

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

Spokane Transit Authority
Spokane County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1009950

Issue Date
June 17, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

June 17, 2013

Board of Directors
Spokane Transit Authority
Spokane, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

Table of Contents

**Spokane Transit Authority
Spokane County
January 1, 2012 through December 31, 2012**

Federal Summary	1
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	3
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	5
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10

Federal Summary

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

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.500	Federal Transit Cluster - Federal Transit - Capital Investment Grants
20.507	Federal Transit Cluster - Federal Transit - Formula Grants
20.516	Transit Services Programs Cluster - Job Access - Reverse Commute Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$330,234.

The 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 in Accordance with *Government Auditing Standards*

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

Board of Directors
Spokane Transit Authority
Spokane, Washington

We have audited the basic financial statements of the Spokane Transit Authority, Spokane County, Washington, as of and for the year ended December 31, 2012, and have issued our report thereon dated May 13, 2013. The prior year comparative information has been derived from the Authority's 2011 basic financial statements, on which we issued our report dated June 7, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

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

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

TROY KELLEY
STATE AUDITOR

May 13, 2013

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

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

Board of Directors
Spokane Transit Authority
Spokane, Washington

COMPLIANCE

We have audited the compliance of the Spokane Transit Authority, Spokane County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

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

INTERNAL CONTROL OVER COMPLIANCE

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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



TROY KELLEY
STATE AUDITOR

May 13, 2013

Independent Auditor's Report on Financial Statements

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

Board of Directors
Spokane Transit Authority
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Spokane Transit Authority, Spokane County, Washington, as of and for the year ended December 31, 2012, as listed on page 10.

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 Spokane Transit Authority, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative summary information has been derived from the Authority's 2011 financial statements and, in our report dated June 7, 2012, we expressed an unqualified opinion on the basic financial statements. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2011, from which such partial information was derived.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

The Detail of Revenue and Expenses, Schedule of State/Local Financial Assistance and Schedule of Labor Relations Consultants are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR

May 13, 2013

Financial Section

**Spokane Transit Authority
Spokane County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012

Statement of Revenues, Expenses and Changes in Fund Net Position – 2012

Statement of Cash Flows – 2012

Notes to Financial Statements – 2012

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards – 2012

Notes to the Schedule of Expenditures of Federal Awards – 2012

Detail of Revenue and Expenses – 2012

Schedule of State/Local Financial Assistance – 2012

Schedule of Labor Relations Consultants – 2012

Spokane Transit Authority
For the Year Ended December 31, 2012

Management Discussion and Analysis

This section of Spokane Transit Authority's (STA's) Annual Financial Report presents management's overview and analysis of the financial performance for the year ended December 31, 2012. This section should be read in conjunction with the financial statements and accompanying notes to the financial statements.

Spokane Transit is a Public Transportation Benefit Area (PTBA) providing public transportation services within its boundaries. Services include:

- Local fixed route bus services within Spokane County, City of Spokane, City of Spokane Valley, City of Liberty Lake, City of Millwood, City of Airway Heights, City of Medical Lake, and City of Cheney;
- Paratransit services for those who live within $\frac{3}{4}$ mile of a bus route and who, because of their disability, are unable to use the regular bus service;
- A vanpool program and ride match services.

Financial Highlights

- The assets of STA exceeded its liabilities at December 31, 2012 by \$126,417,909. Of this amount, \$52,234,131 represents STA's net position not invested in capital assets or restricted by regulation. The STA Board has designated reserves of \$19,954,087 for catastrophic self-insurance exposure protection, operating reserves, and cash designated for future High Performance Transit Right of Way acquisition.
- STA's total net position decreased by \$7,849,951. The federal and state portions of capital grant revenue totaling \$3,355,161 is not included in the \$1,696,182 loss before federal and state capital contributions.
- STA continues to operate on a "pay-as-you-go" basis and remained free of debt during the period. Cash balances, less designated reserves, are planned for future capital expenses.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to STA's basic financial statements. The notes also contain more detail on some of the information presented in the financial statements.

The financial statements of STA report information using accounting methods similar to those used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. These statements offer short and long term financial information about STA activities.

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

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows

in future fiscal periods (for example, sales tax collected by merchants but not yet remitted to STA and earned but unused employee leave).

The Statement of Cash Flows presents information on STA's cash receipts, cash payments, and net changes in cash and cash equivalents for the most recent two fiscal years. Generally Accepted Accounting Principles (GAAP) require that cash flows be classified into one of four categories:

- Cash flows from operating activities
- Cash flows from non-capital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements.

Financial Analysis

Overall, the financial position of STA decreased in 2012. For the year ended December 31, 2012, assets exceeded liabilities by \$126,417,909. STA is a capital-intensive enterprise and over one-half (58.4%) of its net position is invested in capital assets. The following is a comparative summary of STA's net position.

SUMMARY STATEMENT OF NET POSITION

	2012	2011	2010
Assets:			
Current Assets	\$60,465,715	\$64,373,440	\$62,209,935
Capital Assets (Net)	73,826,778	78,217,778	79,767,586
Total Assets	134,292,493	142,591,218	141,977,521
Liabilities:			
Current Liabilities	7,874,584	8,323,358	8,007,151
Total Liabilities	7,874,584	8,323,358	8,007,151
Net Position:			
Invested in Capital Assets	73,826,778	78,217,778	79,767,586
Restricted Reserves	357,000	357,000	357,000
Unrestricted Reserves	52,234,131	55,693,082	53,845,784
Total Net Position	126,417,909	134,267,860	133,970,370
Total Liabilities and Net Position	\$134,292,493	\$142,591,218	\$141,977,521

During 2012, STA's net position decreased by \$7,849,951, primarily due to the Special Item reclassification. The following is a summary Statement of Revenues, Expenses and Changes in Net Position. Also shown are the comparatives for the years ended December 31, 2011 and 2010. During

2010, STA received Federal Transit Administration (FTA) American Recovery and Reinvestment Act (ARRA) funding for capital and operating projects. Public transportation is a capital-intensive enterprise. Because these capital assets are used to provide services to citizens, they are not available for future spending.

Summary Statement of Revenues, Expenses, and Change in Net Position

	2012	2011	2010
Operating Revenue			
Passenger fares	\$10,314,643	\$10,151,749	\$9,343,538
Other transit revenue	454,815	384,327	473,656
Non-operating Revenue			
Sales Tax	42,931,465	41,855,394	40,559,096
Grants - Non-capital	8,452,005	9,509,911	9,255,256
Other Non-operating revenue	577,494	664,439	844,818
Total Revenue (before capital contributions)	62,730,422	62,565,820	60,476,364
Operating Expenses	56,332,970	55,728,202	56,691,958
Depreciation	7,819,325	7,568,083	6,618,455
Non-operating Expenses			
Other Non-operating Expenses	50,473	121,570	98,464
Cooperative Street Projects	223,836	2,291,216	2,236,581
Total Expenses	64,426,604	65,709,071	65,645,458
Income (Loss) before Contributions	(1,696,182)	(3,143,251)	(5,169,094)
Contributions			
Capital Grants (ARRA)		72,823	4,007,072
Capital Grants	3,355,161	3,367,918	951,175
Special Items	8,828,175		161,647
Change in Net Position	(7,169,196)	297,490	(372,494)
Beginning Net Position	134,267,860	133,970,370	134,342,864
Cumulative effect of change in accounting principle	(\$680,755)		
Ending Net Position	\$126,417,909	\$134,267,860	\$133,970,370

Revenues

Passenger fares are the major source of operating revenues. The following table shows the amount for selected classifications of fares the Board adopted for 2012:

Fare Examples:

	Cash Fares:	Monthly Pass:
Adult	\$1.50	\$45.00
Student	\$ 1.50	\$ 37.00
Youth	\$ 1.50	\$ 30.00
Reduced Fare	\$.75	\$ 22.50
Paratransit	\$ 1.50	\$ 45.00

The base fare increased to \$1.50 for Fixed Route on January 1, 2011 and \$1.50 for Paratransit on January 1, 2012. Additional information can be obtained at the STA website or by contacting STA.

Operating revenues also include income from lease of display advertising space on coaches, as well as other small miscellaneous items.

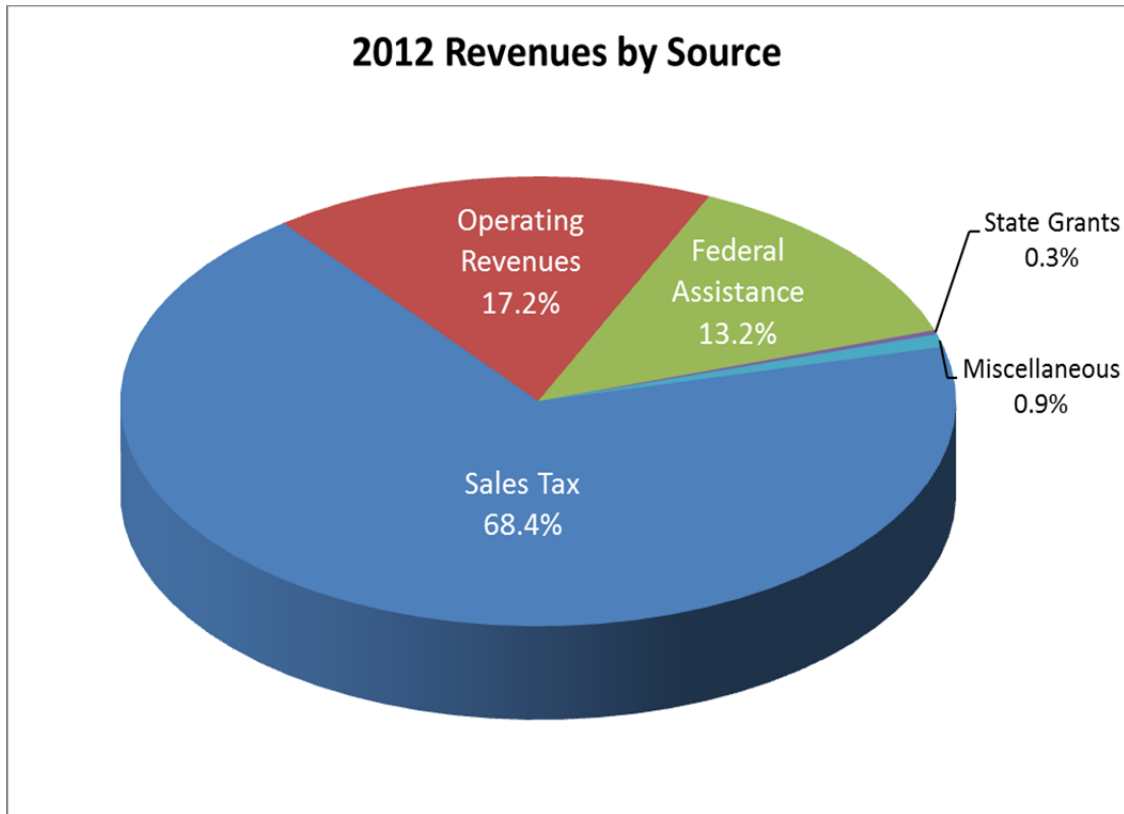
Funding for STA's services is largely provided by a local sales tax, 0.6 percent, levied within the Public Transportation Benefit Area (PTBA). By state law, public funding for transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Since 1981, 0.3 percent of the sales tax authority has been in existence. To replace the motor vehicle excise tax, an additional 0.3 percent was added with a five year sunset clause in 2004. With voter approval, the additional 0.3 percent was made permanent in 2008. Voter approval is required before additional sales tax can be levied.

STA received state funding from the Washington State Department of Transportation's Consolidated Grant program in the amount of \$1,421,955 in 2011, \$1,045,961 in 2010, \$721,085 in 2009, \$744,840 in 2008, and \$888,165 in 2007. These grant funds were used for special needs related service. In 2012, STA received \$187,961 in additional state operating funds from the Washington State Department of Transportation's Public Transportation Grant Program (approved by House Bill 2190). This bill awarded a total of \$563,882 to STA based on a formula. The remaining funds will be disbursed in 2013.

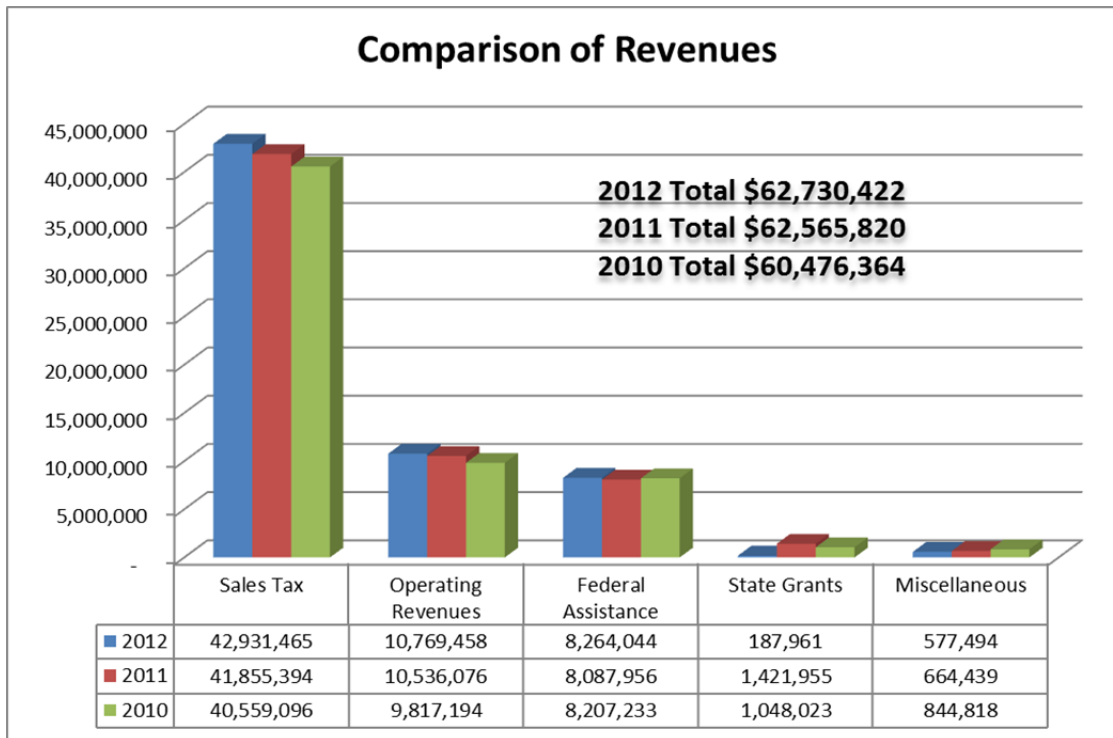
Miscellaneous revenue, primarily investment earnings, decreased as a result of lower interest rates during the year which averaged 0.94 percent.

STA uses Federal section 5307 formula grant funds for preventive maintenance. Use of these funds for maintenance is authorized by the FTA.

During 2012, STA revenues, excluding capital contributions, were \$62,730,422. The following chart shows the major sources of revenue:



Revenues, excluding capital contributions, for the last three years were as follows:



Service Delivery, Ridership and Operating Expenses

Operating expenses are most directly impacted by the number of revenue hours (a passenger vehicle in passenger carrying service for one hour) of service STA provides. Revenue miles also provide a valuable indicator of the service provided.

The mode describes the type of service or other activity that STA provides:

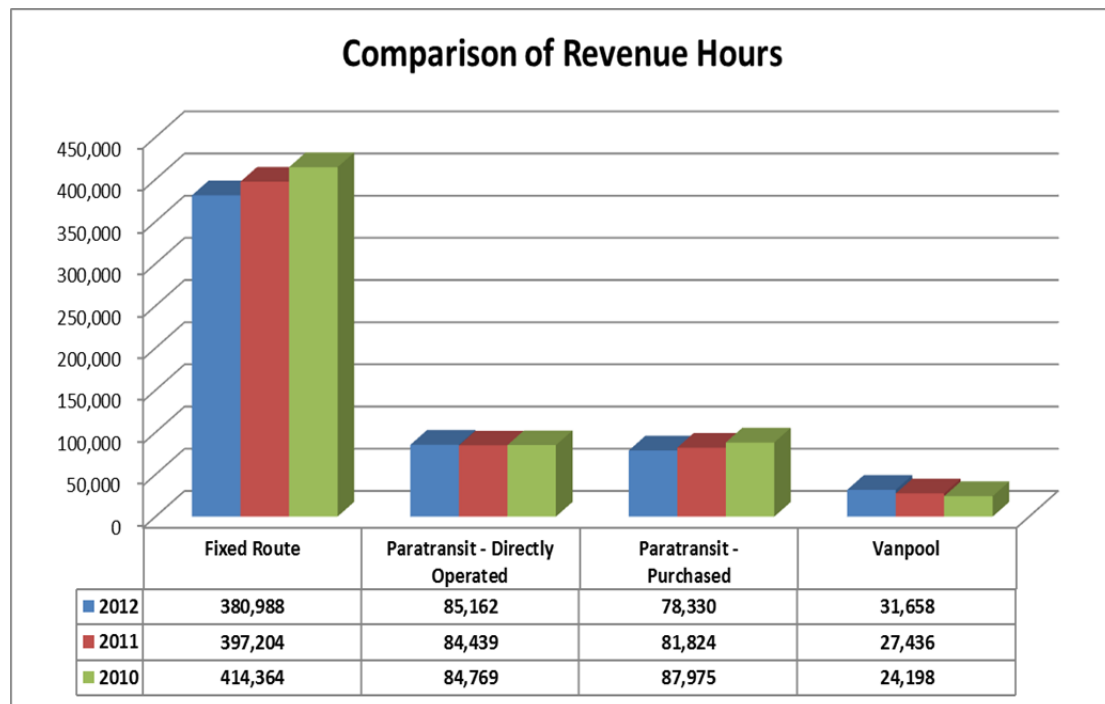
Fixed Route (Motor Bus) - Fixed Route refers to regularly scheduled buses operating on established routes.

Paratransit (Demand Response) - Paratransit refers to the mode of service that provides a complementary paratransit service as provided under the Americans with Disabilities Act (ADA). Directly operated service is provided by STA personnel while purchased service is provided by a private contractor.

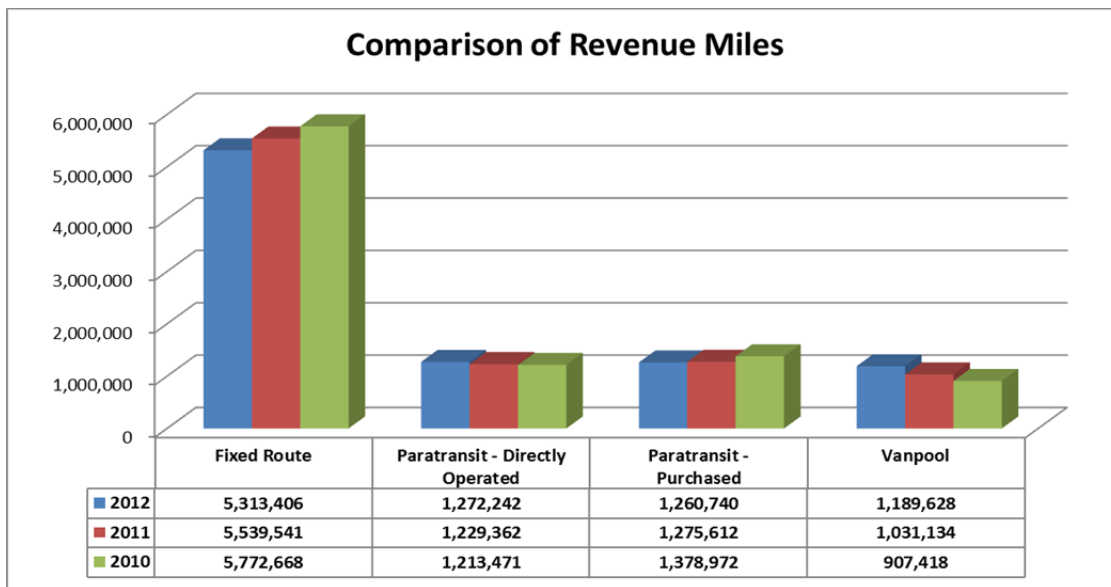
Vanpool - Vanpool is a service for prearranged groups of passengers who travel to a common destination. Typically, one of the passengers is designated as the driver and the program may receive employer support as a part of commute trip reduction (CTR) programs. Carpool client-matching is also available in this mode.

Changes in revenue hours and revenue miles for Fixed Route and Paratransit are a result of service reductions made in 2010 and 2011.

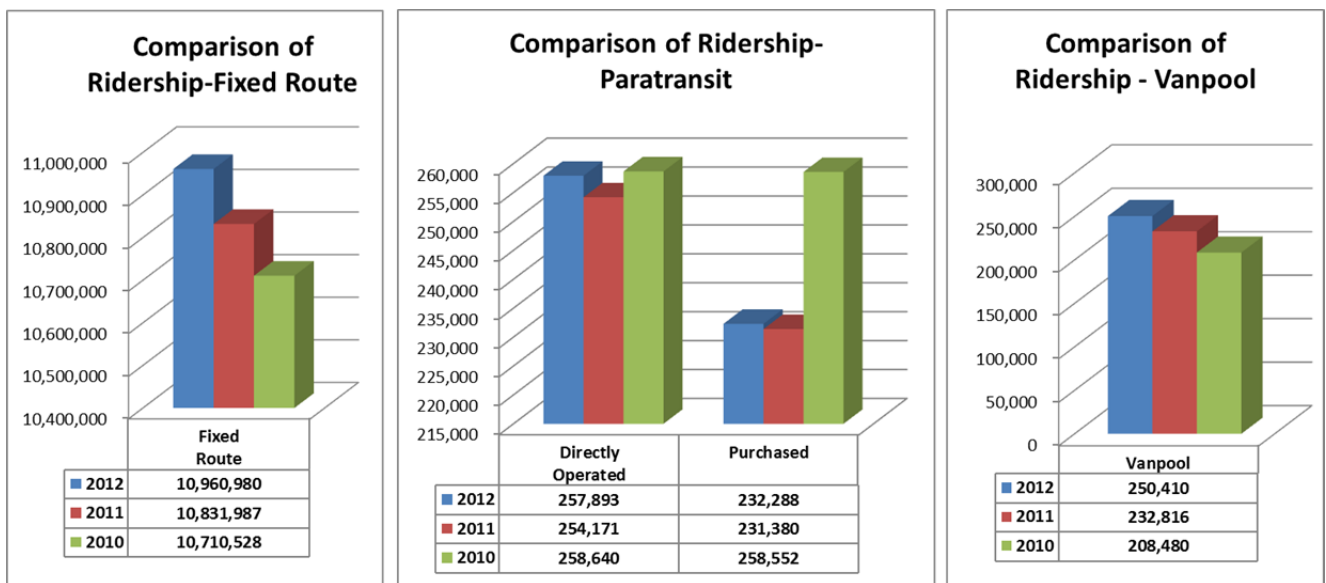
The following chart shows the comparison of revenue hours by mode for the last three years:



The following chart shows the comparison of revenue miles by mode for the last three years:



Most of the common operating efficiency and effectiveness measures in the transit industry have a ridership component. Results for the last three years appear below:



Despite a service reduction in 2010 and 2011, Fixed Route ridership increased 1.2 percent from 2011 to 2012 and 1.1 percent from 2010 to 2011.

Paratransit service provided pursuant to the Americans with Disabilities Act (ADA) increased by 1.0 percent in 2012.

Vanpool service increased in 2012 by 7.6 percent.

Operating Expense by Function - The function describes the major operating areas of STA and includes:

Transportation - Responsible for all on-street passenger services, including operators, supervisors, dispatchers, security and schedulers. Fuel consumption is also classified as a transportation expense.

Maintenance - Responsible for providing vehicles (including maintenance, repair, parts, and cleaning) and facilities upkeep.

Administration - Responsible for all other functions including executive direction, planning, human resources, customer service, communications, information systems, purchasing and finance. Included in administration expenses are insurance and utilities costs.

Additional financial commitments were made in 2008 to sustain and enhance quality of services through the "Quality Counts" initiatives, which included additional staffing to focus on training, vehicle cleanliness, safety, and customer satisfaction. The commitment to "Quality Counts" is ongoing.

As seen in the following tables:

- Transportation expense increased 0.2 percent due primarily to higher labor and fuel costs.
- Maintenance expense increased 0.9 percent primarily due to higher labor costs.
- Administration expense increased 4.4 percent primarily due to increases in bad debt expense and professional services related to planning projects closed in 2012.

Expense By Mode & Function For Years Ended December 31, 2012, 2011 and 2010

Mode & Function	2012	2011	Increase (Decrease)	% Change	2010
Fixed Route:					
Transportation	\$26,670,682	\$26,777,932	(\$107,250)	-0.4%	\$27,295,385
Maintenance	8,720,193	8,795,593	(75,400)	-0.9%	9,066,793
Administration	8,032,524	7,800,036	232,488	3.0%	7,426,388
Fixed Route Total	\$43,423,399	\$43,373,561	\$49,838	0.1%	\$43,788,566
Paratransit:					
Transportation	\$9,146,943	\$9,008,538	\$138,405	1.5%	\$9,704,634
Maintenance	1,330,773	1,158,565	172,208	14.9%	1,089,787
Administration	1,616,234	1,456,996	159,238	10.9%	1,459,279
Paratransit Total	\$12,093,950	\$11,624,099	\$469,851	4.0%	\$12,253,700
Rideshare:					
Transportation	\$360,092	\$305,634	\$54,458	17.8%	\$252,096
Maintenance	86,743	88,420	(1,677)	-1.9%	75,131
Administration	368,786	336,488	32,298	9.6%	322,466
Rideshare Total	\$815,621	\$730,542	\$85,079	11.6%	\$649,693
Modes Combined Expense:					
Transportation	\$36,177,717	\$36,092,104	\$85,613	0.2%	\$37,252,115
Maintenance	10,137,709	10,042,578	95,131	0.9%	10,231,711
Administration	10,017,544	9,593,520	424,024	4.4%	9,208,133
Modes Combined Expense Total	\$56,332,970	\$55,728,202	\$604,768	1.1%	\$56,691,959
Depreciation	7,819,325	7,568,083	251,242	3.3%	6,618,455
Subtotal Operating Expense after Depreciation	\$64,152,295	\$63,296,285	\$856,010	1.4%	\$63,310,414
Special Items	8,828,175		8,828,175	100%	161,647
Other Cooperative Projects-Amenities*	50,473	121,570	(71,097)	-58.5%	98,464
Cooperative Street Projects*	223,836	2,291,216	(2,067,380)	-90.2%	2,236,581
Total Expenses	\$73,254,779	\$65,709,071	\$7,545,708	11.5%	\$65,807,106

*Reclassifications made in prior year to conform to the current year's presentation.

Operating Expense by Object – The object is the classification of expenses by type of cost. Below is a brief discussion of the events of the year in each object class.

Labor expense increased only slightly at 0.2 percent in 2012. This is in part due to the continuing impacts of the service cuts implemented in September 2010 and September 2011. These service cuts led to a reduction in workforce of approximately 23 positions eliminated through attrition and retirement incentives. In addition, wage increases have been low during 2010, 2011 and 2012 as shown in the table below.

Effective Date	2010			2011		2012	
	1/1	7/1	10/1	1/1	7/1	1/1	8/1
Amalgamated Transit Union Local 1015			1.50%				2.00%
Amalgamated Transit Union Local 1598	1.00%			1.00%		1.00%	
The American Federation of State, County, and Municipal Employees Local 3939		1.00%			1.00%		
Management & Administrative employees	0.00%			1.00%		0.00%	

Fringe benefits expense primarily includes health insurance premiums, retirement contributions, social security/medicare taxes and paid time off costs. The increase in fringe benefits in 2012 was primarily due to increases in health care and retirement costs. Medical and dental expenses increased 4.03 percent over 2011, while retirement benefits increased 3.48 percent. These increases were offset slightly by other fringe benefits decreasing due to the reduction in workforce during 2010 and 2011.

Services expense declined in 2012 primarily due to decreased contract transportation services and related fuel for paratransit service, professional services, and temporary help services.

Materials and supplies expense increased overall by 4.2 percent in 2012. This was primarily due to the change in the capitalization threshold from \$500 to \$5,000. Radio repair materials, computer materials, plaza furnishings, and small tools, equipment, and fixtures increased by \$255,531 due to the capitalization threshold change. In addition, tires and tubes increased 13.6 percent or \$49,338, and fuel increased 0.9 percent or \$45,890.

Utilities expense increased slightly due to increased energy rates for natural gas and electricity.

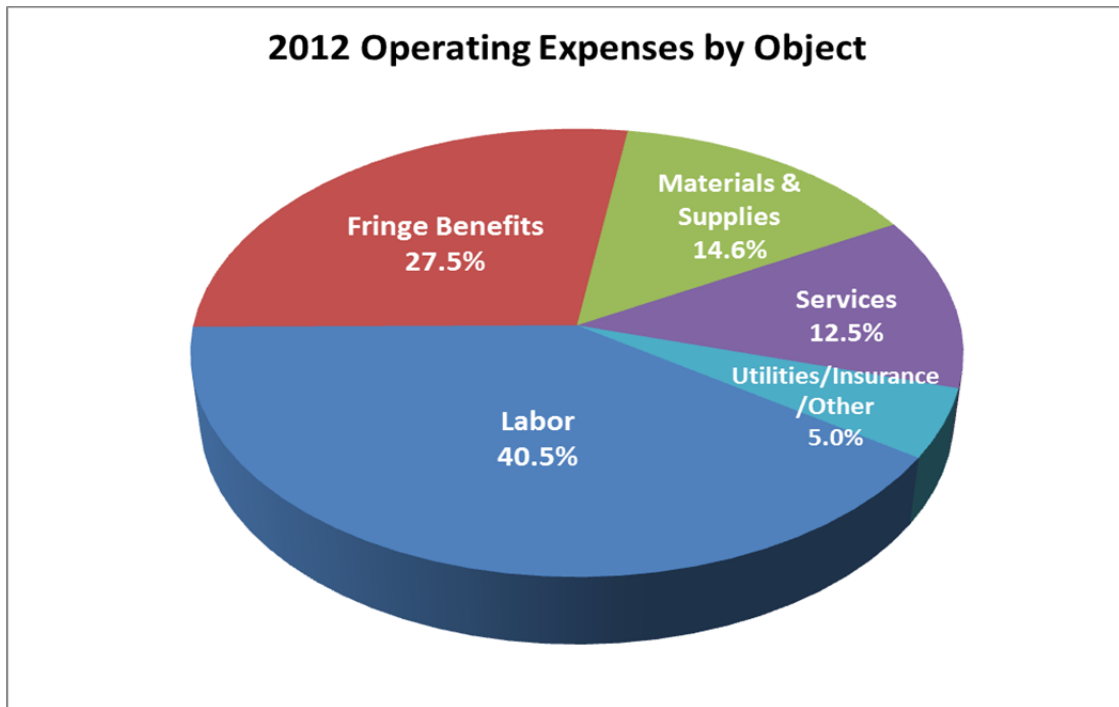
Liability and Property Insurance: The liability and property insurance coverage expense totaled \$1,000,349 in 2012, an increase of \$39,535 or 4.1 percent from 2011.

Miscellaneous expense decreased in 2012. Miscellaneous expense is primarily discounts and promotions, dues and subscriptions, travel and meetings, legal advertising, and bad debt.

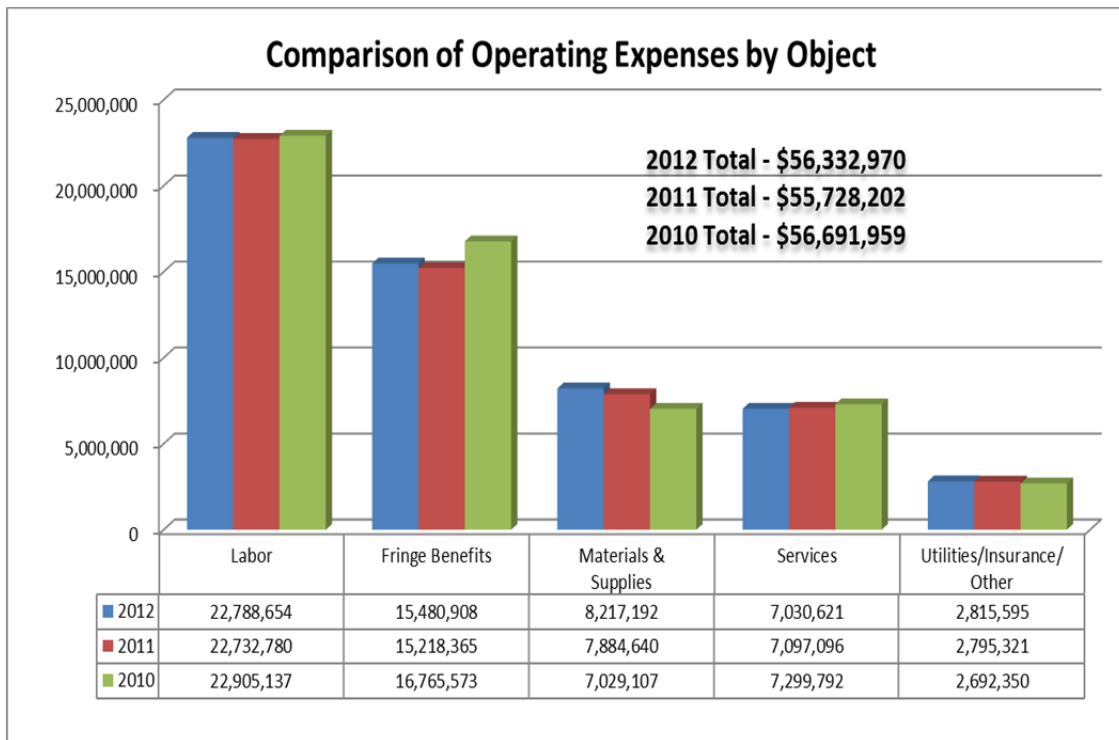
Lease expenses are primarily for radio transmitter repeater stations, fixed route bus tires and the Jefferson Park and Ride Lot. This expense increased slightly at 2.3 percent in 2012.

Special Item – STA reported a Special Item expenditure that represented expense recognition for costs accumulated in work in process for due diligence, design, engineering, environmental, and feasibility study costs for a potential light rail project. The light rail project is no longer considered a work in process.

During 2012, STA operating expenses, excluding depreciation, were \$56,332,970. The following chart shows the operating expenses by object:



Operating expenses, excluding depreciation, for the last three years were as follows:



Capital Assets

STA's investment in capital assets as of December 31, 2012, amounted to \$144,292,559 less \$70,465,781 in accumulated depreciation. This includes an additional \$8,671,524 in existing operations work in process. Capital assets consist of transit coaches and other vehicles, land, buildings, equipment, transit centers and park and ride lots. Capital asset changes consisted of \$10,481,682 of additions and \$6,965,225 of retirements and dispositions. Depreciation expense of \$7,819,325 was recorded.

Major capital asset acquisitions, including work in process and accruals, during 2012 consisted of the following:

- Additions to vehicles consisted of replacement of eight vanpool vans, six service trucks, one tow truck, three sixty foot used articulated coaches, six forty foot hybrid electric coaches, thirty-one paratransit vans for a cost of \$7,199,776. This amount was transferred from work in process as the vehicles were placed in service in 2012.
- Additions to equipment included three shelters, as well as computer hardware and software replacements and upgrades in the combined amount of \$719,810. This amount includes \$574,516 which was transferred from work in process as the projects were completed in 2012.
- Additions for Building Improvements included replacement of the final two overhead garage doors, mobility training space remodel at the STA Plaza, replacement of a cooling tower at the STA Plaza, replacement of the STA Boone facility roof and fire suppression system, park and ride lot improvements, and final payment for replacement of a 3-post in-ground lift for a cost of \$2,549,162. This amount was transferred from work in process as the projects were completed in 2012.
- Additions to Land included property adjacent to STA's current administrative and maintenance facilities that will be used for expansion in the future in the amount of \$12,934. This amount was transferred from work in process as the projects were completed in 2012.
- Work in Process activity included transfers to capital asset additions detailed above. During 2012, \$422,495 was reclassified from work in process to expense primarily due to the change in the capitalization threshold. Additions to work in process include \$628,233 for the Plaza Wall Street Project, \$882,476 for the north block property acquisition, \$3,832,378 for twenty two paratransit vans for paratransit contracted services, and other miscellaneous ongoing projects.

Additional information on STA's capital assets is contained in Note 3 to the financial statements.

Availability of Fund Resources for Future Use

STA's governing Board (Board) adopted a designated cash policy in October 2007. The policy designated \$5,500,000 for catastrophic self-insurance exposure protection and fifteen percent of the annual Adopted Operating Expense Budget for unforeseen emergency appropriations. An additional cash designation of \$4,950,000 was established by the Board in December 2011. This designated cash is for future High Performance Transit Right of Way acquisition. The level of designated cash is reviewed and approved annually by the Board, in conjunction with the budget adoption process.

Request for Information

This management, discussion, analysis and financial report is designed to provide a general overview of STA's finances for all who have an interest. Questions on any of the information presented in this report or requests for additional financial information are always welcome and should be addressed to: Spokane Transit Authority, Director of Finance and Information Services, 1230 W. Boone Avenue, Spokane, WA 99201. An interesting and informative companion piece is the Transit Development Plan, an annual publication with an abundance of information that can be obtained through the above contact. Information can also be found on the STA website at www.spokanetransit.com.

SPOKANE TRANSIT AUTHORITY
STATEMENT OF NET POSITION

	Year Ended December 31	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$50,403,192	\$46,258,937
Receivables:		
Accounts receivable, net of allowance for doubtful accounts	476,124	521,016
Sales Tax receivable	7,763,216	7,437,474
Due from other governments	533,195	8,973,222
Total receivables	8,772,535	16,931,712
Inventories	1,276,246	1,169,520
Prepaid expenses	13,742	13,271
Total current assets	60,465,715	64,373,440
CAPITAL ASSETS		
Vehicles	68,620,224	66,106,531
Buildings and improvements	44,583,590	42,157,109
Equipment and furnishings	12,413,200	13,849,201
Land	10,004,021	9,991,737
Work in process-existing operations	8,671,524	5,964,984
Work in process-light rail project		8,828,175
Less accumulated depreciation	(70,465,781)	(68,679,959)
Total capital assets	73,826,778	78,217,778
TOTAL ASSETS	\$134,292,493	\$142,591,218

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$1,595,387	\$2,070,551
Accrued wages, benefits, and other liabilities	5,335,692	5,413,467
Retainage Payable	29,688	
Prepaid fares	69,575	65,986
Provision for medical premiums	127,165	127,165
Provision for uninsured claims	717,077	646,189
Total current liabilities	7,874,584	8,323,358
NET POSITION		
Invested in capital assets	73,826,778	78,217,778
Restricted for self-insurance	357,000	357,000
Unrestricted	52,234,131	55,693,082
Total net position	126,417,909	134,267,860
TOTAL LIABILITIES AND NET POSITION	\$134,292,493	\$142,591,218

The notes to the financial statements are an integral part of this statement.

SPOKANE TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	Year Ended December 31,	
	2012	2011
OPERATING REVENUES		
Passenger Fares	\$10,314,643	\$10,151,749
Other Transit Revenue	454,815	384,327
Total Operating Revenues	10,769,458	10,536,076
OPERATING EXPENSES		
Transportation	36,177,717	36,092,104
Maintenance	10,137,709	10,042,578
Administration	10,017,544	9,593,520
Depreciation	7,819,325	7,568,083
Total Operating expenses	64,152,295	63,296,285
OPERATING LOSS	(53,382,837)	(52,760,209)
NON-OPERATING REVENUES (EXPENSES)		
Sales Tax	42,931,465	41,855,394
Investment Income	475,304	507,859
Other non-operating revenues (expenses)	119,388	18,188
State and Local Grants	187,961	1,421,955
Cooperative Street Projects	(223,836)	(2,291,216)
Federal Preventive Maintenance and Other		
Operating Grants	8,264,044	8,087,956
Gain (Loss) on sale of Fixed Assets	(67,671)	16,822
Total non-operating revenues (expenses)	51,686,655	49,616,958
INCOME (LOSS) BEFORE FEDERAL AND STATE CAPITAL CONTRIBUTIONS	(1,696,182)	(3,143,251)
FEDERAL AND STATE CAPITAL CONTRIBUTIONS		
FTA formula and discretionary capital grants - ARRA		72,823
FTA formula and discretionary capital grants	2,708,429	3,278,952
State capital grants	646,732	88,966
Subtotal Capital Grants	3,355,161	3,440,741
SPECIAL ITEMS	(8,828,175)	
INCREASE (DECREASE) IN NET POSITION	(7,169,196)	297,490
TOTAL BEGINNING NET POSITION, as previously reported	134,267,860	133,970,370
Cumulative effect of change in accounting principle	(680,755)	
TOTAL BEGINNING NET POSITION, as restated	133,587,105	
TOTAL ENDING NET POSITION	\$126,417,909	\$134,267,860

The notes to the financial statements are an integral part of this statement.

SPOKANE TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from fares and other	\$10,853,060	\$10,576,752
Cash payments to suppliers for Goods & Services	(18,418,072)	(17,030,363)
Cash payments to Employees for Services	(38,276,449)	(37,916,452)
Other Receipts (Payments)		
Net cash from operating activities	<u>(45,841,461)</u>	<u>(44,370,063)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax receipts collected by other governmental entities	42,605,723	41,775,998
Other Non-operating expense		121,570
Cooperative street and road projects		(2,685,859)
Non-capital grants and other revenue	15,807,251	9,858,379
Net cash provided from non-capital financing activities	<u>58,412,974</u>	<u>49,070,088</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property, plant, and equipment	(13,535,927)	(6,587,913)
Proceeds from disposition of property, plant, and equipment	75,163	60,812
Federal capital grants - ARRA		72,823
Federal capital grants	3,914,123	2,360,138
Other Grants	644,079	393,306
Net cash from capital and related financing activities	<u>(8,902,562)</u>	<u>(3,700,834)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	475,304	507,859
Net cash provided by investing activities	<u>475,304</u>	<u>507,859</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,144,255	1,507,050
CASH AND CASH EQUIVALENTS, beginning of year	<u>46,258,937</u>	<u>44,751,887</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$50,403,192</u></u>	<u><u>\$46,258,937</u></u>

The notes to the financial statements are an integral part of this statement.

SPOKANE TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2012	2011
RECONCILIATION OF NET LOSS TO NET CASH		
FROM OPERATING ACTIVITIES		
Net Operating Loss	(53,382,837)	(52,760,209)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation expense	7,819,325	7,568,083
Increase (decrease) in cash due to changes in Assets and Liabilities:		
Accounts receivable	80,013	(13,679)
Inventories	(48,000)	(152,443)
Prepaid expenses	(471)	423
Accounts payable	(728,688)	494,638
Accrued wages and benefits	(77,775)	173,770
Prepaid fares	3,589	54,355
Provision for uninsured claims	70,888	(139,079)
Work in process reclass to operating expense	422,495	404,078
Net adjustments	7,541,376	8,390,146
NET CASH FROM OPERATING ACTIVITIES	<u>(45,841,461)</u>	<u>(44,370,063)</u>

NON-CASH TRANSACTIONS:

Non-cash investing, capital or financing activities includes capital accruals of \$29,688, and the write off of Work in Process to Special Items of \$8,828,175.

The notes to the financial statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The Spokane Transit Authority (STA) is a Public Transportation Benefit Area (PTBA) organized and operating under R.C.W. Chapter 36.57A, as a municipal corporation in the State of Washington. On April 1, 1981, STA assumed the assets, liabilities, and operations of the City of Spokane Transit System. The financial statements of STA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

A. Reporting Entity

Spokane Transit Authority is a special purpose government engaged only in business-type activities and provides transportation services to the general public. STA is supported primarily through sales tax, user charges, and federal and state grants.

STA is governed by a nine-member board of elected city and county officials who are appointed to the Board by their respective legislative bodies. In 2010, a non-voting board member was added to represent labor unions at STA. As required by GAAP, management has considered all potential component units in defining the reporting entity. STA has no component units.

B. Basis of Accounting And Reporting

The accounting records of STA are maintained in accordance with methods prescribed by the Federal Transit Administration (FTA) and the Washington State Auditor under authority of Chapter 53, USC 49 and Chapter 43.09 RCW, respectively. STA is considered an Enterprise Fund Activity. Its prescribed and regulatory accounting rules are found in the FTA's National Transit Database (NTD); Uniform System of Accounts (USOA); and the Washington State Auditor's Budgeting, Accounting, and Reporting System (BARS) for Transit Districts.

These regulations are designed to reflect the regulatory and governing body's intent that the cost of providing services to the public on a continuing basis should be financed and operated in a manner more consistent with the practices of private business enterprises. These regulations differ from other general government financial accounting practices.

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 STA activity are included on the statement of net position. STA's reported fund net position is segregated into amounts invested in capital assets, and restricted and unrestricted net position. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. STA discloses changes in cash flows by a separate statement that presents the operating, non-capital financing, capital and related financing and investing activities.

STA uses the prescribed full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Capital asset purchases are capitalized. STA does not have long-term liabilities.

Note 1 – Summary of Significant Accounting Policies (Continued)

STA has classified its revenues and expenses as either operating or non-operating according to the following criteria.

Operating revenues have the characteristics of exchange transactions, as defined in Government Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Examples include passenger fares and other auxiliary transit revenue.

Nonoperating revenues have the characteristics of nonexchange transactions, as defined by GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Examples include sales tax, investment income, and federal preventive maintenance grants.

STA receives three main sources of revenues in the form of sales tax (68.4%), Federal Preventive Maintenance funding (13.2%) and operating revenues (17.2%).

Funding for STA's services is largely provided by a local sales tax levied within the Public Transportation Benefit Area only. By state law, public funding for transit agencies in Washington is through local sales and use tax of no more than 0.9 percent. Voter approval is required before additional sales tax can be levied.

From 1981 to 2004, STA was authorized by voters to levy a local 0.3 percent sales tax within its public transportation benefit area (PTBA) for the purpose of supporting the public transportation system. On May 18, 2004 the voters approved up to an additional 0.3 percent sales tax levy effective October 1, 2004 to replace funding eliminated by the State in 2000 from Motor Vehicle Excise Tax. This 2004 sales tax approval included a sunset clause on June 30, 2009. The Board took action on February 21, 2008 to have voters consider a reauthorization of the 0.3 percent sales tax on the May 20, 2008 ballot. This request was approved by the voters making the additional 0.3 percent sales tax permanent. STA now receives a local 0.6 percent sales tax levy within its PTBA.

Capital and preventive maintenance formula and discretionary grants are available from the FTA based on maintenance expenses and available federal formula funding coordinated with a federally approved local and state Transportation Improvement Plan.

Operating revenues include passenger fares on all fixed route, paratransit, and rideshare programs. STA increased its fixed route basic cash fare structure from \$1.00 to \$1.25, effective January 1, 2010, and to \$1.50 effective January 1, 2011. Paratransit basic cash fare increased from \$1.25 to \$1.50 effective January 1, 2012.

Operating expenses for STA include the costs of providing transit service, maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Financial Statement Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

It is STA's policy to invest all available cash balances. Cash and cash equivalents are comprised of deposits at December 31, 2012 pooled in the Spokane County Treasurer's Investment Pool. The end of year Cash and Cash Equivalents balance was \$50,403,192. Investments are purchased and administered through the Spokane County Treasurer and the Washington State Treasurer and are covered by either federal depository insurance or specific qualifying collateral pledged by the financial institutions in accordance with state public deposit protection regulations. All cash equivalents are stated at cost, which approximates market. For purposes of the statement of cash flows, STA considers all investments (including restricted investments) to be cash equivalents (Also see Note 11). STA is not currently engaged in any short-term debt activity.

2. Short-Term Investments

See Note 2 (Deposits and Investments)

3. Receivables

Sales tax receivable amounts to \$7,763,216.

Customer and third party accounts receivable consist of \$476,124 (net of allowance for doubtful accounts) owed from private individuals or organizations for goods and services or damages. Accounts are charged to expense, if they are deemed uncollectible, based upon a periodic review of the accounts.

4. Amounts Due To And From Other Governments

These accounts include \$533,195 due from other governments for grants. The amount due to other governments is \$0.

5. Inventories

Materials and supplies inventories, consisting principally of expendable items held for consumption, are stated at average cost.

	<u>2012</u>	<u>2011</u>
Vehicle Parts	\$750,714	\$675,884
Fuels	<u>525,532</u>	<u>493,636</u>
	<u>\$1,276,246</u>	<u>\$1,169,520</u>

6. Restricted Assets And Liabilities

STA has no restricted liabilities. The restricted asset of \$357,000 is a Department of L&I requirement due to being self-insured for workers compensation risk.

7. Capital Assets and Depreciation

See Note 3 (Capital Assets and Depreciation)

Note 1 – Summary of Significant Accounting Policies (Continued)

8. Other Property and Investments

See Note 2 (Deposits and Investments)

9. Compensated Absences

Full-time employees accrue vacation annually at rates ranging from 5 to 30 days per year. Most hourly employees are not allowed to carry vacation allowances beyond the year-end following the year made available. Salaried and paratransit employees may carry over limited amounts of unused vacation allowances to be used subsequent to the year-end. Vacation pay, which is earned, is payable upon resignation, retirement, or death.

Full-time employees accumulate sick leave at the rate of 8 hours per month with a maximum accumulation of 40 to 180 days. Part-time employees accumulate prorated sick leave with a maximum accumulation of 120 days. Sick leave is recorded as an expense at the time it is earned. At retirement, most hourly employees receive the full value of unused accumulated sick leave up to a maximum of 60 to 80 days.

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

11. Long-Term Debt

See Note 9 (Long-Term Debt and Leases)

12. Deferred Revenue

Prepaid Fares - Prepaid fares represent pre-payments of vanpool fares and January 2013 calendar month passes out on consignment. The balance in prepaid fares represents payments received, but not yet due, from Air National Guard and Fairchild Air Force Base vanpool groups as well as some January monthly passes distributed in December but not finalized until January. Prior to 2010, this also represented sold but unredeemed and unexpired fare instruments (day passes, 2-hour passes, unredeemed smart card stored cash values, monthly passes pre-sold in December), as well as pre-payment for the EWU Eagle Pass contract. During 2010, STA transitioned to cash basis recognition for most types of revenue in anticipation of the implementation of the rolling 31-day pass in January 2011.

Note 2 – Deposits and Investments

STA's cash deposits are held by Spokane County and are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in a multiple-financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As required by state law, all investments of STA funds are obligations of the Spokane County Treasurer's Investment Pool.

All temporary investments are stated at cost and classified as cash and cash equivalents in the financial statements. STA has no other investments at year-end and is not independently subject to custodial credit risk.

Note 3 – Capital Assets and Depreciation

- A. Major expenses for capital assets, including capital leases and major repairs that have a useful life of over 3 years and a cost over \$5,000, are capitalized. Obligations under capital leases are disclosed in Note 8 (Long-Term Debt and Leases). Capital assets are valued at historical cost or estimated historical cost where historical cost is not known or estimated market value for donated assets. Donations are recorded at the donor cost or appraised value. Major additions and betterments are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

STA has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, STA has sufficient legal interest to accomplish the purposes for which the assets were acquired and has included such assets within the applicable account.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation over its estimated useful life. However, in the case of the sale of a significant operating unit or system, the original cost is removed from STA asset accounts, as is the accumulated depreciation related to the asset, and the net gain or loss on disposition is recorded as a gain or loss on the sale of the asset.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method over established useful lives of individual assets. Individual useful lives are generally assigned to assets as follows:

Facilities	20 - 40 years
Transportation vehicles and equipment	3 - 12 years
Intangible assets	3 years

At the time of acquisition, STA makes a determination of the estimated useful life and salvage value based upon current market and economic circumstances.

The statement of revenues, expenses, and changes in net position includes depreciation of all depreciable capital assets and total gains or losses upon disposition. However, depreciation and gains or losses upon disposition of assets associated with assets acquired with federal capital grants are allocated specifically to retirement of federal contributed capital.

Note 3 – Capital Assets and Depreciation (continued)

B. Capital assets activity for the year ended December 31, 2012 was as follows:

Capital Assets	Balance at 1/1/12	Additions	Deletions	Balance at 12/31/12
Buildings	\$35,336,454		(\$122,681)	\$35,213,773
Improvements	6,820,655	\$2,549,162		9,369,817
Equipment/Vehicles	79,480,999	7,919,586	(6,841,894)	80,558,691
Intangible Assets	474,733			474,733
Depreciable Capital Assets	122,112,841	10,468,748	(6,964,575)	125,617,014
Non-Depreciable Capital Assets				
Land	9,991,737	12,934	(650)	10,004,021
Work in Process-Non Rail	5,964,984	13,465,424	(10,758,884)	8,671,524
Work in Process-Light Rail	8,828,175		(8,828,175)	0
Total Work in Process	14,793,159	13,465,424	(19,587,059)	8,671,524
Total Capital Assets	\$146,897,737	\$23,947,106	(\$26,552,284)	\$144,292,559
Accumulated Depreciation				
Buildings	\$26,118,578	\$465,683	(\$110,536)	\$26,473,725
Improvements	3,752,680	401,919		4,154,599
Equipment/Vehicles	38,452,651	6,833,040	(5,922,966)	39,362,725
Intangible Assets	356,049	118,683		474,732
Total Accumulated Depreciation	\$68,679,958	\$7,819,325	(\$6,033,502)	\$70,465,781
Total capital assets, being depreciated, net	\$53,432,883			\$55,151,233

C. Construction Commitments

STA has active construction projects as of December 31, 2012. The projects and commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Parking Lot Resealing & Repainting-various	\$191,914	\$9,828
Plaza Improvement-2nd Floor	219,225	10,570
Air Curtain Replacement & Resource/Clean Room	39,824	120,237
Maintenance Facility Furnace Replacement		17,936
HVAC Replacement - Valley Transit Center		28,878
2012 Transit Enhancements		16,500
Total	\$450,963	\$203,949

Note 3 – Capital Assets and Depreciation (continued)

D. Preventive Maintenance

In 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21) was enacted to continue federal capital and preventive maintenance assistance for transit agencies as part of the overall national transportation funding programs. The federal preventive maintenance grant monies are available to fund a portion of the eligible maintenance expenses, up to a pre-determined limit. Federal grants will generally fund up to 80 percent of awarded preventive maintenance and capital improvement expenditures provided that local matching funds of at least 20 percent of the project cost have been committed.

Note 4 – Stewardship, Compliance, and Accountability

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

Note 5 – Retirement Plans

The following information for the STA retirement plans is for the time period January 1 to December 31, 2012. STA froze its defined contribution retirement plans (with the exception of the CEO plan) on October 2, 2010, when STA was admitted to the Washington State Public Employees Retirement System (PERS).

As of October 3, 2010, all Spokane Transit Authority qualifying full-time and part-time employees became participants of one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems (PERS), under cost-sharing multiple-employer defined benefit and defined contribution public employee retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. 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: Plan 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

Note 5 – Retirement Plans (continued)

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 exercise 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 payable to the age of 60. The allowance 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. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance 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. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. 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 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. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Note 5 – Retirement Plans (continued)

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

PERS Plan 2 members who have 30 or more years of service credit, and are at least 55 years old, can retire under one of two provisions:

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

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

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

Note 5 – Retirement Plans (continued)

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 two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

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

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

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. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with

Note 5 – Retirement Plans (continued)

investment earnings, the increased retirement benefits of those justices and judges that participate in program.

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.16%.

**The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

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

Spokane Transit and its employees made the required contributions. STA's required contributions (employee and employer) for the years ending December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$ 37,036	\$2,871,141	\$228,595
2011	\$130,951	\$2,560,126	\$154,998
2010	\$ 15,595	\$ 540,181	\$ 15,236

ICMA Retirement Corporation (RC) Defined Contribution Plan

Prior to becoming a member of PERS, STA's primary retirement plans were defined contribution plans. The plans are established pursuant to Internal Revenue Code Section 401(a), in a money purchase format. ICMA Retirement Corporation (RC) serves as plan administrator, trustee, and record keeper under the plans.

Employer and employee contributions are established by the individual plan adoption agreements and, where applicable, the related collective bargaining agreement or contract. Employer and employee contributions were determined based upon a percentage of base pay, subject to certain defined wage limits. The employee contributions through October 2, 2010 ranged from 0.0 percent to 6.5 percent and the employer contribution ranged from 9.0 percent to 25 percent. The Chief Executive Officer's (CEO) contract provided for an employer contribution of 16.0 percent from October 3, 2010 to December 31, 2010, 18.0 percent for 2011 and 22.0 percent for 2012.

Annual gross payroll, most of which is subject to plan contributions, was \$163,649 in 2012 and \$159,204 in 2011. During the years ended December 31, 2012 and 2011, STA and its employees contributed a total of \$33,129 and \$27,349 respectively, to the Section 401(a) defined contribution plans.

Note 6 - Deferred Compensation Plan

STA offers its employees a tax-deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their wages until future years. In addition, STA contributes 3% into the account of employees hired before 1/1/07 in the following groups: ATU 1598, Non-represented employees, and the CEO. This deferred compensation is not available to employees until separation, retirement, death, or unforeseeable emergency, with the exception of the employees' Section 457 Loan Program. The compensation deferred under the plan and all income attributable to the plan is held in trust for the exclusive benefit of the participants and their beneficiaries and are therefore not subject to claims by the employer's creditors. While STA has no liability for investment losses under the plan, it performs the fiduciary duty of continual evaluation of investment options for plan participants. Total assets, which equal the total trustees' liability under this plan at December 31, 2012 and 2011, were \$10,720,223 and \$9,402,900, respectively.

Note 7 – Insurance

A. Liability Insurance

STA joined the Washington State Transit Insurance Pool (WSTIP) in June 2004, for coverage effective July 1, 2004. STA assumes the liability for claims up to the deductible amounts listed below for each type of risk. Risk of claims in excess of the deductible amount has been transferred to the Washington State Transit Insurance Pool. WSTIP provided the following coverage for 2012.

General Liability	\$12,000,000 per occurrence with \$0 deductible
Auto Liability	\$12,000,000 per occurrence with \$0 deductible
Public Official Liability	\$12,000,000 per claim/aggregate with \$5,000 deductible
Property Insurance (Building, Personal and Auto Physical Damage)	\$1,000,000,000 blanket limit with \$25,000 deductible
Public Honesty Bond/Faithful Performance	\$1,000,000 per claim with \$10,000 deductible
Monies & Securities	\$1,000,000 per claim with \$10,000 deductible
Depositors Forgery	\$1,000,000 per claim with \$10,000 deductible
Pollution Liability	\$5,000,000 per claim/aggregate with \$5,000 deductible (claims made base)

Claim settlements in the past three years did not exceed coverage limits or self-insured funding reserve for uninsured claims.

B. Workers' Compensation Insurance

On December 31, 2012, cash and investments set aside for workers' compensation self-insurance totaled \$1,045,327. STA reported a liability on December 31, 2012, of \$688,327, which represents the estimated liability for open workers' compensation claims for which STA may ultimately be liable, including a provision for claims incurred but not yet reported. No outstanding liabilities have been removed from the balance sheet due to the purchase of annuity contracts from third parties in the name of the claimants. In addition to the reserve, STA purchased an excess commercial workers' compensation policy with a statutory limit per accident and a \$450,000 self-insured retention per accident.

Note 8 – Long-Term Debt and Leases

A. Long-Term Debt - STA has no long-term debt.

B. Operating Leases

As lessee, during 2012 and 2011, STA leased property, equipment, and tires under operating leases. Total lease expense for the years ended December 31, 2012 and 2011 was approximately \$511,000 and \$459,000, respectively.

In 1995, STA began entering into operating lease agreements for retail space in its Downtown Plaza. In 2012, STA purchased an office building at 1212 Sharp for future expansion of its operating facilities. The office building currently has two tenants leasing office space.

Total lease income for the years ended December 31, 2012 and 2011 was approximately \$131,180 and \$99,417, respectively. The retail lease agreements at the STA Plaza include percentage rental rates ranging from 4 percent to 7 percent of gross sales less minimum rent payments. Minimum future payments, excluding the percentage rental rates, are due under these leases as follows (allowing for potential non-renewals):

2013	\$66,256
2014	\$48,976
2015	\$50,857
2016	\$45,596
2017	\$35,705

Note 9 – Restricted Net Assets

STA's statement of net position reports \$357,000 of restricted net assets, of which \$357,000 is restricted by self-insurance regulations of the State of Washington.

Note 10 – Contingencies

A. Legal Proceedings

There are pending claims in which STA is involved. In the opinion of management, STA's insurance policies and/or self-insurance reserves are adequate to pay all known or pending claims.

Federal Grants

STA has received several federal grants for specific purposes that are subject to review and audit. Such audits could lead to requests for reimbursement of expenditures disallowed under the terms of the grant. Management does not believe there will be any disallowances. Additionally, management believes that should any disallowances occur, they would be immaterial.

B. Environmental Liability

As a public transit operator, STA has certain environmental risks related to its operation involving the storage and disposal of certain petroleum products. In the opinion of management, any potential claim not covered by insurance would not materially affect the financial statements of STA.

Note 11 - Designated Cash and Cash Equivalents

The Board adopted a designated cash policy in October 2007. The policy designated \$5,500,000 for catastrophic self-insurance exposure protection and fifteen percent of the annual Adopted Operating Expense Budget designated for unforeseen emergency appropriations. An additional cash designation of \$4,950,000 was established by the Board in December 2011. This designated cash is for future High Performance Transit Right of Way acquisition. The level of designated cash is reviewed and approved annually by the Board, in conjunction with the budget adoption process. In 2012, the Board adopted cash reserves were a total of \$19,954,087. This included \$4,950,000 for High Performance Transit Right of Way acquisition, \$5,500,000 for catastrophic self-insurance exposure protection, and \$9,504,087 for operating expense reserves.

Note 12 - Cooperative Funding of Transit Related Street and Road Projects

With concurrence of the Washington State Attorney General, STA initiated a special effort to assist in cooperative funding of street and road projects where its services are operated. Since inception of this program through 2012, STA has provided eligible jurisdictions approximately \$17.1 million for transit-related street and road projects in its service area. The 2013 budget does not provide additional funding as all remaining commitments of this program have been met. No further awards are contemplated by the Board at this time.

Note 13 – Other Disclosures**A. Accounting Principle and Reporting Changes**

In 2012, STA reviewed capitalization thresholds for federal, state and local governments. Based on this review, STA changed its capitalization threshold from \$500 to \$5,000. The capitalization threshold determines the criteria in which an asset is capitalized and reported in the Statement of Net Position. Assets under this criterion are charged to an expense and reported in the Statement of Revenues, Expenses and Change in Net Position. As a part of this change, the net book value of assets acquired before 2012 that no longer met the current threshold were removed from the fixed asset accounts. The cumulative effect of this change in prior years was \$680,755.

B. Extraordinary/Special Items

During 2012, STA reported a Special Item expenditure that represented expense recognition for costs accumulated in work in process for due diligence, design, engineering, environmental, and feasibility study costs for a potential light rail project. The light rail project is no longer considered a work in process.

SCHEDULE 16

SPOKANE TRANSIT AUTHORITY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2012

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0090		\$2,851	\$2,851	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0034		\$179,442	\$179,442	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0064		\$186,704	\$186,704	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0089		\$923,627	\$923,627	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Capital Investment Grant	20.500	WA-04-0069		\$1,266,200	\$1,266,200	
SUBTOTAL					\$2,558,824	\$2,558,824	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X485		\$15,699	\$15,699	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X458		\$57,547	\$57,547	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-95-X050		\$67,475	\$67,475	
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X492		\$87,270	\$87,270	3
Federal Transit Administration, U.S. Department of Transportation	Federal Transit Formula Grant	20.507	WA-90-X512		\$7,771,835	\$7,771,835	3
SUBTOTAL					\$7,999,826	\$7,999,826	

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

**SPOKANE TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Foot note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
Federal Transit Administration, U.S. Department of Transportation/ Pass through from Washington State Department of Transportation	Formula Grants for Other Than Urbanized Areas	20.509	GCA6850	\$63,432		\$63,432	
SUBTOTAL				\$63,432		\$63,432	
Federal Transit Administration, U.S. Department of Transportation	Job Access Reverse Commute	20.516	WA-37-X039		\$348,575	\$348,575	
SUBTOTAL					\$348,575	\$348,575	
Federal Transit Administration, U.S. Department of Transportation	New Freedom Program	20.521	WA-57-X014		\$35,314	\$35,314	4
SUBTOTAL					\$35,314	\$35,314	
Federal Transit Administration, U.S. Department of Transportation	Alternatives Analysis	20.522	WA-39-0003		\$1,717	\$1,717	
SUBTOTAL					\$1,717	\$1,717	
U.S. Department of Homeland Security	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1825-DR-WA		\$100	\$100	
SUBTOTAL					\$100	\$100	
TOTAL FEDERAL AWARDS EXPENDED				\$63,432	\$10,944,356	\$11,007,788	

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Note 1 - Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Spokane Transit Authority's financial statements. The Spokane Transit Authority uses the full accrual basis of accounting.

Note 2 - Program Costs

The amounts shown as current year federal expenditures represent only the federal portion of the current year program costs. Entire program costs, including the local portion, are more than shown.

Note 3 - Prior Year's Preventive Maintenance

The amount reported for this award includes eligible expenditures made in 2011 and 2012. For this program, it is acceptable to include the current year's costs on the SEFA because the FTA approves these costs on a retroactive basis. Spokane Transit was given "pre-award authority" for its preventive maintenance expenses. The official grant award was made by the FTA for the 2012 apportionment on November 29, 2012.

Note 4 – Amounts Awarded to Subrecipients

Included in the total amount expended for this program is \$35,314 that was passed through to the City of Spokane Valley. This subrecipient administered its' own program.

**SPOKANE TRANSIT AUTHORITY
DETAIL OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Account Code	Account Description	Actual Amount
40101	Passenger Fares for Transit Service-Full Adult Fares	5861533
40102	Passenger Fares for Transit Service-Senior Citizen and Handicapped Rider Fares	1498857
40103	Passenger Fares for Transit Service-Student Fares	505755
40104	Passenger Fares for Transit Service-Child Fares	933761
40107	Passenger Fares for Transit Service-Vanpool Fares	727380
40199	Passenger Fares for Transit Service-Other Primary Ride Fares	98591
40204	Special Transit Fares-Other Special Contract Transit Fares - State and Local Government	98508
40205	Special Transit Fares-Other Special Contract Transit Fares - Other Sources	568624
40206	Special Transit Fares-Non-Contract Special Service Fares	21635
40603	Advertising Services	205117
40699	Other Auxiliary Transportation Revenues	3348
40703	Rental of Buildings and Other Property	131180
40704	Investment (Interest) Income	475304
40799	Other Non-transportation Revenues	217359
40821	Local Transportation Sales Tax	42931465
4110360	State Grants and Contributions - Washington State Department of Transportation	187961
4132050	Federal Grants and Contributions (Operating)-FTA-U.S. Department of Transportation	7915369
4132051	Federal Grants and Contributions (Operating)-FTA-U.S. Department of Transportation	348575
4139703	Federal Grants and Contributions (Operating)-U.S. Department of Homeland Security	100
4140360	Capital Contributions-Washington State Department of Transportation	646732
4142050	Capital Contributions-FTA-U.S. Department of Transportation	2706714
4142052	Capital Contributions-FTA-U.S. Department of Transportation	1717
50101	Operators' Salaries and Wages	12858540
50102	Other Salaries and Wages	9930114
50201	FICA	1996731
50202	Pension Plans (Including Long-Term Disability Insurance	2172896
50203	Hospital, Medical, and Surgical Plans	5013903
50204	Dental Plans	543688
50205	Life Insurance Plans	33225
50207	Unemployment Insurance	52047
50208	Workers' Compensation Insurance	1041729
50209	Sick Leave	1007555
50210	Holiday	992512
50211	Vacation	1725854
50212	Other Paid Absence	47707
50213	Uniforms and Work Clothing Allowances	135360
50214	Other Fringe Benefits	717699
50301	Management Service Fees	252072

SCHEDULE 04/05

Account Code	Account Description	Actual Amount
50302	Advertising Fees	110481
50303	Professional and Technical Services	1487510
50304	Temporary Help	89598
50305	Contract Maintenance Services	563245
50306	Custodial Services	51646
50307	Security Services	681852
50399	Other Services	267484
50401	Fuel and Lubricants	4681483
50402	Tires and Tubes	459582
50499	Other Materials and Supplies Consumed	3076127
50502	Utilities other than propulsion power	979485
50600	Casualty and Liability Costs	1000349
50704	Vehicle Licensing and Registration Fees	1570
50799	Other Taxes	66056
50801	Purchased Transportation Service	3526732
50901	Dues and Subscriptions	89381
50902	Travel and Meetings	61200
50907	Bad Debt Expense	138286
50908	Advertising/Promotion Media	22326
50998	Intergovernmental Payments	327908
50999	Other Miscellaneous Expenses	303786
51203	Passenger Parking Facilities	24029
51209	Revenue Vehicle Movement Control Facilities	42380
51212	Other General Administration Facilities	33147
51300	Depreciation	7819325
51600	Other Reconciling Items	8828175

**SPOKANE TRANSIT AUTHORITY
SCHEDULE OF STATE/LOCAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

1	2	3
Grantor/Program Title	Identification Number	Current Year Expenses
City of Spokane (Pass Through)		
Washington State Department of Transportation Local Programs' Office Grant	HLP-1220 (020)	\$11,880
Total City of Spokane		\$11,880
Washington State Department of Transportation		
Direct Programs		
State Vanpool Investment Program	GCB1132	\$132,000
State Regional Mobility Grant Program	GCA6765	\$502,852
State Public Transportation Grant Program	HB2190	\$187,961
Total Washington State Department of Transportation		\$822,813
TOTAL STATE and LOCAL ASSISTANCE		\$834,693

**SPOKANE TRANSIT AUTHORITY
SCHEDULE OF LABOR RELATIONS CONSULTANT
FOR THE YEAR ENDED DECEMBER 31, 2012**

Has your government engaged labor relations consultants? X Yes No

If yes, please provide the following information for each consultant:

Name of Firm: Summit Law Group PLLC

Name of Consultants: Bruce Schroeder, Attorney
 Beth Kennar, Attorney
 Linda Swanson, Paralegal

Business Address: 315 Fifth Ave S, Suite 1000
 Seattle, WA 98104

Amount Paid to Consultant During Fiscal Year: \$37,003.51

Terms and Conditions, As Applicable, Including:

Rates: Bruce Schroeder-\$290/hour, Beth Kennar-\$255/hour, and Linda Swanson-\$110/hour and reimbursable expenses and reasonable travel related to the scope of work.

Maximum Compensation Allowed: The contract does not set a dollar limit; rather it is limited by the scope of work to be performed, and the hourly rates to be charged.

Duration of Services: The duration of the contract with Summit Law Group is from December 1, 2008 to November 30, 2013.

Services Provided: The consultant agrees to provide specialized representation in labor matters as directed by STA's Chief Executive Officer (CEO).

Certified Correct this 21st day of March , 2013

Signature: Lynda L. Warren
Lynda L. Warren
Director of Finance



ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

State Auditor
Chief of Staff
Director of State and Local Audit
Director of Performance Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of Quality Assurance
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

Troy Kelley
Doug Cochran
Chuck Pfeil, CPA
Larisa Benson
Kelly Collins, CPA
Jan M. Jutte, CPA, CGFM
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