Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Jefferson County Public Transportation Benefit Area (Jefferson Transit Authority)

For the period January 1, 2014 through December 31, 2014

Published July 20, 2015

Report No. 1014619

Washington State Auditor's Office

July 20, 2015

Board of Commissioners
Jefferson Transit Authority
Port Townsend, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

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FEDERAL SUMMARY

Jefferson Transit Authority
Jefferson County
January 1, 2014 through December 31, 2014

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

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

We noted no instances of noncompliance that were material to the financial statements of the Transit 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 Transit Authority's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
20.509	Formula Grants for Other Than Urban Areas

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Transit Authority qualified as a low-risk auditee under OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Jefferson Transit Authority
Jefferson County
January 1, 2014 through December 31, 2014

Board of Commissioners
Jefferson Transit Authority
Port Townsend, 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 Jefferson Transit Authority, Jefferson County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Transit Authority's basic financial statements, and have issued our report thereon dated July 14, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 14, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Jefferson Transit Authority
Jefferson County
January 1, 2014 through December 31, 2014

Board of Commissioners
Jefferson Transit Authority
Port Townsend, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Jefferson Transit Authority, Jefferson County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014. The Transit Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the Transit 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, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Transit 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 Transit Authority’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Transit Authority's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

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

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 14, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Jefferson Transit Authority
Jefferson County
January 1, 2014 through December 31, 2014

Board of Commissioners
Jefferson Transit Authority
Port Townsend, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Jefferson Transit Authority, Jefferson County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Transit 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 Transit Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Jefferson Transit Authority, as of December 31, 2014, 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 20 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 Transit Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2015 on our consideration of the Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit Authority's internal control over financial reporting and compliance.

JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 14, 2015

FINANCIAL SECTION

Jefferson Transit Authority
Jefferson County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

JEFFERSON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA/Jefferson Transit Authority

MANAGEMENT DISCUSSION & ANALYSIS
For The Year Ended December 31, 2014

The management of Jefferson Transit Authority (Jefferson Transit) offers the readers of Jefferson Transit's financial statements this narrative as an overview and analysis of the financial activities for the fiscal year ended December 31, 2014. To more fully understand the financial position of Jefferson Transit, this narrative should be considered in conjunction with the information contained in Jefferson Transit's financial statements and accompanying notes.

Jefferson Transit was established in 1980 to provide public transit services.

Current services include:

Fixed Route – Standard bus service on fixed, regularly scheduled routes.

Route Deviated – Is a normal fixed route service that will deviate up to ¾ mile off-route to provide demand response services.

Demand Response (Dial-A-Ride) – Is a shared-ride public transportation service for people with disabilities that prevent them from riding regular bus service.

Vanpool – A program that makes available to groups of 5-15 people a vehicle for commuting to work.

The primary hub of operations is located in Port Townsend with a satellite base on the west side of the county in Forks. The satellite location is known as Jefferson Transit – Olympic Connection.

FINANCIAL HIGHLIGHTS

It is our opinion that Jefferson Transit's overall future financial position is positive but we will continue to address existing fiscal challenges. 2014 versus 2013 changes and highlights include the following:

- Operating revenue decreased 11% to $216,782 from $241,383; lower ridership, the decision to cancel advertising on the bus, and the loss of vanpool revenue are primary factors for the decrease. Passenger Fares decreased 7% to $211,569 from $226,484.
- Operating expenses (excluding depreciation) increased 1% to $3,900,371 from $3,856,768. This increase is primarily due to increased salaries/wages and benefits.
- Sales tax revenue increased .8% to $3,650,601 from $3,621,116. This increase is attributed to economic recovery and construction projects in Jefferson County.
- Operating subsidies increased slightly to $1,245,354 from $1,242,736.
- Net position increased 36.8% to $11,116,668 from $8,124,879. This increase in attributed to a construction project, bond debt issue, and capital expenditures.

Jefferson Transit began construction of an Administration and Maintenance Facility in 2014.

Jefferson Transit's primary expense, as with any service industry, is Labor and Benefits. Jefferson Transit's 2014 expenses included a contractual increase to represented labor of 1%. Labor expenses increased $3,373 over 2013. Benefits decreased by $16,701 over 2013. Staff turnover resulted in a net decrease in benefits.

Another major expense for the Jefferson Transit budget is fuel. For a second year in a row fuel expense decreased. The expense for fuel was $345,389, a decrease of $30,118 (or 9%) from 2013. Fuel accounts for 8% of the overall expense budget for Jefferson Transit.

Overall, expenses show that Jefferson Transit's management has a high degree of control reflected in a close alignment between actual and budget. Jefferson Transit's difficult decision to cut Sunday Service in July of

2013 has helped to control costs and maintain the core service necessary to keep Jefferson County transit passengers moving. Maintaining the premium week day service supports Jefferson Transit's service philosophy to provide safe, reliable transportation today and far into the future.

OVERVIEW OF THE FINANCIAL STATEMENTS

Jefferson Transit's financial statements include two components: 1) financial statements and 2) notes to the financial statements. This management discussion and analysis is intended to serve as an introduction to Jefferson Transit's basic financial statements.

Financial Statements

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

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how Jefferson Transit's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change actually occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused general leave).

The *Statement of Cash Flows* presents actual in and out cash activity during the fiscal period related to operating activities, noncapital financing activities, capital activities and investing activities. Additionally, a reconciliation of net cash provided (used) by operating activities to Operating Income (Loss) is included. Over time, increases or decreases in cash balances may serve as a useful indicator of the financial stability of Jefferson Transit.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information essential to fully understand the data provided in Jefferson Transit's financial statements and are located following the Statement of Cash Flows.

FINANCIAL ANALYSIS

Statement of Net Position

The following condensed financial information provides an overview of Jefferson Transit's financial position for the fiscal years ending December 31, 2014 and 2013.

In 2014, total assets were $12,748,109, an increase of $4,156,068 (or 48.4%) from 2013. In 2014 current and other assets were $5,459,708, an increase of $1,952,477 (or 55%) from 2013. At December 31, 2014 Jefferson Transit had total liabilities of $1,631,441, an increase of $1,164,279 (or 249%) from 2013 year-end. The increase in total liabilities is due to incurring debt in the form of a bond issue.

Jefferson Transit's assets exceeded liabilities at December 31, 2014 by 11,116,668 (total net position). Invested in capital assets is $6,948,854. Unrestricted net assets are $4,082,564, an increase of $1,042,495 (or 34.3%) from year-end 2013. Due to a bond covenant, Jefferson Transit now has a restricted component of assets, $85,250 is restricted in a Bond Reserve Fund.

The financial position of Jefferson Transit remains strong in 2014. The increase in net position is primarily due to construction in progress.

Statement of Net Position (Summary)
December 31, 2014 and 2013

	2014	2013	2014 Increase (Decrease) Over 2013
Assets:			
Current and Other Assets	$ 5,459,708	$ 3,507,231	$ 1,952,477
Capital Assets, Net	7,288,401	5,084,809	2,203,592
Total Assets	$ 12,748,109	$ 8,592,040	$ 4,156,069
Liabilities:			
Current Liabilities	$ 330,300	$ 287,580	$ 42,720
Long-Term Liabilities	1,301,141	179,582	1,121,559
Total Liabilities	$ 1,631,441	$ 467,162	$ 1,164,279
Invested in Capital Assets	$ 6,948,854	$ 5,084,809	$ 1,864,045
Restricted	$ 85,250	$ -	$ 85,250
Unrestricted	4,082,564	3,040,069	1,042,495
Total Net Position	$ 11,116,668	$ 8,124,878	$ 2,991,790
Total Net Position and Liabilities	$ 12,748,109	$ 8,592,040	$ 4,156,069

Statement of Revenues, Expenses and Changes in Fund Net Position

As of December 31, 2014 total net assets were $11,116,668, an increase of $2,991,789 (or 36.8%) from 2013 year-end. 2014 capital contributions were $2,207,598, an increase of $1,816,446 from 2013. This increase was primarily due to construction of the new Administration and Maintenance Facility and capital purchasing activity.

For Nonoperating Revenues, Sales tax revenues were stable with a very slight increase over 2013 receipts.

Operating revenue, operating expense and non-operating revenue variances are detailed in greater detail below.

Revenues, Expenses and Changes in Fund Net Position (Summary)
For The Years Ended December 31, 2014 and 2013

	2,014	2,013	2014 Change Over 2013
Operating Revenues	$ 216,782	$ 241,383	$ (24,601)
Operating Expense	(4,436,012)	(4,410,012)	(26,000)
Operating Income (Loss)	$ (4,219,230)	$ (4,168,629)	$ (50,601)
Nonoperating Revenues (Expenses)	4,936,330	4,881,247	55,083
Capital Contributions	2,207,598	391,151	1,816,446
Increases (Decreases) in Net Assets	$ 2,924,698	$ 1,103,769	$ 1,820,928
Net Position - Beginning (January 1)	$ 8,191,970	$ 7,044,265	$ 1,147,705
Prior Period Adjustment	0	(23,155)	23,155
Net Position - Ending (December 31)	$ 11,116,668	$ 8,124,879	$ 2,991,789

Operating Revenues

Operating revenues are revenues tied directly to transit and transit related services. 2014 operating revenues for Jefferson Transit were $216,782. This is a decrease of $24,601 (-10.2%) over the 2013 figures.

Operating revenues by category:

Passenger Fares for Transit Services – Includes fares for fixed route, Dial-a-Ride and, vanpool programs. Fixed route ridership decreased slightly, however, the main cause of the decrease is due to the loss of a vanpool group.

Auxiliary Transportation Services – Includes advertising services and other services provided that are closely associated with but not directly related to transit services. In late 2013 the Board placed a moratorium on all new advertising pending an in depth review of the policy for political or controversial advertising. The moratorium is still in place with no change predicted in the near future.

Operating Revenues
For The Years Ended December 31, 2014 and 2013

	2014	2013	2014 Increase (Decrease) Over 2013
Passenger Fares for Transit Services	$ 211,569	$ 226,484	$ (14,915)
Auxiliary Transportation Revenues	5,213	14,898	(9,686)
Operating Revenues	$ 216,782	$ 241,383	$ (24,601)

Operating Expenses

Operating expenses are all expenses tied to operations and providing transit related services. Operating expense categories include operations, maintenance, administration and depreciation.

2014 operating expenses were $4,436,012, an increase of $26,000 (or .6%) from 2013.

Operating expenses by category:

Operations – Responsible for all on-street services including operators, dispatchers, customer service and road supervisors. 2014 expenses related to operations were $2,124,196, a decrease of $35,629 (1.6%) from 2013. While 2013 saw an increase in wages to all represented staff of 1%, and other labor related costs increased, Operations saw a decrease in the number of dispatchers and operators. The dispatch position was not filled, and the transition time to hire new operators and the lower hourly rate for new operators allowed cost savings.

Maintenance – Responsible for all vehicles including fuel, parts, cleaning, servicing, and facility upkeep. 2014 expenses related to maintenance were $1,090,521, an increase of $45,525 (or 4.4%) from 2013. The Vehicle and Facility Maintenance Department works diligently to ensure that expenses are kept in control, the increase in 2014 is attributed to increased labor related expenses.

Administration – Responsible for all other functions including executive direction, planning, marketing, information systems, purchasing, finance, and human resources. 2014 expenses related to administration were $685,654, an increase of $33,707 (or 5.2%) from 2013. Staff wage increases as well as Administration being fully staffed for the first time in five years make up the majority of the increase. Liability insurance increases also account for a portion ($12K) of the increase.

Depreciation – This is the estimated pro-ration of the cost of capital assets over the useful life of the asset. 2014 expenses related to depreciation were $535,642, a decrease of $17,602 (or 3.2%) from 2013. No major vehicle purchases were made and several vehicles were retired.

Operating Expenses
For The Years Ended December 31, 2014 and 2013

	2014	2013	2014 Increase (Decrease) Over 2013
Operations	$ 2,124,196	$ 2,159,825	$ (35,629)
Maintenance	1,090,521	1,044,996	45,525
Administrative Expenses	685,654	651,947	33,707
Depreciation	535,642	553,244	(17,602)
Operating Expenses	$ 4,436,012	$ 4,410,012	$ 26,000

Non-operating Revenues

Non-operating income consists mainly of sales tax revenue, investment income, and operating grants. Non-operating revenues are all revenues that are not tied directly to an operating category such as fixed route fares.

2014 non-operating revenue was $4,936,330, an increase of $55,083 (or 1.1%) from 2013.

Non-operating Revenues by category:

Sales Tax – Consists of revenue received from local sales tax at the rate of 0.90%. 2013 sales tax was $3,650,601 in 2014, an increase of $29,485 (or .8%) from 2013. The increase is due to an improving economy and construction projects in Jefferson County.

Operating Subsidies – Consist mainly of state and federal grants. 2014 operating subsidies were $1,245,354 in 2014, an increase of $2,617 (or .2%) from 2013. A lower rural mobility transit formula grant accounts for the majority of the decrease.

Investment Income – Consists of revenue generated from investment interest. 2014 investment income was $2,024, an increase of $335 (or 19.8%) from 2013. Stronger reserve fund balances account for the increase.

Other Non-operating Revenues (Expenses) – Consists of revenues not readily categorized to another revenue line. Other Non-operating Revenues consists of extraordinary items, special items, gain (loss) on sales disposition of capital items, public donations and other non-transportation revenues. For 2014 Non-operating Revenues largely consist of reimbursement for union related activities. 2014 saw the installation of an executive officer from Jefferson Transit employee pool. 2014 other non-operating revenues (expenses) were $38,351 in 2014, an increase of $22,646 (or 144.2%) from 2013.

Nonoperating Revenues (Expenses)
For The Years Ended December 31, 2014 and 2013

	2014	2013	2014 Increase (Decrease) Over 2013
Sales Tax	$ 3,650,601	$ 3,621,116	$ 29,485
Operating Subsidies	1,245,354	1,242,737	2,617
Investment Income	2,024	1,689	335
Other Nonoperating Revenues (Expenses)	38,351	15,706	22,646
Nonoperating Revenues (Expenses)	$ 4,936,330	$ 4,881,247	$ 55,083

Statement of Cash Flows

2014 year-end cash balance was $3,959,530, an increase of $1,494,098 (or 60.6%) from 2013 year-end. 2014 cash used by operating activities was $3,610,730, an increase of $133,862 (or 1.2%) from 2013. 2014 cash provided from noncapital financing activities was $4,823,088, a decrease of $60,811 (or 1.2%) from 2013. 2014 cash used by capital and related financing activities was $279,715, an increase of $769,871 (or 157.1%) from 2013. 2014 cash provided by investing activities was $2,024, an increase of $335 (or 19.9%) from 2013. Jefferson Transit is focused on controlling costs and building reserves for future capital expansion and sustainability of current operations. At the same time, Jefferson Transit is currently committed to completing the construction of a new Administration and Maintenance Facility. Jefferson Transit's Board elected to issue general obligation bonds in 2014 in order to complete the construction of this new facility. Holding the line on operating costs, ensuring that the new Administration and Maintenance Facility is built soundly and economically, and continuing to contribute annually to reserve funds reflects this philosophy.

Statement of Cash Flows (Summary)
For The Years Ended December 31, 2014 and 2013

	2014	2013	2014 Change 2013
Net Cash Provided (Used) by:			
Operating Activities	$ (3,610,730)	$ (3,476,868)	$ (133,862)
Noncapital Financing Activities	4,823,088	4,883,899	(60,811)
Capital and Related Financing Activities	279,715	(490,156)	769,871
Investing Activities	2,024	1,689	335
Net Increase (Decrease) in Cash and Equivalents	$ 1,494,098	$ 918,564	$ 575,534
Cash Balances - Beginning of Year	$ 2,465,432	$ 1,546,868	$ 918,564
Cash Balances - End of Year	$ 3,959,530	$ 2,465,432	$ 1,494,098

Capital Assets

Jefferson Transit's investment in capital assets as of year-end 2014 was $7,288,401 (net of accumulated depreciation), an increase of $2,203,591 (or 43.3%) from year-end 2013. Jefferson Transit's investment in capital assets includes land, buildings, shelters, vehicles & equipment and construction in progress. 2014 capital investments increased $2,203,591, depreciation expense was $535,642; and $364,595 in fully depreciated assets were retired. Jefferson Transit did not purchase new vehicles in 2014. Capital Equipment purchases in the form of new computer hardware and bus shelters were purchased in 2014. Construction began in June 2014 on the Administration and Maintenance Facility.

Additional information concerning capital assets may be obtained from Note 2 in the Notes to the Financial Statements.

ECONOMIC OUTLOOK

Jefferson Transit management has been and continues to be focused on controlling expenses. Jefferson Transit management has taken several measured steps to hold expenses in check and minimize the impact of inflationary pressures, but is keenly aware that the sales tax rate is at the maximum allowable by law. Any future actions taken by management will carefully consider the impact on safety service to the public and continued ability to comply with regulatory compliance expected of any government entity.

Given that costs increase in the long run, maintaining revenues coupled with the need to stabilize *and* bolster Operating and Capital reserves, management must continue to ensure sound fiscal operation of Jefferson Transit.

Major issues which could impact the future financial condition of Jefferson Transit include:

- Maintaining grant and sales tax revenue streams with a focus on sustaining existing and developing new ones in order to address cost increases due to inflationary pressures.
- Review of community growth patterns and adjustment of routes as needed to address various county population centers.

Requests for Information

This financial report is designed to provide a general overview of Jefferson Transit Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

General Manager
Jefferson Transit Authority
63 Four Corners Road
Port Townsend, WA 98368

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
STATEMENT OF NET POSITION
December 31, 2014

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 3,959,530
Taxes Receivable	636,153
Accounts Receivable (Net)	3,778
Due To (From) Other Governments	719,639
Inventory	130,002
Prepaid Expenses	10,607
TOTAL CURRENT ASSETS	$ 5,459,708
NONCURRENT ASSETS	
Capital Assets Not Being Depreciated:	
Land	$ 1,203,423
Construction in Progress	3,510,829
Capital Assets Being Depreciated:	
Facility	687,452
Other Buildings & Structures	1,746,131
Revenue Vehicles	5,661,448
Service Vehicles	312,531
Service Equipment	379,721
Office Furniture & Equipment	227,098
Less: Accumulated Depreciation	(6,440,232)
TOTAL NONCURRENT ASSETS	$ 7,288,401
TOTAL ASSETS	$ 12,748,109

LIABILITIES

Accounts Payable	$ 279,446
Accrued Expenses	50,854
TOTAL CURRENT LIABILITIES	$ 330,300
NONCURRENT LIABILITIES	
Deposits and Other Payables	$ 60
GO Bonds Payable	1,090,000
Unamortized Premium on Bonds Sold	27,610
Employee Leave Benefits	183,471
TOTAL NONCURRENT LIABILITIES	$ 1,301,141
TOTAL LIABILITIES	$ 1,631,441
NET POSITION	
Invested in Capital Assets, Net of Related Debt	$ 7,288,401
Restricted for Bond Covenant	85,250
Unrestricted	3,743,017
TOTAL NET POSITION	$ 11,116,668
TOTAL NET ASSETS AND LIABILITIES	$ 12,748,109

The Notes to the Financial Statements are an integral part of this statement.

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2014

OPERATING REVENUES		
Passenger Fares	$	211,569
Other Operating Revenue		5,213
Total Operating Revenues	$	216,782
OPERATING EXPENSES		
Operations	$	2,124,196
Maintenance		1,090,521
Administrative Expenses		685,654
Depreciation		535,642
Total Operating Expenses	$	4,436,012
Operating Income (Loss)	$	(4,219,230)
NONOPERATING REVENUES (EXPENSES)		
Sales Tax	$	3,650,601
External Operating Subsidies		1,245,354
Investment Income		2,024
Other Nonoperating Revenues (Expenses)		38,351
Total Nonoperating Revenues (Expenses)	$	4,936,330
Income (Loss) Before Capital Contributions, Extraordinary and Special Items	$	717,100
Capital Contributions	$	2,207,598
Increase (Decrease) In Net Position	$	2,924,698
Net Position - Beginning of Period	$	8,191,970
Net Position - End of Period	$	11,116,668

The Notes to the Financial Statements are an integral part of this statement.

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	$ 219,023
Payments to Suppliers	(820,729)
Payments to Employees	(3,009,024)
Net Cash Provided (Used) by Operating Activities	$ (3,610,730)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Sales Tax Receipts	$ 3,663,463
Other Nonoperating Receipts	23,729
Operating Grant Receipts	1,118,396
Local Government Assistance Fund Receipts	17,500
Net Cash Provided (Used) by Noncapital Financing Activities	$ 4,823,088
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	$ 3,004,326
Purchases of Capital Assets	(2,739,233)
Sale of Capital Assets	14,622
Net Cash Provided (Used) by Capital and Related Financing Activities	$ 279,715
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Dividends	$ 2,024
Net Cash Provided by Investing Activities	$ 2,024
Net Increase (Decrease) in Cash and Cash Equivalents	$ 1,494,098
Balances - Beginning of the Year	$ 2,465,432
Balances - End of the Year	$ 3,959,530
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	$ (4,219,230)
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	535,642
Change in Assets and Liabilities:	
Receivables, Net	5,001
Inventories	20,896
Prepaid Expenses	(2,163)
Prepaid Revenue	(75)
Accounts and Other Payables	94,193
Accrued Payroll and Benefit Expenses	(44,993)
Net Cash Provided by Operating Activities	$ (3,610,730)

The Notes to the Financial Statements are an integral part of this statement.

JEFFERSON COUNTY PUBLIC TRANSPORTATION BENEFIT AREA
DBA/JEFFERSON TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Jefferson County Public Transportation Benefit Area was incorporated on July 11, 1980 and operates under the laws of the State of Washington applicable to a transit district. The financial statements of the Jefferson County P.T.B.A., DBA/Jefferson Transit Authority (Jefferson Transit) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

Jefferson Transit is a special purpose government entity and provides Fixed Route, Route Deviated, Demand Response (Dial-A-Ride) and Vanpool Programs to the general public. Jefferson Transit is supported through passenger and other transit charges, sales tax revenue and various local, state and federal contributions and grant programs.

Jefferson Transit is governed by an elected five-member board which consists of two City of Port Townsend councilors and the three Jefferson County commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Jefferson Transit has no component units.

B. Basis of Accounting and Reporting

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position. Their reported net position is segregated into invested in capital assets, restricted and unrestricted net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. Jefferson Transit discloses changes in cash flows by a separate statement that presents their operating, non-capital financing, capital and related financing and investing activities.

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

Jefferson Transit distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services in connection with Jefferson Transit's principal ongoing operations. The principal operating revenues of Jefferson Transit are charges to customers for passenger fares and charges collected for the use of the Vanpool program. Operating expenses result from those expenses incurred to provide transit services such as fixed route, route deviated, demand response and other services such as the Vanpool program. Operating expenses consist of direct expenses including driver wages and fuel, and indirect expenses such as administration costs and depreciation of capital assets. All revenues and expenses not meeting the definition of operating are classified as non-operating revenues and expenses.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is Jefferson Transit's policy to invest all temporary cash surpluses. As of December 31, 2014 the treasurer was holding $3,959,530 in short-term residual investments of surplus cash. This amount is classified on the *Statement of Net Position* as cash and cash equivalents.

For purposes of the *Statement of Cash Flows*, Jefferson Transit considers all highly liquid investments (including restricted assets) with a maturity of less than three months when purchased, to be cash equivalents.

Jefferson Transit's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC) and thus not subject to custodial credit risk.

2. Receivables

As of December 31, 2014, Jefferson Transit had $636,153 in Taxes Receivable.

Taxes Receivable consists of sales tax receivable. Sales tax revenue is accrued in the period earned and received two months later.

As of December 31, 2014, Jefferson Transit had the following sales tax amounts accrued:

November 2014 Sales Tax Received January 2015	$	261,866
December 2014 Sales Tax Received February 2015		374,287
TOTAL	$	636,153

As of December 31, 2014, Jefferson Transit had $3,778 in Accounts Receivable (Net).

Accounts receivable consists of amounts owed from employees, private individuals or organizations for goods and services.

Due to the type and amount of receivables, no estimation is made for uncollectible accounts. When accounts are deemed uncollectible following all methods of collection efforts and, if necessary, reviewed by legal counsel, they are written off to appropriate categories.

As of December 31, 2014, Jefferson Transit had the following receivables:

Accounts Receivable	$	1,004
Accounts Receivable - Other		2,614
Accounts Receivable - Employee		160
TOTAL	$	3,778

3. Due to (From) Other Governments

As of December 31, 2014, Jefferson Transit had a net $719,639 Due From Other Governments.

Amounts included in Due to (From) Other Governments consist primarily of state and federal grant funds.

As of December 31, 2014, Jefferson Transit had the following due from other governments:

Federal and State Governments - Operating	$	270,404
State Grants - Operating		3,750
Federal and State Grants - Capital		445,484
TOTAL	$	719,639

4. Inventory

As of December 31, 2014, Jefferson Transit had $130,002 in Inventory.

Inventories consist of fuel on hand and vehicle maintenance parts and supplies and are valued using the first-in/first-out (FIFO) method. Jefferson Transit Authority values Maintenance Parts Inventory on a cost basis monthly, while fuel is valued on the lower of cost or market. Fuel value is determined utilizing the Washington State Department of Enterprise Services Fuel Price Update website.

As of December 31, 2014 Jefferson Transit had the following inventories:

Maintenance Parts Inventory	$	127,314
Fuel Inventory		2,688
TOTAL	$	130,002

5. Restricted Assets and Liabilities

See Note 5 for Long Term Debt explanation and Note 7 for Restricted Component of Net Position.

6. Other Assets and Debits

As of December 31, 2014, Jefferson Transit had $10,607 in Prepaid Expenses.

Prepaid expenses consist of services that will be provided in a future period but paid as of the close of current period.

As of December 31, 2014, Jefferson Transit had the following prepaid expenses:

Prepaid Expenses	$	9,248
Prepaid Expenses - Employee Benefits		1,358
Prepaid Expenses - Employee Travel Advance		0
TOTAL	$	10,606

7. Capital Assets and Depreciation - See Note 2.

8. Compensated Absences

As of December 31, 2014, Jefferson Transit had $183,471 in Employee Leave Benefits. This represents an increase of $3,994 from 2014.

Employee leave (general leave) benefits are for absences for which employees will be paid. Jefferson Transit records unpaid leave for compensated absences as an expense and liability when earned.

Jefferson Transit's employee general leave policy as of December 31, 2014 for both represented and non-represented staff allowed for the accumulation of general leave benefits at the rate of twenty-five days per year. Additional general leave benefits accrue after five and ten years continuous service at the rate of five additional days per year, respectively. The maximum amount of general leave hours represented employees may carry over from year to year is 520 hours and non-represented is 280 hours. Employees' general leave balances as of December 31st in excess of allowed balances are cashed-out and the funds are placed into employee HRA VEBA accounts.

9. Other Accrued Liabilities

As of December 31, 2014, Jefferson Transit had $279,446 in Accounts Payable.

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

As of December 31, 2014 Jefferson Transit had the following accounts payable:

Accounts Payable	$	248,539
Accounts Payable - Employee		30,907
TOTAL	$	279,446

As of December 31, 2014, Jefferson Transit had $50,854 in Accrued Expenses.

Accrued expenses consist mainly of accrued wages and employee-related liabilities.

As of December 31, 2014, Jefferson Transit had the following accrued expenses:

Accrued Payroll	$	28,356
Accrued Employee Payroll Related Liabilities		22,498
Accounts Payable - Public Utility and Use Taxes		0
TOTAL	$	50,854

As of December 31, 2014, Jefferson Transit had $60 in Deposits and Other Payables.

Deposits and Other Payables consist of liabilities for deposits made by passengers for bike lockers.

10. Long Term Debt

See Note 5, Long Term Debt.

NOTE 2 – CAPITAL ASSETS AND DEPRECIATION

A. Capital Assets

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred. The capital asset threshold is $5,000.

All capital assets are valued at historical cost or estimated historical cost where historical cost is not known.

Jefferson Transit 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, Jefferson Transit has sufficient legal interest to accomplish the purposes for which the assets were acquired and has included such assets within the applicable account.

The original cost of capital property retired or otherwise disposed of, and the cost of installation less salvage, is charged to accumulated depreciation. However, in the case of the sale of an asset, the original cost is removed from Jefferson Transit 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*.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives using the straight-line method with useful lives of three to thirty years. WSDOT provides guidance on the depreciation of all vehicles due to grant funding and financial reporting requirements.

- Facilities
  - Administration Building – 30 years,
  - Building Improvements – 5 to 10 years (based on type of improvement)
- Buildings and Structures
  - Park and Ride Structures – 30 years
  - Bus Stops and Shelters – 10 years
  - Improvements – 5 to 10 (based on type of improvement)
- Revenue Vehicles, Service Vehicles
  - Heavy Duty Small Buses 28ft-35ft – 10 years
  - Medium Duty Bus/Cutaway – 7 years
  - Light Duty Bus – 5 years
  - Light Duty Small Van – 4 years
- Service Equipment
  - 2 – 12 years dependent upon type of equipment
- Office Furniture & Equipment
  - 3 – 12 years dependent upon furniture or equipment

B. Capital Asset Schedule

Capital assets activity for the year ended December 31, 2014 was as follows:

	Beginning Balance 1/1/2014	Increases	Decreases	Ending Balance 12/31/2014
Capital assets, not being depreciated				
Land	$ 1,203,423			$ 1,203,423
Construction in Progress	922,308	2,922,428	333,907	3,510,829
Total capital assets not being depreciated	$ 2,125,731	$ 2,922,428	$ 333,907	$ 4,714,252
Capital assets, being depreciated:				
Facility	$ 687,452			$ 687,452
Other Buildings & Structures	1,612,441	134,290	600	1,746,131
Revenue Vehicles	5,978,299	6,875	323,727	5,661,448
Service Vehicles	360,274	0	47,743	312,531
Service Equipment	379,721			379,721
Office Furniture & Equipment	210,076	17,533	511	227,098
Total capital assets being depreciated	$ 9,228,263	$ 158,698	$ 372,581	$ 9,014,381
Less accumulated depreciation for:				
Facility	$ 543,793	$ 24,469	$ -	$ 568,262
Other Buildings & Structures	1,055,443	54,076	0	1,109,518
Revenue Vehicles	3,917,807	392,428	323,727	3,986,509
Service Vehicles	308,154	16,497	47,743	276,908
Service Equipment	247,773	45,032	0	292,805
Office Furniture & Equipment	196,216	10,014	0	206,230
Total accumulated depreciation	$ 6,269,185	$ 542,517	$ 371,470	$ 6,440,232
Total capital assets, being depreciated, net	$ 2,959,078	$ (383,818)	$ 1,111	$ 2,574,149
Total capital assets	**$ 5,084,809**	**$ 2,538,609**	**$ 335,018**	**$ 7,288,401**

NOTE 3 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Construction Commitments

Jefferson Transit has an active construction project as of December 31, 2014. The project is the construction of the Administration and Maintenance Facility at 63 Four Corners Road.

At year-end Jefferson Transit's commitments with contractors were as follows:

Project	Spent to Date	Remaining Commitment
Admin/Maintenance Facility	$3,566,670	$3,305,043

Jefferson Transit has obtained grant and bond funding for this project. Capital reserves are also committed to this project. No further financing is required to complete this project.

NOTE 4 - CONTINGENCIES AND LITIGATION

Jefferson Transit has recorded in its financial statements all material liabilities; including estimates for situations which are not yet resolved but where, based on individual information, management believes it is probable that Jefferson Transit will have to make payment. In the opinion of management, Jefferson Transit's insurance policies are adequate to pay all known and pending claims.

Jefferson Transit 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. Jefferson Transit's management believes that such disallowance, if any, will be immaterial.

NOTE 5 – LONG TERM DEBT

Long-Term Debt

Jefferson Transit issued general obligation bonds to finance the construction of a new Administration and Maintenance Facility at 63 Four Corners Road, Port Townsend. General obligation bonds have been issued for general government activities and are being repaid through sales tax revenue.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Date	Interest Rate	Original Amount	Amount of Installment
Construct Administration and Maintenance Facility	12/1/2033	2.5468%	1,090,000	81,072

The Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2015	$30,000	$51,072
2016	$45,000	$35,755
2017	$45,000	$35,350
2018	$50,000	$34,900
2019	$50,000	$34,250
2020-2024	$265,000	$150,550
2025-2029	$310,000	$102,125
2030-2033	$295,000	$33,625
TOTAL	**$1,090,000**	**$477,627**

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. Jefferson Transit's bonds were sold at a premium.

At December 31, 2014, Jefferson Transit has $14,167 available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $85,250 in sinking funds and reserves as required by bond indentures.

Jefferson Transit has pledged future sales tax_revenue, net of operating expenses and reserve obligations, to repay $1,090,000 in general obligation bonds issued in June 2014. Proceeds from the bonds provided financing for the construction of an Administration and Maintenance Facility. The bonds are payable solely from sales tax revenue and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 2.2 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $1,567,627. The first principal and interest payment is due in December 2015 and total sales tax revenue funds will be $30,000 and $51,072, respectively.

NOTE 6 - PENSION PLANS

Substantially, all Jefferson Transit'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 Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan

3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

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

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

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

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

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

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

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

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

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

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to but not yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
TOTAL	**368,272**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

PERS Plan 1	PERS Plan 2	PERS Plan 2
9.21%**	9.21%**	9.21%***
6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	$4,036	$178,328	$7,846
2013	$3,746	$157,840	$5,506
2012	$5,033	$125,039	$4,298

NOTE 7 – RESTRICTED COMPONENT OF NET POSITION

The Statement of Net Position reports $85,250 of restricted component of net position, of which $85,250 is restricted by enabling legislation. Resolution 14-13 enabled Jefferson Transit to enter into indebtedness in the form of the issuance of general obligation bonds to support the construction of an Administration and Maintenance Facility. The resolution also requires the set-up of Reserve Account. These restricted funds satisfy that requirement.

NOTE 8 – RISK MANANGEMENT

A. Public Entity Risk Pool

January 1, 1989, Jefferson Transit signed an inter-local government agreement per Chapters 48.61 and 39.34 RCW, with seven public Washington transit systems for the joint purchase of liability insurance, joint self-insurance, and joint contracting for hiring of personnel to provide risk management, claims handling, and administrative services. The agreement created an agency known as the Washington State Transit Insurance Pool (WSTIP). Currently, there are 25 members in the transit insurance pool.

A board of Directors consisting of a representative of each member system governs WSTIP. Full member systems include: Asotin County Transit, Clarkston; Ben Franklin Transit, Richland; Clallam Transit System, Port Angeles; Columbia County Transit, Dayton; Community Transit, Everett; River Cities Transit, Longview; C-Tran, Vancouver; Everett Transit, Everett; Grant Transit, Ephrata; Grays Harbor Transportation Authority, Hoquiam; Intercity Transit, Olympia; Island Transit, Coupeville; **Jefferson Transit**, Port Townsend; Kitsap Transit, Bremerton; Link Transit, Wenatchee; Mason Transit, Shelton; Pacific Transit System, Raymond; Pierce Transit, Pierce County; Pullman Transit, Pullman; Skagit Transit, Burlington; Spokane Transit, Spokane; Twin Transit, Centralia; Valley Transit, Walla Walla; Whatcom Transit, Bellingham and Yakima Transit, Yakima.

The purpose of WSTIP is stabilization of present insurance costs and reduction of costs in the long term future. Transit authorities joining the Pool must remain members for a minimum of 36 months; a member may withdraw from the Pool after that time by giving 12 months notice. Any member who withdraws will not be allowed to rejoin the Pool for a period of 36 months. Transit authorities applying for membership in the Pool may do so on approval of a simple majority vote of the Board of the Pool. The Pool underwriting and rate-setting policies have been established after consultation with actuaries. The Pool underwriting and rate-setting policies have been established after consultation with actuaries. The Pool members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Pool were to be exhausted, members would be responsible for the Pool's liabilities. WSTIP is regulated by the Washington State Risk Manager. WSTIP's accounting records are audited by the Washington State

Auditor each year. Copies of the annual financial report that includes financial statements and required supplementary information of the financial statements may be obtained by writing to: WSTIP, Executive Director, 2629 – 12th Court S.W., Olympia, WA 98502.

WSTIP self-insures for the first $1,000,000 of each auto and general liability claim and provides excess insurance with private carriers for up to eleven million above the initial $1,000,000 on a per claim basis.

Jefferson Transit has not had a settlement that exceeded insurance coverage in the past three years.

B. Unemployment Insurance

Jefferson Transit 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 Jefferson Transit quarterly. Jefferson Transit had claims totaling $464 during 2014.

Jefferson County Public Transportation Benefit Area
DBA/Jefferson Transit Authority
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2014

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	Expenditures: From Pass-Thru Awards	Expenditures: From Direct Awards	Totals
US Dept of Transportation / pass through from WSDOT	Formula Grants for Rural Areas	20.509	GCB 1613	$ 816,608		$816,608
US Dept of Transportation / pass through from WSDOT	Formula Grants for Rural Areas	20.509	GCB 1614	$ 90,481		$90,481
US Dept of Transportation / pass through from WSDOT	Formula Grants for Rural Areas	20.509	GCB 1730	$ 20,364		$20,364
Total CFDA 20.509						**$927,453**
US Dept of Transportation	Federal Transit - Capital Investment Grants	20.500	WA-0180		$ 2,036,752	**$2,036,752**
TOTAL FEDERAL AWARDS EXPENDED				**$ 927,453**	**$ 2,036,752**	**$ 2,964,205**

NOTE 1 - BASIS OF ACCOUNTING

The schedule of Financial Assistance is prepared on the same basis of accounting as the Transit's financial statements. The Transit uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenses represent only the Federal grant portion of the program costs. Entire program costs, including the Transit's portion, may be more then shown.

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.

Contact information for the State Auditor's Office	
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