended December 31, 2016 and December 31, 2015</b>			
	<b>12/31/2016</b>	<b>12/31/2015</b>	<b>Net Increase (Decrease) 2016 vs 2015</b>
<b>ASSETS</b>			
Current Assets	\$ 8,556,081	\$ 7,778,789	\$ 777,292
Non-Current Assets	14,033,758	14,807,324	(773,566)
<b>TOTAL ASSETS</b>	<b>\$ 22,589,839</b>	<b>\$ 22,586,113</b>	<b>\$ 3,726</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 615,323</b>	<b>\$ 311,066</b>	<b>\$ 304,257</b>
<b>LIABILITIES</b>			
Current Liabilities	\$ 405,525	\$ 354,746	\$ 50,779
Non-Current Liabilities	3,379,740	2,818,192	561,548
<b>TOTAL LIABILITIES</b>	<b>\$ 3,785,265</b>	<b>\$ 3,172,938</b>	<b>\$ 612,327</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 63,644</b>	<b>\$ 304,707</b>	<b>\$ (241,063)</b>
<b>NET POSITION</b>			
Investment in Capital Assets	\$ 14,033,758	\$ 14,807,324	\$ (773,566)
Unrestricted	5,322,495	4,612,211	710,284
<b>Total Net Position</b>	<b>\$ 19,356,253</b>	<b>\$ 19,419,535</b>	<b>\$ (63,282)</b>

**Statement of Revenues, Expenses and Changes in Fund Net Position****Operating Revenues**

Operating Revenues are primarily generated by sales of transportation services. MTA was essentially 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 \$0.50 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 some Special Event Services.

Fares collected during 2016 were as follows:

Out-of-County Fares	\$ 97,645	Increased	5.4%
PSNS Worker/Driver & Vanpool Fares	\$293,538	Decreased	16.6%
Special Contract Fares-Local Government	\$101,631	Increased	738.5%

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 providing vehicles and drivers on behalf of the Skokomish Tribe. The Tribe was award funds late in 2015 for 2016. MTA operated the routes as the pilot project until the funding expired December 31, 2016. MTA will absorb the routes into its regular service in 2017.

### 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 2016 included \$4,073,176 in sales tax and sales tax interest, an increase of 6.2% over 2015. Sales tax revenue has been trending upward since August 2013, and MTA anticipates the positive trend to continue due to growth in the region.

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 Transit Administration awarded MTA consolidated rural mobility and paratransit/special needs formula-based operating grants. The total federal, state and other operating grant revenue for 2016 was \$2,979,192.

Other non-operating revenue consists of sales of maintenance services, rental of buildings, investment income, and insurance recoveries. In 2016, non-operating revenue increased by \$51,356 or 36.8%.

### Capital Contributions

MTA received \$385,907 in capital grant revenue which was used towards the purchase of seven replacement bus shelters, Johns Prairie Bldg. 1 & 2 roof replacement, and park and ride development.

### Operating Expenses

Operating and non-operating expenses, representing costs incurred to provide transportation services, increased during 2016 by \$493,414 or 6.4%. Employee costs and depreciation are the contributing factors to the increase. Expenses for 2016 were \$8,185,133. This also includes an allowance for depreciation in the amount of \$1,282,761.

Expenses by department were as follows:

- Operations: \$3,799,285 – 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: \$1,476,482 – Responsible for vehicle and facility upkeep and fuel. Fuel is the most significant expense in maintenance. Of this amount, \$223,006 is attributed to facility maintenance.
- Administration: \$1,359,546 – Responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, human resources, safety and risk management.
- Transit-Community Center: \$266,443 – Responsible for operations of the Transit-Community Center including property management, leases and event rentals.
- Depreciation: \$1,282,761 – Capital Assets are depreciated based on their actual costs spread over their useful lives.

**Summary Table of Statement of Revenues, Expenses and Changes in Fund Net Position**

Below is the Summary Statement of Revenues, Expenses and Changes in Fund Net Position for December 31, 2016, as compared to December 31, 2015.

	12/31/2016	12/31/2015	Net Increase (Decrease) 2016 vs 2015
<b>Mason County Public Transportation Benefit Area</b>			
<b>Summary Statement of Revenues, Expenses and Changes in Fund Net Position</b>			
<b>For The Years Ended December 31, 2016 and December 31, 2015</b>			
<b>OPERATING REVENUE:</b>			
Fares	\$ 492,813	\$ 456,931	\$ 35,882
<b>NON-OPERATING REVENUE</b>			
Sales Tax	4,073,176	3,835,605	237,571
Grant Revenue	2,979,192	2,039,497	939,695
Other Non-operating Revenue	190,763	139,407	51,356
<b>TOTAL REVENUE</b>	<b>\$ 7,735,944</b>	<b>\$ 6,471,440</b>	<b>\$ 1,264,504</b>
<b>EXPENSES</b>			
Operating Expenses	\$ 6,902,372	\$ 6,647,648	\$ 254,724
Depreciation	1,282,761	1,044,071	238,690
Non-Operating Expenses	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 8,185,133</b>	<b>\$ 7,691,719</b>	<b>\$ 493,414</b>
<b>NET INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	<b>\$ (449,189)</b>	<b>\$ (1,220,279)</b>	<b>\$ 771,090</b>
Capital Contributions-Grants	\$ 385,907	\$ 1,775,711	\$ (1,389,804)
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ (63,282)</b>	<b>\$ 555,432</b>	<b>\$ (618,715)</b>
<b>NET POSITION - BEGINNING OF PERIOD</b>	<b>\$ 19,419,535</b>	<b>\$ 18,864,103</b>	<b>\$ 555,432</b>
<b>NET POSITION - END OF PERIOD</b>	<b>\$ 19,356,253</b>	<b>\$ 19,419,535</b>	<b>\$ (63,282)</b>

## The Statement of Cash Flows

The Cash Flow Statement reflects cash activities from MTA's cash receipts, cash payments, and changes in cash and cash equivalents during 2016. Cash increased by \$2,601,970.

<b>Mason County Public Transportation Benefit Area</b>			
<b>Summary Statement of Cash Flows</b>			
<b>For the Years Ended December 31, 2016 and December 31, 2015</b>			
	<b>2016</b>	<b>2015</b>	<b>Net Change 2016 vs 2015</b>
Net Cash Provided (Used) by:			
Operating Activities	\$ (6,369,881)	\$ (6,285,475)	\$ (84,406)
Noncapital Financing Activities	9,079,078	5,810,503	3,268,575
Capital and Related Financing Activities	(123,288)	(1,622,224)	1,498,936
Investing Activities	16,041	5,066	\$ 10,975
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 2,601,970</u>	<u>\$ (2,092,129)</u>	<u>\$ 4,694,099</u>
Cash Balance - Beginning of Year	<u>\$ 3,945,617</u>	<u>\$ 6,037,746</u>	<u>\$ (2,092,129)</u>
Cash Balance - End of Year	<u>\$ 6,547,587</u>	<u>\$ 3,945,617</u>	<u>\$ 2,601,970</u>

## Economic Factors and Future Outlook

As with 2015, Mason Transit Authority remains optimistic about economic growth. There was positive improvement in Mason County during 2016 with an increase in jobs and resources. Even with another major employer closing, other businesses opened or are set to open in 2017, bringing back many of the lost jobs. Overall, the number of jobs in Mason County increased by 380 from September 2015 to September 2016 and the unemployment rate dropped to levels last seen in 2008. There is also strong business recruitment efforts by the Economic Development Council, giving confidence that Mason County and Mason Transit Authority will see positive growth in 2017 and beyond.

Consumer spending was stable in 2016 which resulted in Mason Transit Authority receiving another all-time high in sales tax revenue. There has been an upward trend in sales tax revenue since 2013 after seeing a decrease during the recession years. Sales tax collections contribute 53% of revenue used for operating and allow MTA to sustain service at current levels as long as the trend continues upward. Other sources of funding such as federal and state grants also subsidize operations. Grant funding has been consistent each biennium and MTA is keeping a close eye on potential changes at the federal level as part of planning for revenue changes and MTA's long-range sustainability goal. Fares contribute approximately 5% of operating revenue. MTA operates fare-free within Mason County and therefore change in ridership typically does not impact fare revenue significantly. Since April 2012, MTA has received funding from the Skokomish Tribe for a pilot route that serves the reservation and the Cushman Lake area. The route has been successful and ridership has increased over the time it was considered a pilot route. Beginning in 2017, MTA will incorporate the route into its service and no longer receive funding from the Tribe and therefore will see a decrease in fare revenue in future years unless other services such a vanpool or the Worker/Driver programs increase.

Development and improvement of park and ride lots within Mason County continues. Property for the new Belfair Park & Ride will be purchased in the spring of 2017. Funding for the project is available through Regional Mobility Grants and Connecting Washington TIER list and spread out over the next

six years. Originally, MTA had hoped to have all development and improvement done by June 30, 2019; there was a change in legislature appropriations that spread the funding out over a longer period of time. The change does allow MTA to concentrate on one project at a time and should allow for better planning and use of resources. MTA does not plan to pursue additional capital projects in the future but will concentrate on replacing rolling stock inventory to ensure funding is available as vehicles reach life-span.

While the overall financial health of MTA is stable, there has been a shrinking operating margin over the last several years. This is due to an increase in depreciation expense after the T-CC was completed adding to the agency's assets being depreciated. There will be additional impact to depreciation expense once the Park & Ride project is completed. Expenses are being monitored closely and the impact of financial choices is reviewed over a long range of time prior to major decisions. Steps were made in 2016 to reduce agency costs and to establish a long-range financial plan to improve operating margin; the process will continue in 2017. MTA leadership is more strategic in its processes and the result is an anticipated stronger future both in service and financial health.

### **Request for Information**

This financial report is designed to provide a general overview of Mason County Public Transportation Benefit Area'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:

Administrative Services Manager  
Mason County Public Transportation Benefit Area  
790 E Johns Prairie Rd  
Shelton, WA 98584  
(360) 426-9434 ext.138

**Mason County Public Transportation Benefit Area  
Statement of Net Position  
December 31, 2016**

**ASSETS****CURRENT ASSETS**

Cash and Cash Equivalents:	\$	6,547,587
Accounts Receivable		22,923
Taxes Receivable		696,972
Due from other Governments		1,187,660
Prepaid Expenses		7,674
Inventory		93,265
<b>TOTAL CURRENT ASSETS</b>	<b>\$</b>	<b>8,556,081</b>

**NON-CURRENT ASSETS:**

## CAPITAL ASSETS:

Capital Assets Not Being Depreciated		
Land	\$	507,778
Construction in Progress		284,627
Capital Assets Being Depreciated		
Buildings		13,210,744
Improvements		326,392
Transportation Equipment		8,097,372
Office and Shop Equipment		880,433
Less: Accumulated Depreciation		(9,273,588)
Net Capital Assets Being Depreciated		13,241,354
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$</b>	<b>14,033,758</b>

**TOTAL ASSETS****\$ 22,589,839****DEFERRED OUTFLOWS OF RESOURCES**

Deferred amount on pensions	\$	615,323
Total deferred outflows of resources	\$	615,323

**LIABILITIES****CURRENT LIABILITIES:**

Accounts Payable	\$	319,177
Payroll and related expenses payable		78,701
Other Current Liabilities		7,646
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$</b>	<b>405,525</b>

**NON-CURRENT LIABILITIES:**

Employee Leave Benefits	\$	153,326
Pension Liability		3,226,414
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>\$</b>	<b>3,379,740</b>

**TOTAL LIABILITIES****\$ 3,785,265****DEFERRED INFLOWS OF RESOURCES**

Deferred amounts on pensions	\$	63,644
Total deferred inflows of resources	\$	63,644

**NET POSITION**

Investment in Capital Assets	\$	14,033,758
Unrestricted	\$	5,322,495
<b>TOTAL NET POSITION</b>	<b>\$</b>	<b>19,356,253</b>

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, 2016**

**OPERATING REVENUES:**

Passenger fares	\$	97,645
PSNS Worker/Driver & Vanpool fares		293,538
Special Contract/Event fares		101,631
Total Operating Revenue	\$	492,813

**OPERATING EXPENSES:**

Wages and Benefits		5,393,690
Contracted Services		308,700
Maintenance (Vehicle and Facility)		313,519
Fuel		279,867
Purchased Transportation		1,794
Insurance		194,978
Intergovernmental Audit Fees		27,468
Rent - Park and Ride		16,545
Volunteer Driver Reimbursements		29,658
Other Operating Expenses		336,152
Depreciation		1,282,761
Total Operating Expenses	\$	8,185,133

<b>OPERATING INCOME (LOSS)</b>	<b>\$</b>	<b>(7,692,319)</b>
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**NONOPERATING REVENUES (EXPENSES):**

**NONOPERATING REVENUES:**

Sales tax	\$	4,073,176
Grant revenue		2,979,192
Rental Income		135,096
Investment income		16,218
Other nonoperating revenue		39,449
Total Nonoperating Revenue	\$	7,243,130

Income (Loss) before capital contributions	\$	(449,189)
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Capital Contributions-Grants	\$	385,907
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<b>Increase(Decrease) in Net Position</b>	<b>\$</b>	<b>(63,282)</b>
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NET POSITION - January 1, 2016	\$	19,419,535
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<b>NET POSITION - December 31, 2016</b>	<b>\$</b>	<b>19,356,253</b>
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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, 2016**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 495,234
Payments to suppliers	(1,487,653)
Payments to employees	(5,377,462)
Net cash provided (used) by operating activities	<u>\$ (6,369,881)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash Received from Sales Tax	\$ 4,005,323
Cash Received from Grants	4,899,210
Other nonoperating revenue	174,545
Net Cash provided from noncapital activities	<u>\$ 9,079,078</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital contributions (capital grants)	\$ 385,907
Purchases of capital assets	(509,195)
Net cash provided (used) by capital and related financing activities	<u>\$ (123,288)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	\$ 16,041
Net cash provided by investing activities	<u>\$ 16,041</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,601,950
Balances - beginning of the year	<u>3,945,617</u>
Balances - end of the year	<u>\$ 6,547,587</u>
Reconciliation of Operating income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	<u>\$ (7,692,319)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	\$ 1,282,761
Pension Expense	615
Change in assets and liabilities:	
Decrease in accounts receivable	2,420
Increase in prepaid expenses	(4,390)
Increase in parts and fuel inventory	(25,339)
Decrease in accounts payable	23,663
Decrease in other-current liabilities	27,094
Increase in employee benefits payable	15,613
Net cash provided by operating activities	<u>\$ (6,369,881)</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, 2016 through December 31, 2016**

**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, rent from leases and events, 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 North Mason School District; 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.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The transit has no component units.

B) Basis of Accounting and 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)* in the State of Washington.

Funds are accounted for on cost for services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the Statement of Net Position (or balance sheet). The reported fund net position is segregated into 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 its operating, non-capital financing and investing activities.

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

MTA distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with MTA's principal ongoing operations. The principal operating revenues of MTA are

charges to customers for transit services, worker/driver program and vanpool. Operating expenses for MTA include wages and benefits, maintenance, fuel, administrative expenses, supplies, training, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### C) Assets, Liabilities, and Net Position

#### 1) Cash and Cash Equivalents

It is the transit's practice to invest all temporary cash surpluses. At December 31, 2016, Mason Transit Authority had \$6,547,587 in short-term residual investments of surplus cash. This amount is classified on the statement of net position as a component of cash and cash equivalents.

#### 2) Short-Term Investments – See Note 2, *Deposits and Investments*.

#### 3) Receivables

Taxes receivable consists of sales tax and related interest and penalties. Accrued interest receivable consists of amounts earned on investments at the end of the year.

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services.

#### 4) Amounts Due to and From Other Governments – See Note 3, *Receivable and Payable Balances*.

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

#### 5) Inventories

MTA values the maintenance parts inventory on an actual cost basis and charges out on an actual cost method. Fuel is valued on an actual cost basis at time of purchase and the FIFO method is used to charge out fuel.

#### 6) Capital Assets and Depreciation

Property plant and equipment with individual values of at least \$5,000 and a useful life of three years are stated at historical cost, or if unknown, at fair market value. Donated capital assets are valued at their estimated market value. Improvements, which add to the value of or extend the life of the asset, are capitalized. Repairs and maintenance are expensed as incurred. Labor and other expenses incurred in the acquisition and construction of capital assets are capitalized. See Note 4 *Capital Assets* for detail.

#### 7) Other Property and Investments – See Note 2 *Deposits and Investments*.

#### 8) Custodial Accounts

This account reflects the liability for net monetary assets being held by the transit in its trustee or agency capacity.

#### 9) Compensated Absences

Compensated Absences are absences for which employees will be paid, and represent vacation earned by employees but not taken at year end. MTA records unpaid vacation leave as an expense and liability when earned. 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 240 hours at year-end with 240 hours payable upon resignation, termination, retirement or death. 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.

10) Long-Term Debt

See Note 7, *Leases*, and Note 8, *Long-Term Liabilities*.

D) Pensions

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash and cash equivalents as of December 31, 2016, are as follows:

<b>Description / Purpose</b>	<b>Held By / On Deposit With</b>	<b>Balance: 12/31/2016</b>
Depository (Operating) Fund	Mason County Treasurer	\$1,176,877
Cash on Hand	MTA	\$500
Payroll ACH Account	Bank of America	\$1,105
WA State Investment Pool	Mason County Treasurer	\$5,369,105
Subtotal (Current Assets)		\$6,547,587
<b>Total Cash and Cash Equivalents</b>		<b>\$6,547,587</b>

The Mason County Treasurer acts as the transit's treasurer, including the receipt, deposit, and investment of MTA's surplus funds. As of December 31, 2016, the Mason County Treasurer was holding \$5,369,105 in short-term residual investments of surplus cash.

All bank deposits are insured under FDIC limitations.

All of the transit's deposits with Mason County, as required by state law and Mason County's adopted Investment Policy, are obligations of the U.S. Government and its agencies, certificate of deposit, general obligations of Washington State Municipalities, the State Treasurer's Investment Pool, savings accounts and deposits with Washington State Banks and Savings and Loan institutions, or other investments allowed by Chapter 39.59 RCW.

Mason County issues a publicly available annual financial report that includes financial statements and required supplementary information. The report may be obtained by contacting:

Mason County Treasurer  
 411 N. 5<sup>th</sup> Street  
 Shelton, WA 98584

**NOTE 3 – RECEIVABLE AND PAYABLE BALANCES**

Sales Tax

MTA received \$4,073,176 in Sales Tax and Sales Tax Interest revenue in 2016. 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 \$696,619 for tax revenue and \$353 in sales tax interest revenue earned but not received as of December 31, 2016.

Grant Revenue

As of December 31, 2016, MTA accrued \$1,187,660 in grant revenue earned but not yet received.

Receivables Due From Other Governments on December 31, 2016 are as Follows:			
<b>Government Receivables</b>	<b>November</b>	<b>December</b>	<b>Total</b>
Sales Tax	\$ 314,996	\$ 381,623	\$ 696,619
Sales Tax Interest	\$ 155	\$ 198	\$ 353
Grant Reimbursements (Federal, State & Local)		\$ 1,187,660	\$ 1,187,660
<b>Total Receivables Due from Other Governments on December 31, 2016</b>			<b>\$ 1,884,632</b>

Liability Balances

As of December 31, 2016, liability account balances include accounts payable of \$319,177 to vendors for goods and services, and \$86,347 for other current liabilities of which most significantly is \$78,701 in wages and benefits payable.

Other significant liability recorded was \$3,226,414 in pension liability required as a change in accounting policy by the Governmental Accounting Standards Board (GASB) (see Notes 9, 11).

**NOTE 4 – CAPITAL ASSETS**

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, if any, 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 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 and begins on the first of the month following acquisition.

A summary of vehicle lives and capital asset activity for 2016 is as follows.

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

<b>MASON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA</b>				
<b>Capital Asset Activity for the Year Ended December 31, 2016</b>				
Category	Beginning Cost 12/31/2015	Acquisitions and Current Year Increases	Dispositions and Reclassifications (Decreases)	12/31/2016 Cost Basis
<b>Capital assets, not being depreciated:</b>				
Land	\$ 507,778	-	-	\$ 507,778
Work In Progress	354,556	503,238	(573,167)	284,626
<b>Total Capital assets, not being depreciated</b>	<b>\$ 862,334</b>	<b>\$ 503,238</b>	<b>\$ (573,167)</b>	<b>\$ 792,404</b>
<b>Capital assets, being depreciated:</b>				
Buildings	\$ 13,210,744			\$ 13,210,744
Vehicles	8,052,908	345,243	(300,779)	8,097,373
Equipment	885,131	15,542	(20,239)	880,433
Improvements (Buildings)	103,139	223,253	-	326,392
<b>Total Capital assets being depreciated:</b>	<b>\$ 22,251,922</b>	<b>\$ 584,038</b>	<b>\$ (321,019)</b>	<b>\$ 22,514,942</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	\$ 2,040,635	\$ 522,894	\$ (92,938)	\$ 2,470,591
Vehicles	5,753,554	682,833	(300,779)	6,135,608
Equipment	512,742	77,034	77,613	667,389
<b>Total Accumulated Depreciation</b>	<b>\$ 8,306,931</b>	<b>\$ 1,282,761</b>	<b>\$ (316,104)</b>	<b>\$ 9,273,588</b>
<b>Total Investment in Capital Assets</b>	<b>\$ 14,807,324</b>	<b>\$ (195,486)</b>	<b>\$ (578,082)</b>	<b>\$ 14,033,758</b>

### Work-In-Progress

During 2016, MTA completed and transferred in to service two minibuses, floor scrubber, mobile pressure washer, roof replacement and generator. Remaining small projects had a balance on the books of \$284,627.

At the end of 2016, MTA had two major Work-In-Progress projects. The first was the purchase of seven replacement bus shelters and eight new shelters. The project was started in 2016 and is anticipated to be completed in 2017. Initial grant funds were awarded for the replacement piece of the project in 2014, an amendment to permit using the balance of grant proceeds for the purchase of new shelters after replacement needs were satisfied. The second project was the Park and Ride Development project funded through a Regional Mobility Grant and State Tier Transit List.

Work in progress as of December 31, 2016, consists of the following:

Park and Ride Development	\$ 202,707
Bus Shelter New/Replacement	81,920
<b>TOTAL</b>	<b><u>\$284,627</u></b>

### **NOTE 5 – CONSTRUCTION COMMITMENTS**

Mason Transit Authority has one active construction project as of December 31, 2016. The project includes the Park and Ride Development Project that will occur over the next six years. The project will improve the current Park and Ride Lots in Mason County and add a newly-constructed Park and Ride location in Belfair. Other new lots may be developed if funding is available.

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

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Park and Ride Development	202,707	8,082,293

Of the committed balance, MTA will not be required to raise any funds through future financing. The project is being funded through a Regional Mobility grant and the Multimodal (TIER) funds for transportation improvements allocated in the recent transportation package passed by the Legislature. MTA allocated funds from reserves for the requirement match of \$450,000 as of December 31, 2016.

### **NOTE 6 – 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, 2016, Mason Transit had no litigation suits.

### **NOTE 7 – LEASES**

Mason Transit Authority had three, non-cancelable operating leases for equipment with a remaining lease term of more than one year. Total cost for such leases was \$7,408 for the year ended December 31, 2016.

The future minimum lease payments are as follows:

Year Ending December 31	Amount	Terms	# of Payments
2017	168.44	Monthly	12
2017	369.23	Monthly	12
2017	180.00	Quarterly	4
2018	168.44	Monthly	6
2018	369.23	Monthly	12
2018	180.00	Quarterly	3
2019	369.23	Monthly	12
2020	369.23	Monthly	4

**NOTE 8 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities include Accrued Vacation Benefits (see Note 1, Item C-9) and Pension Liability (see Note 9). There are no amounts due within one year.

The following *Schedule of Liabilities* provides a listing of the outstanding liabilities of the Mason Transit Authority and summarizes transactions for the year 2016.

Mason County Public Transportation Benefit Area Schedule of Liabilities For the Year Ended December 31, 2016						
ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
<b>General Obligation Debt/Liabilities</b>						
263.98	Accrued Vacation Benefits		137,713	15,613	-	153,326
263.98	Pension Liability		2,680,479	545,935	-	3,226,414
<b>Total General Obligation Debt/Liabilities:</b>			<b>2,818,192</b>	<b>561,548</b>	<b>-</b>	<b>3,379,740</b>
<b>Total Liabilities:</b>			<b>2,818,192</b>	<b>561,548</b>	<b>-</b>	<b>3,379,740</b>

**NOTE 9 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2016:



Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ (3,226,414)
Pension assets	\$ -
Deferred outflows of resources	\$ 615,323
Deferred inflows of resources	\$ (63,644)
Pension expense/expenditures	\$ 356,228

### State Sponsored Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

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

#### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense



component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

\* For employees participating in JBM, the contribution rate was 12.26%.

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>

\* For employees participating in JBM, the contribution rate was 15.30%.

Mason Transit Authority's actual PERS plan contributions were \$154,207 to PERS Plan 1 and \$201,405 to PERS Plan 2/3 for the year ended December 31, 2016.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime. There were minor changes in methods and assumptions since the last valuation.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the non-duty disability benefit for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

### **Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected

rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

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

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

### Sensitivity of the Net Pension Liability/ (Asset)

The table below presents Mason Transit Authority's proportionate share\* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what Mason Transit Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$1,766,397	\$1,464,796	\$1,205,250
PERS 2/3	3,243,456	1,761,618	(917,024)

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2016, Mason Transit Authority reported a total pension liability of \$3,226,414 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$1,464,796
PERS 2/3	1,761,618
TOTAL	\$3,226,414

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

	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS 1	0.027225%	0.027275%	.000050%
PERS 2/3	0.035162%	0.034988%	-.000174%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2016, Mason Transit Authority recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 80,663
PERS 2/3	275,564
TOTAL	\$356,228

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2016, Mason Transit Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Plan 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	36,881	-
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate		
Contributions subsequent to the measurement date	\$75,541	
<b>TOTAL</b>	<b>\$112,422</b>	<b>\$0</b>

<b>Plan 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$93,805	(58,154)
Net difference between projected and actual investment earnings on pension plan investments	\$215,571	-
Changes of assumptions	\$18,208	-
Changes in proportion and differences between contributions and proportionate share of contributions	\$76,656	(5,490)
Contributions subsequent to the measurement date	\$98,661	
<b>TOTAL</b>	<b>\$502,901</b>	<b>(\$63,644)</b>

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual	93,805	(58,154)
Net difference between projected and actual investment earnings on	252,452	-
Changes of assumptions	18,208	-
Changes in proportion and differences between contributions and proportionate share of	\$76,656	(5,490)
Contributions subsequent to the	\$174,202	
<b>TOTAL</b>	<b>\$615,323</b>	<b>(\$63,644)</b>

Deferred outflows of resources related to pensions resulting from Mason Transit Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2017	(9,081)
2018	(9,081)
2019	33,871
2020	21,172
2021	
Thereafter	
<b>TOTAL</b>	<b>36,881</b>

Year ended December 31	PERS 2/3
2017	31,441
2018	31,441
2019	175,889
2020	101,825
2021	
Thereafter	
<b>TOTAL</b>	<b>340,596</b>

**NOTE 10 – RISK MANAGEMENT**

Public Entity Risk Pool

Mason County Public Transportation Benefit Area DBA Mason Transit Authority 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 Mason Transit Authority auto liability, general liability, public officials' liability coverage, all risk property coverage, auto physical damage coverage, boiler and machinery coverage, employee fidelity/crime coverage, and cyber liability coverage.

At the end of 2016, Mason Transit Authority retained a \$5,000 deductible for its all-risk property coverage which includes auto physical damage. Mason Transit Authority has a \$5,000 deductible for public official's liability coverage and has no deductible for general and auto 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 agencies joint self-insurance, joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. Transit agencies joining WSTIP must remain members for a minimum of 36 months. Members may withdraw after that time by giving 12 months' notice. Any member who withdraws will not be allowed to rejoin 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 WSTIP Board of Directors. 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 WSTIP's assets were to be exhausted, members would be responsible for WSTIP's liabilities. WSTIP is regulated by the Washington State Risk Manager and audited annually by the Washington State Auditor.

Mason Transit Authority has not presented any claims to WSTIP in the last year that exceeded its current coverage limits through WSTIP.

Here is a summary of coverage provided in 2016:

RISK / EXPOSURE		COVERAGE	DEDUCTIBLE
GENERAL LIABILITY: Bodily Injury & Property Damage Personal Injury & Advertising Injury Contractual Liability	\$20 million	Per occurrence	\$0
Personal Injury and Advertising Injury	\$20 million	Per offense	\$0
Contractual liability			\$0
Vanpool Driver Medical Expense Protection	\$35,000	Per occurrence	\$0
Underinsured Motorist Coverage	\$60,000	Per occurrence	\$0
PUBLIC OFFICIALS LIABILITY	\$20 million	Per occurrence and aggregate	\$5,000
PROPERTY COVERAGE All perils subject to the following sublimits:	\$500 million	Per occurrence, all perils and insureds/ members combined	\$5,000
Flood zones A & V – annual aggregate	\$10 million	Per occurrence, annual aggregate	\$500,000
All flood zones except A & V – annual aggregate	\$50 million	Per occurrence, annual aggregate	\$500,000
Earthquake, volcanic eruption, landslide, and mine subsidence --	\$25 million	Per occurrence, annual aggregate	5% subject to \$500,00 minimum per occurrence per unit
Auto Physical Damage	Fair market value	Limited to \$1 million any one vehicle	\$5,000
Auto Physical Damage if the vehicle is less than 10 years old and valued over \$250,000	Replacement Cost		\$5,000
Information Security and Privacy with electronic media (Cyber Liability) with the following sublimits:	\$2 million	Annual aggregate	\$50,000
Privacy Notification costs	\$500,000		
Regulatory Defense and Penalties	\$2 million		
PCI Fines and Penalties	\$100,000		
Website Media Liability	\$2 million		
Data Protection Loss	\$2 million		
BOILER AND MACHINERY	\$100 million		\$250,000 or \$350,000 depending on size of boiler
CRIME / PUBLIC EMPLOYEE DISHONESTY including faithful performance. Also includes:	\$1 million	Per occurrence	\$10,000
Employee theft	\$1 million	Per occurrence	\$10,000
Forgery or alteration	\$1 million	Per occurrence	\$10,000



Theft, disappearance and destruction (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (inside premises)	\$1 million	Per occurrence	\$10,000
Robbery and safe burglary (outside premises)	\$1 million	Per occurrence	\$10,000
Computer fraud	\$1 million	Per occurrence	\$10,000
Funds Transfer Fraud	\$1 million	Per occurrence	\$10,000
Money orders and counterfeit money	\$1 million	Per occurrence	\$10,000

### 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 \$8,624 in claims during 2016.

### Health & Welfare

Mason Transit Authority is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with fewer than

250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

#### **NOTE 11 – TERMINATION BENEFITS**

In 2016, Mason Transit Authority paid out severance benefits for two employees due to involuntary termination. The first employee resigned in lieu of termination on 2/29/2016, and was given Severance Pay in the amount of \$25,000 in 2016; no continuation of health care coverage beyond the termination date was provided. The second employee was terminated in April 2016 and received \$50,000 in Severance Pay with no continued health care coverage. MTA was reimbursed by the agency's insurance policy \$22,500 for the second termination. Neither employee was terminated for wrongful misconduct nor are there further obligations to the employees owed by MTA.

#### **NOTE 12 – UNIQUE AND UNUSUAL TRANSACTIONS**

##### 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 of July 1, 2015 through June 30, 2017. Another operating grant was received from the Lewis-Mason-Thurston Area Agency on Aging for the Volunteer Driver program. 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.

The total federal, state and other operating and capital grant revenues for 2016 was \$3,365,099 as shown in the *Schedule of State and Local Financial Assistance* and the *Schedule of Expenditures of Federal Awards*.

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

Mason County Public Transportation Benefit Area  
 Schedule of Proportionate Share of the Net Pension Liability  
 As of June 30, 2016  
 Last 10 Fiscal Years\*

PERS 1		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.027225%	0.027275%
Employer's proportionate share of the net pension liability	\$	1,424,121	1,464,796
TOTAL	\$	1,424,121	1,464,796
Employer's covered employee payroll	\$	3,147,169	3,232,843
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	45.25%	45.31%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%

PERS 2/3		2015	2016
Employer's proportion of the net pension liability (asset)	%	0.035162%	0.034988%
Employer's proportionate share of the net pension liability	\$	1,256,358	1,761,618
TOTAL	\$	1,256,358	1,761,618
Employer's covered employee payroll	\$	3,147,169	3,232,843
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	39.92%	54.49%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%

**Notes to Schedule:**

There were no changes of benefit terms or assumptions in 2016.

The size of the population covered by the benefit terms remained consistent with no significant changes.

The composition of the population changed from offering part-time driver positions to only full-time driver positions. This change increased the cost of payroll.

*\* Until a full 10-year trend is compiled, reported information is only for years available.*

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

Mason County Public Transportation Benefit Area  
 Schedule of Employer Contributions  
 As of December 31, 2016  
 Last 10 Fiscal Years\*

PERS 1	2015	2016
Statutorily or contractually required contributions	\$ 138,033	154,207
Contributions in relation to the statutorily or contractually required contributions	\$ (138,033)	(154,207)
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 3,147,169	3,232,843
Contributions as a percentage of covered employee payroll	% 4.39%	4.77%

PERS 2/3	2015	2016
Statutorily or contractually required contributions	\$ 177,230	201,405
Contributions in relation to the statutorily or contractually required contributions	\$ (177,230)	(201,405)
Contribution deficiency (excess)	\$ 0	0
Covered employer payroll	\$ 3,147,169	3,232,843
Contributions as a percentage of covered employee payroll	% 5.63%	6.23%

**Notes to Schedule:**

There were no changes of benefit terms or assumptions in 2016.

The size of the population covered by the benefit terms remained consistent with no significant changes.

The composition of the population changed from offering part-time driver positions to only full-time driver positions. This change increased the cost of payroll.

*\* Until a full 10-year trend is compiled, reported information is only for years available.*

**Mason County Public Transportation Benefit Area  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
<b>Federal Transit Cluster</b>								
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Federal Transit_Capital Investment Grants	20.500	GCB1954	65,536	-	65,536	-	
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Bus and Bus Facilities Formula Program	20.526	GCB1949	158,207	-	158,207	-	
	<b>Total Federal Transit Cluster:</b>			<b>223,742</b>	<b>-</b>	<b>223,742</b>	<b>-</b>	
Federal Transit Administration (fta), Department Of Transportation (via WSDOT)	Formula Grants for Rural Areas	20.509	GCB2088	1,019,720	-	1,019,720	-	
<b>Aging Cluster</b>								
Administration For Community Living, Department Of Health And Human Services (via Lewis Mason Thurston Area Agency on Aging)	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	0002	14,323	-	14,323	-	
	<b>Total Aging Cluster:</b>			<b>14,323</b>	<b>-</b>	<b>14,323</b>	<b>-</b>	
	<b>Total Federal Awards Expended:</b>			<b>1,257,785</b>	<b>-</b>	<b>1,257,785</b>	<b>-</b>	

The accompanying notes are an integral part of this schedule.

**Mason County Public Transportation Benefit Area**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as MTA's financial statements. MTA uses the Generally Accepted Accounting Principles (GAAP) basis of accounting.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including MTA's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 7 – Indirect Cost Rate

MTA has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

<b>Contact information for the State Auditor's Office</b>	
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>