Washington State Auditor's Office
Troy Kelley
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Financial Statements Audit Report

Valley Transit

Walla Walla County

For the period January 1, 2012 through December 31, 2013

Published October 27, 2014

Report No. 1012825

Washington State Auditor
Troy Kelley

October 27, 2014

Board of Directors
Valley Transit
Walla Walla, Washington

Report on Financial Statements

Please find attached our report on the Valley Transit's financial statements.

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

Sincerely,

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

TABLE OF CONTENTS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Valley Transit
Walla Walla County
January 1, 2012 through December 31, 2013

Board of Directors
Valley Transit
Walla Walla, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Valley Transit, Walla Walla County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 17, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

October 17, 2014

Independent Auditor’s Report on Financial Statements

Valley Transit
Walla Walla County
January 1, 2012 through December 31, 2013

Board of Directors
Valley Transit
Walla Walla, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley Transit, Walla Walla County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed on page 8.

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 audits. We conducted our audits 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 Valley Transit, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 15 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

October 17, 2014

Financial Section

Valley Transit
Walla Walla County
January 1, 2012 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

VALLEY TRANSIT

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Annual Financial Report presents management's overview and analysis of Valley Transit's financial performance for the fiscal years ended December 31, 2013 and 2012. This section should be read in conjunction with the financial statements which follow this section.

2013 & 2012 Financial Highlights

As of December 31, Valley Transit's assets increased by $378 in 2013 following an increase of $749,818 in 2012. Valley Transits net liabilities decreased by $5,803 in 2013 after an increase of $50,493 in 2012. Valley Transit's total net position increased by $6,182 during fiscal year 2013, which followed an increase of $699,324 during fiscal year 2012. The large increase in total net position during 2012 can be attributed to an increase in Washington State Rural Mobility Formula Funding and capital contributions in the form of federal and state capital assistance grants used to purchase one additional fixed route vehicle. Valley Transit remained free of long-term debt during fiscal years 2013 and 2012.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Valley Transit's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements report information about Valley Transit's use of accounting methods similar to those used by private-sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position presents information on all of Valley Transit's assets, liabilities, deferred outflows of resources, and deferred inflows of resources with the difference between these financial elements reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of Valley Transit is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Net Position present information showing how Valley Transit's net assets 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 the State but not yet remitted to Valley Transit, and earned but unused vacation leave).

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements. The notes to the financial statements can be found on pages 20 to 36 of this report.

Financial Analysis

Valley Transit is a capital intensive enterprise with nearly one-half of its net position invested in capital assets. The following is a summary of Valley Transit's net position on December 31:

Summarized Statement of Net Position

	2013	2012	2011	2013 Increase (Decrease) Over 2012	2012 Increase (Decrease) Over 2011
Assets:					
Current Assets	$8,520,914	$7,863,691	$6,687,330	$657,223	$1,176,361
Non-Current Assets	$4,017,929	$4,674,649	$5,098,090	($656,720)	($423,441)
Deferred Outflows of Resources	$0	$124	$3,227	($124)	($3,103)
Total Assets Plus Deferred Outflows	**$12,538,843**	**$12,538,464**	**$11,788,647**	**$379**	**$749,817**
Liabilities:					
Current Liabilities	$415,345	$422,519	$376,660	($7,174)	$45,859
Non-Current Liabilities	$58,114	$56,619	$48,882	$1,495	$7,737
Deferred Inflows of Resources	$0	$124	$3,227	($124)	($3,103)
Total Liabilities Plus Deferred Inflows	**$473,459**	**$479,262**	**$428,769**	**($5,803)**	**$50,493**
Net Position:					
Invested In Capital Assets	$4,017,929	$4,674,649	$5,098,090	($656,720)	($423,441)
Unrestricted	$8,047,455	$7,384,553	$6,261,788	$662,902	$1,122,765
Net Total Position	**$12,065,384**	**$12,059,202**	**$11,359,878**	**$6,182**	**$699,324**

Valley Transit's total net position increased by $6,182 in fiscal year 2013, which followed an increase of $699,324 in 2012. The following Summarized Statement of Revenues, Expenses, and Changes in Net Position presents how the increase or decrease in net position occurred.

Summarized Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012	2011	2013 Increase (Decrease) Over 2012	2012 Increase (Decrease) Over 2011
Operating Revenues	$293,242	$268,587	$291,017	$24,655	($22,430)
Operating Expenses	$4,761,271	$4,580,355	$4,288,785	$180,916	$291,570
Operating Loss	**($4,468,029)**	**($4,311,768)**	**($3,997,768)**	**$156,261**	**$314,000**
Taxes	$4,137,492	$4,094,569	$3,889,689	$42,923	$204,880
Other Non-Operating Revenues (net)	$336,719	$762,023	$779,049	($425,304)	($17,026)
Total Non-Operating Revenues	**$4,474,211**	**$4,856,592**	**$4,668,738**	**($382,381)**	**$187,854**
Net Income (Loss)- Before Contributions	**$6,182**	**$544,824**	**$670,970**	**($538,642)**	**($126,146)**
Capital Contributions-Grants	**$0**	**$154,500**	**$384,539**	**($154,500)**	**($230,039)**
Net Position-Beginning of Period	**$12,059,202**	**$11,359,878**	**$10,304,369**	**$699,324**	**$1,055,509**
Net Position-End of Period	**$12,065,384**	**$12,059,202**	**$11,359,878**	**$6,182**	**$699,324**

Operating Revenues

For the fiscal year ending December 31, 2013, fare revenues increased 9.3 percent or $24,655 which followed a decrease of 7.7 percent or $22,430 in 2012. The increase in 2013 reflects an increase in the price of passes and ticket books sold for the DAR program and an increase in the price charged to large institutions for monthly passes.

During 2013, local sales tax revenues increased by 1 percent or $42,923 following an increase by 5.3 percent or $204,880 in 2012. This reflects small growth in the local economy which is subject to swings in tourism and construction projects such as the construction of a new outpatient clinic at the local VA Medical Center.

Valley Transit also received external operating subsidies in the form of federal and state operating assistance grants. The following table presents operating grant funding received during 2013 and 2012.

External Subsidies - Operating Assistance Grants	2013	2012	2011	2013 Increase (Decrease) Over 2012	2012 Increase (Decrease) Over 2011
Federal Transit Administration Operating Assistance					
Section 5311 Operating Assistance	$0	$0	$198,364	$0	($198,364)
Section 5311 RTAP Training Asst.	$0	$5,758	$0	($5,758)	$5,758
Section 5310 Funding	$37,905	$0	$0	$37,905	$0
Section 5317 New Freedom	$52,096	$107,251	$39,394	($55,155)	$67,857
Total Federal Operating Assistance	**$90,001**	**$113,009**	**$237,758**	**($23,008)**	**($124,749)**
State Operating Assistance					
Rural Mobility - Special Transportation Needs	$75,776	$77,220	$38,610	($1,444)	$38,610
Rural Mobility – Formula Funding	$49,953	$11,899	$0	$38,054	$11,899
Rural Mobility - Transit Formula	$28,433	$528,961	$441,234	($500,528)	$87,727
Total State Operating Assistance	**$154,162**	**$618,080**	**$479,844**	**($463,918)**	**$138,236**
Private Operating Assistance					
WSTIP – Safety & Security Grant	$2,500	$0	$0	$2,500	$0
Total Private Operating Assistance	**$2,500**	**$0**	**$0**	**$2,500**	**$0**
Total External Subsidies - Operating Assistance	**$246,663**	**$731,089**	**$717,602**	**($484,426)**	**$13,487**

Valley Transit's external operating subsidies decreased by $484,426 in 2013 which followed an increase of $13,487 during fiscal year 2012.

During 2013, Valley Transit expended $28,433 of Rural Mobility – Transit Formula funding, which is substantially lower than the $528,961 expended in 2012. The amount of Rural Mobility – Transit Formula funding awarded for the state fiscal year 2013, was substantially less than was awarded in 2012. The Rural Mobility – Transit Formula grant program provides additional funding for rural transit agencies located in areas where sales tax collections are less than 80% of the state-wide average per-capita. Rural Mobility –Transit Formula funding provides funding sufficient to increase the rural transit's sales tax collections plus the Transit Formula Funding to the 80% average per-capita threshold. Increased sales tax collections within Valley Transit's Public Transportation Benefit Area during 2013 reduced the amount of transit formula funding required to meet the 80% average per-capital threshold.

The Rural Mobility – Special Transportation Needs funding was awarded to Valley Transit to provide additional transportation services for those who are unable to provide their own transportation services due to age, disability or income level. Valley Transit used this funding in conjunction with the Transit Formula funding to sustain evening and weekend service. In addition, persons with special transportation needs are allowed to purchase half-price monthly passes which are valid on Valley Transit's Fixed-Route and Saturday and Evening services. Valley Transit expended $75,776 of Rural Mobility – Special Transportation Needs funding during 2013 which is a slight decrease from the $77,220 expended in 2012.

Valley Transit did not receive or expend Federal Section 5311 RTAP training assistance during 2013. RTAP training assistance is passed through the Washington State Department of Transportation to assist rural transits with costs associated with training staff and employees. Valley Transit expended $5,758 of Federal Section 5311 RTAP training assistance during 2012.

In 2012, Valley Transit began receiving Washington State Operating Formula Funding. This funding was authorized by the Washington State Legislature to help sustain transit services. The funding is allocated on a formula basis and paid quarterly. Valley Transit received only one quarter of Washington State Operating Formula Funding in 2012 amounting to $11,899. Valley Transit received four quarters of funding in 2013 equaling $49,953.

During 2011, Valley Transit was awarded a Federal Section 5317 New Freedom grant to fund the operation of a fixed route serving the relocated VA Medical Center and various social service agencies that prior to August of 2011 had no fixed route service. Valley Transit expended $52,096 of New Freedom funding to operate this service during fiscal year 2013. In 2012, Valley Transit expended $107,251 of New Freedom funding to operate this service. This grant funding expired on June 30, 2013.

In 2013 Valley Transit was awarded a Federal Section 5310 Grant to continue operation of the VA Medical Route. During 2013 Valley Transit expended $37,905 of funding.

In 2013 the Washington State Transit Insurance Pool (WSTIP) provided a grant of $2,500 to Valley Transit. This grant was used to improve the training facilities at Valley Transit which are used for new hire training, and recurrent training for all operators. In previous years this grant was used for capital projects, but in 2013 Valley Transit increase the capitalization threshold and this funding became and operating grant.

The following table presents Valley Transit's revenues (excluding capital assistance grants) by source and their percentage of total transit revenues for fiscal years 2011 through 2013:

Revenue Source	2013	Percent of Total Revenue	2012	Percent of Total Revenue	2011	Percent of Total Revenue
Operating Revenues:						
Passenger Fares	$281,264	5.9%	$257,680	5%	$279,485	5.6%
Supplementary Transportation (Advertising)	$0	0%	$0	0%	$0	0%
Other Operating Revenues (Rental)	$11,978	0.3%	$10,907	0.2%	$11,532	.2%
Total Operating Revenues	**$293,242**	**6.2%**	**$268,587**	**5.2%**	**$291,017**	**5.8%**
Non-Operating Revenues:						
Gain (Loss) on Disposal Of Assets	$0	0%	$60	0%	$0	0%
Sales Tax	$4,137,492	86.8%	$4,094,569	79.9%	$3,889,689	78.4%
External Operating Subsidies:						
Federal Operating Assistance	$90,001	1.9%	$113,009	2.2%	$237,758	4.8%
State Operating Assistance	$154,162	3.2%	$618,080	12.1%	$479,844	9.7%
Private Operating Assistance	$2,500	0.0%	0$	0%	0$	0%
Investment Income	$9,151	0.2%	$16,660	0.3%	$47,515	1.0%
Other Non-Operating Revenue (Recoveries)	$80,905	1.7%	$14,214	0.3%	$13,932	0.3%
Total Non-Operating Revenues	**$4,474,211**	**93.8%**	**$4,856,592**	**94.8%**	**$4,668,738**	**94.2%**
Total Revenues (Excluding Capital Grants)	**$4,767,453**	**100%**	**$5,125,179**	**100%**	**$4,959,755**	**100%**

Operating Expenses

Operating expenses increased during fiscal year 2013, by 3.9 percent following an increase of 6.8 percent during 2012.

Operations Department expenses increased 1.3 percent in 2013, and 8.8 percent in 2012. The increase in 2013 operating expenses reflects one-time software costs associated with upgrading the Demand-Response dispatching system, and increased labor costs. The 2012 increase in operating expenses reflects additional cost to operate the VA Medical Service route for a full year, and increased labor costs.

Maintenance Department expenses increased 7.3 percent in 2013, and 8.1 percent in fiscal year 2012. This increase can be attributed to additional parts and service costs associated with maintaining vehicles which are no longer covered by manufacturer's warranties and higher labor costs associated with the conversion of one maintenance mechanic position from part-time to full-time in 2012. This increase also represents a 2013 change in accounting threshold for capital assets, several small tools which would have previously been capitalize were expensed this year since they no longer met the threshold.

Administration Department expenses increased 5.5 percent in 2013, following a 3 percent increase in fiscal year 2012. This increase is attributable to increased labor costs, and in 2013 one-time software costs associated with upgrading the accounting system to track additional data required for complete reporting to the National Transit Database.

Depreciation Expense increased 8.2 percent in 2013, and 2 percent during fiscal year 2012. This increase reflects the change in the capitalization threshold to $5,000 per asset and the elimination of several assets which no longer meet that threshold. The 2012 increase reflects the addition of one new ARBOC minibus used to provide service on the VA Medical Route, and eight new passenger waiting shelters in Walla Walla and College Place.

The relationship of each major operating expense classification as compared to total operating expenses is presented in the following table:

Operating Expenses:	2013	Percent of Total Expenses	2012	Percent of Total Expenses	2011	Percent of Total Expenses
Operations	$2,546,867	53.5%	$2,513,645	54.9%	$2,311,069	53.9%
Maintenance	$834,701	17.5%	$777,889	17.0%	$719,433	16.8%
Administration	$581,752	12.2%	$551,438	12.0%	$535,616	12.5%
Depreciation	$797,951	16.8%	$737,383	16.1%	$722,667	16.8%
Other Operating Expenses	$0	0%	$0	0%	$0	0%
Total Operating Expenses	**$4,761,271**	**100%**	**$4,580,355**	**100%**	**$4,288,785**	**100%**

Future Outlook

At the completion of the 2010 census, the Walla Walla - Milton Freewater area reached the population threshold required to be classified as an Urbanized Area (UZA), which allows Valley Transit to be eligible to receive Federal Transit Administration (FTA) Section 5307 Urbanized Area Formula funds. Once the State of Washington and the Walla Walla Valley Metropolitan Planning Organization designates Valley Transit as the direct recipient, Valley Transit will be eligible to receive the annual allocation for the Washington portion of the Walla Walla-Milton Freewater Urbanized Area. These funds will be used to fund operations or capital projects such as vehicle replacement. Allocations for an urbanized area of this size have averaged between $650,000 and $1,000,000 per year. This funding will replace Rural Area grant funding that Valley Transit is no longer eligible to receive due to the reclassification of the Walla Walla – Milton Freewater area as an Urbanized Area.

Valley Transit was recently awarded federal and state capital assistance grants to replace three Dial-A-Ride mini buses and two fixed route low-floor buses that have exceeded their useful life.

Valley Transit's ability to address the unmet transportation needs of the community is severely limited due to the uncertainty surrounding the national economy, increased operating costs due to higher fuel prices, and the inability of revenue growth to keep pace with Valley Transit's rising operating costs.

While current levels of local transit sales tax revenues appear to be sufficient to sustain existing Valley Transit service; however, local revenues alone will not provide adequate funding to address the community's many other transportation needs. New transportation projects such as a downtown parking shuttle, continuation of the VA Medical Route to meet the medical service needs of veterans and seniors, and expansion of the Dial-A-Ride service area, will require funding from new revenue sources. Valley Transit will continue to work collaboratively with community partners, social service organizations, and federal and state agencies to identify and secure funding for these transportation improvements.

VALLEY TRANSIT

MCAG NO. 0375 Statement A-1

STATEMENT OF NET POSITION

As of December 31, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 7,129,060	$ 3,309,622
Investments	0	3,058,000
Taxes Receivable	734,177	736,028
Accounts Receivable	23,811	10,557
Interest Receivable	69	166
Grants Receivable	60,318	226,547
Inventories	476,315	424,099
Prepaid Expenses	97,164	98,672
TOTAL CURRENT ASSETS	$ 8,520,914	$ 7,863,691
NONCURRENT ASSETS:		
Capital Assets Not Being Depreciated		
Land	$ 262,848	$ 262,848
Construction in Progress	75,800	57,626
Capital Assets Being Depreciated		
Equipment	$ 11,302,102	$ 11,436,852
Less Accumulated Depreciation	(7,622,821)	(7,082,677)
TOTAL NONCURRENT ASSETS	$ 4,017,929	$ 4,674,649
TOTAL ASSETS	$ 12,538,843	$ 12,538,340
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivative	$ 0	$ 124
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 0	$ 124

NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

VALLEY TRANSIT

MCAG NO. 0375 | Statement A-1

STATEMENT OF NET POSITION

As of December 31, 2013 and 2012

	2013	2012
LIABILITIES		
CURRENT LIABILITIES:		
Accounts/Warrants Payable	$ 267,520	$ 294,162
Current Portion of Long-Term Obligations	147,825	128,357
TOTAL CURRENT LIABILITIES	$ 415,345	$ 422,519
NON-CURRENT LIABILITIES:		
Employee Leave Benefits	$ 58,114	$ 56,619
TOTAL NON-CURRENT LIABILITIES	$ 58,114	$ 56,619
TOTAL LIABILITIES	$ 473,459	$ 479,138
DEFERRED INFLOWS OF RESOURCES		
Accumulated Increase in Fair Value of Hedging Derivatives	$ 0	$ 124
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 0	$ 124
NET POSITION:		
Invested in Capital Assets	$ 4,017,929	$ 4,674,649
Unrestricted Assets	8,047,455	7,384,553
TOTAL NET POSITION	$ 12,065,384	$ 12,059,202

NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

VALLEY TRANSIT

MCAG NO. 0375 | Statement D-1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For The Year Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Passenger Fares	$ 281,264	$ 257,680
Supplementary Transportation	0	0
Other Operating Revenues	11,978	10,907
TOTAL OPERATING REVENUES	$ 293,242	$ 268,587
OPERATING EXPENSES:		
Operations	$ 2,546,867	$ 2,513,645
Maintenance	834,701	777,889
Administration	581,752	551,438
Depreciation/Amortization	797,951	737,383
Other Operating Expenses	0	0
TOTAL OPERATING EXPENSES	$ 4,761,271	$ 4,580,355
OPERATING INCOME (LOSS)	$ (4,468,029)	$ (4,311,768)
NON-OPERATING REVENUES (EXPENSES):		
Gain (Loss) on Disposal of Assets	$ 0	$ 60
Sales Tax	4,137,492	4,094,569
External Operating Subsidies	246,663	731,089
Investment Income	9,151	16,660
Other Non-Operating Revenues (Expenses)	80,905	14,214
TOTAL NON-OPERATING REVENUES (EXPENSES)	$ 4,474,211	$ 4,856,592
INCOME (LOSS) BEFORE CONTRIBUTIONS	$ 6,182	$ 544,824
Capital Contributions - State Grants	0	154,500
INCREASE (DECREASE) IN NET POSITION	$ 6,182	$ 699,324
NET POSITION - BEGINNING OF PERIOD	12,059,202	11,359,878
NET POSITION - END OF PERIOD	$ 12,065,384	$ 12,059,202

NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

VALLEY TRANSIT

MCAG NO. 0375 | Statement E-1B

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2013 and 2012

	2013 Business Type Activities			2012 Business Type Activities			Governmental Activities
	Major Enterprise Fund	Nonmajor Enterprise Funds	Totals	Major Enterprise Fund	Nonmajor Enterprise Funds	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from Customers	$ 268,010		268,010	250,115		250,115	
Payments to Suppliers	(947,339)		(947,339)	(893,088)		(893,088)	
Payments to Employees	(3,072,368)		(3,072,368)	(2,896,387)		(2,896,387)	
Internal Activities							
Claims Paid to Outsiders							
Other Receipts (payments)	11,978		11,978	10,907		10,907	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (3,739,719)	0	(3,739,719)	(3,528,453)		(3,528,453)	0
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:							
Operating Assessments & Tax Levies	$ 4,139,343		4,139,343	4,059,509		4,059,509	
External Operating Subsidies	260,891		260,891	931,452		931,452	
Other Non-Operating Revenues	80,905		80,905	14,214		14,214	
NET CASH PROVIDED FROM NON-CAPITAL FINANCING ACTIVITIES	$ 4,481,139	0	4,481,139	5,005,175		5,005,175	0
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:							
Purchase of Capital Assets	$ (141,232)		(141,232)	(313,941)		(313,941)	
Disposal of Capital Assets	0		0	60		60	
Capital Contributions - Grants	152,000		152,000	2,500		2,500	
NET CASH USED FOR CAPITAL FINANCING ACTIVITIES	$ 10,768	0	10,768	(311,381)		(311,381)	0
CASH FLOWS FROM INVESTING ACTIVITIES:							
Proceeds from Sales and Maturities of Investments	3,058,000		3,058,000	(3,058,000)		(3,058,000)	
Interest and Dividends on Investments	$ 9,250		9,250	16,852		16,852	
NET CASH PROVIDED BY INVESTING ACTIVITIES	$ 3,067,250	0	3,067,250	(3,041,148)		(3,041,148)	0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 3,819,438		3,819,438	(1,875,807)		(1,875,807)	
BALANCE - BEGINNING OF YEAR	3,309,622		3,309,622	5,185,429		5,185,429	
BALANCE - END OF YEAR	$ 7,129,060	0	7,129,060	3,309,622		3,309,622	0

NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

VALLEY TRANSIT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2013 and 2012

		2013 Business Type Activities			2012 Business Type Activities			Governmental Activities
		Major Enterprise Fund	Nonmajor Enterprise Funds	Totals	Major Enterprise Fund	Nonmajor Enterprise Funds	Totals	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO								
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating Income (loss)	$	(4,468,029)		(4,468,029)	(4,311,768)		(4,311,768)	
ADJUSTMENTS TO RECONCILE OPERATING INCOME								
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Depreciation		797,951		797,951	737,383		737,383	
CHANGE IN ASSETS AND LIABILITIES:								
(Increase) Decrease in Accounts Receivable		(13,254)		(13,254)	(7,565)		(7,565)	
(Increase) Decrease in Inventory		(52,216)		(52,216)	363		363	
(Increase) Decrease in Prepaid Expense		1,508		1,508	(462)		(462)	
(Decrease) Increase in Warrants Payable		(26,642)		(26,642)	42,151		42,151	
(Decrease) Increase in Employee Leave Accrual		20,963		20,963	11,445		11,445	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	(3,739,719)	0	(3,739,719)	(3,528,453)		(3,528,453)	0

NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Valley Transit

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2013 and 2012

These notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Valley Transit was incorporated in April of 1979, and operates under the laws of the State of Washington applicable to a Public Transportation Benefit Authority (PTBA). The financial statements of Valley Transit have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governments. Valley Transit has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principle. In June 1999 GASB approved Statement 34, Basic Financial Statements-and-Management Discussion and Analysis for State and Local Governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

Valley Transit is a special purpose government and provides Fixed Route, Demand Responsive Dial-A-Ride, Evening & Saturday Flex Routes, Connector, and Job Access transportation services to the general public and is supported primarily through locally generated sales taxes and user fees. Valley Transit also provides vanpool service which is primarily supported through user fees.

Valley Transit is governed by an eight-member board. As required by Generally Accepted Accounting Principles (GAAP), management has considered all potential component units in defining the reporting entity. Valley Transit has no component units.

B. Basis of Accounting and Presentation

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

Funds are accounted for on a cost of services or an economic resources measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their statements of net position. Their reported fund net position is segregated into invested in capital assets, restricted and unrestricted component of net position.

Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. Valley Transit discloses changes in cash flows by a separate statement that presents their operating, non-capital financing, capital and related financing and investing activities.

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

Valley Transit distinguishes between operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a transit's principal ongoing operations. The principal operating revenues of Valley Transit are charges to customers for transportation. The Transit also recognizes income from advertising and facility rentals as revenue. Operating expenses include the cost of providing transportation services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents
   It is Valley Transit's policy to invest all temporary cash surpluses. On December 31, 2013, the Walla Walla County Treasurer was holding $6,750,328 of cash from maturing short term investments. On December 31, 2012 the Walla Walla County Treasurer was holding $381 of cash from maturing short term investments, $2,872,000 in short term investments maturing within ninety days, and $3,058,000 in long term investments having a maturity date greater than ninety days. These amounts are classified on the statement of net position as cash and cash equivalents and investments. For purposes of the statement of cash flows, Valley Transit considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

	2013	2012
Petty Cash	$ 2,879	$ 2,829
Advanced Travel	2,926	3,000
Fuel Risk Management	36	61,712
Fare Revenue Transfer	30,062	22,029
Accounts Payable	225,463	230,250
Payroll	117,366	117,421
Total Revolving Funds	$ 378,732	$ 437,241
Deposits Held By WW Co. Treasurer	$6,750,328	$2,872,381
Total Cash and Cash Equivalents	**$7,129,060**	**$3,309,622**

2. Short-term Investments — See Note 2 (Deposits and Investments).

3. Receivables
   Taxes receivable consist of sales tax and related interest. Accrued interest receivable consists of amounts earned on investments. Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consists of amounts owed on open account from private individuals or organizations for goods and services rendered.

4. Amounts Due To and From Other Governments
   These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

5. Inventories
   Inventories are valued by the weighted average method (which approximates the market value).

6. Restricted Assets and Liabilities
   Valley Transit had no restricted assets or liabilities during the reporting period.

7. Capital Assets and Depreciation
   See Note 3 (Capital Assets and Depreciation).

8. Other Property and Investments
   See Note 2 (Deposits and Investments).

9. Other Assets and Debits
   Prepaid expenses consist of normal operating expenses for which payment is due at the first of the period, and expenses are expensed throughout the period as the benefit is received.

10. Deferred Outflows/Inflows of Resources
    On December 31, 2013 and 2012 Valley Transit had deferred Outflows and Inflows of resources from a commodity forward hedging contract which is considered a derivative instrument by GASB 53. See Note 16 (Derivative Instruments).

11. Custodial Accounts
    This account reflects the liability for net monetary assets being held by Valley Transit in its trustee or agency capacity.

12. Compensated Absences
    Compensated absences are absences for which employees will be paid, such as vacation and in some cases, sick leave. The Transit reports unpaid leave for compensated absences as an expense and liability when incurred.

Sick leave may be accumulated to a maximum of 960 hours. Sick leave is compensated upon termination. Upon voluntary separation, regular employees shall be paid for 25 percent of their accumulated sick leave balance provided that their balance is at least 360 hours. Employees eligible to retire through the transit's retirement plan shall receive 50 percent of their accumulated sick leave balance provided that their balance is at least 360 hours. Vacation pay, which may be accumulated to a maximum of 360 hours, is payable in full upon resignation, retirement, or death.

13. Other Accrued Liabilities
    These accounts consist of accrued wages and accrued employee benefits.

14. Long-Term Debt
    See Note 8 (Long-term Debt and Leases).

15. Deferred Credits
    This account includes amounts recognized as receivables (assets) but not revenues because the revenues recognition criteria have not been met.

16. Other Credit
    See Note 11 (Deferred (Credits) Debits).

NOTE 2 - DEPOSITS AND INVESTMENTS

The Walla Walla County Treasurer is the ex officio treasurer for Valley Transit and holds all deposits and investments with the exception of working capital revolving funds held by local financial institutions. Valley Transit directs the County Treasurer to invest all financial resources that have been determined to be in excess of the Transit's current financial obligations. Excess funds are invested in certificates of deposit or the Local Government Investment Pool.

As required by State law, all investments of Valley Transit's funds are obligations of the US. Government, the Walla Walla County Treasurer's Investment Pool, Local Government Investment Pool, bankers' acceptance, or deposits with Washington State banks and savings and loan institutions.

The Walla Walla County Investment Pool (WWCIP) operates on an amortized cost-book value basis rather than a net asset value (NAV) basis. All funds deposited in the pool are returned to the participant at full face value without regard to current market values of the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's cash in the pool. Investments are stated at amortized cost.

The Local Government Investment Pool (LGIP) operates in a manner consistent with SEC Rule 2a7. Participants' balances in the LGIP are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Per GASB 40 guidelines, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited, as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit. There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. As a 2a7-like pool, investments in the LGIP are reported at amortized cost. The fair value of Valley Transit's shares in the LGIP is dollar for dollar equal to the value of pool shares.

DEPOSITS

Valley Transit's deposits and certificates of deposits are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). As of December 31, 2013, Valley Transit held no certificates of deposit. On December 31, 2012, Valley Transit held certificates of deposit totaling $5,930,381 of which $2,872,381 was considered cash equivalents and $3,058,000 was considered investments having a maturity greater than 90 days.

INVESTMENTS

As of December 31, 2013, Valley Transit held no investments. On December 31, 2012, Valley Transit held certificates of deposit totaling $3,058,000 which was considered to be investments due to having a maturity greater than 90 days.

CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction Valley Transit would not be able to recover the value of the investment or collateral securities. Per GASB Statement 3, investments in pools managed by another government and in mutual funds need not be categorized as to credit risk. As of December 31, all of Valley Transit's certificates of deposit and investments were held by the Walla Walla County Treasurer.

As of December 31, Valley Transit had the following investments and maturities:

Investment Type	Cost	Fair Value
Certificate of Deposit		
2013	$0	$0
2012	$3,058,000	$3,058,000

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

A. Major expenses for capital assets, including capital leases, and major repairs over $5,000 that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Valley Transit had no capital leases during calendar years 2013 or 2012. All capital assets are valued at historical cost (or estimated historical cost, where historical cost is not known/or estimated market value for donated assets). Valley Transit has acquired certain assets with funding provided by federal financial assistance programs passed through the State of Washington's Department of Transportation. Depending on the terms of the agreements involved, the Department of Transportation could retain an equity interest in these assets. However, Valley Transit has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account.

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from Valley Transit's asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and any net gain or loss on the disposition is credited or charged to income.

An allowance for funds used during construction is capitalized as part of the cost of the asset. The procedure is intended to remove the cost of financing construction activity from the operating statements and to treat such cost in the same manner as construction labor and material costs.

During 2013 and 2012, Valley Transit did not incur or capitalize interest costs for construction of capital assets. No funds were borrowed to finance the construction of capital assets during this reporting period.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives of 2 to 40 years, using the straight-line method of depreciation.

B. Capital assets activity for the year ended December 31, 2013 and 2012 was as follows:

	December 31, 2011	Add Increases	Less Decreases	December 31, 2012	Add Increases	Less Decreases	December 31, 2013
Capital assets, not being depreciated:							
Land	$262,848	$0	$0	$262,848	$0	$0	$262,848
Construction / Work in Progress	$76,386	$0	$18,761	$57,625	$18,175	$0	$75,800
Total capital assets, not being depreciated	$339,234	$0	$18,761	$320,473	$18,175	$0	$338,648
Capital assets, being depreciated:							
Buildings and structures	$2,680,230	$70,547	$0	$2,750,777	$124,636	$100,526	$2,774,887
Machinery and equipment	$8,444,974	$262,155	$21,054	$8,686,075	$2,211	$161,071	$8,527,215
Total capital assets, being depreciated	$11,125,204	$332,702	$21,054	$11,436,852	$126,847	$261,597	$11,302,102
Less accumulated depreciation for:							
Buildings and structures	($1,798,660)	($94,857)	($0)	($1,893,517)	($89,812)	($80,441)	($1,902,888)
Machinery and equipment	($4,567,688)	($642,526)	($21,054)	($5,189,160)	($659,026)	($128,253)	($5,719,933)
Total accumulated depreciation	($6,366,348)	($737,383)	($21,054)	($7,082,677)	($748,838)	($208,694)	($7,622,821)
Total capital assets, being depreciated (net)	$4,758,856	($404,681)	$0	$4,354,175	($621,991)	$52,903	$3,679,281

C. Impaired Capital Assets — None.

D. Collections Not Capitalized — None.

E. Construction Commitments — None.

F. Discretely Presented Component Unit(s) — None

NOTE 4 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 5 - PENSION PLANS

Substantially all Valley Transit full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, Accounting for Pensions by State and Local Government Employers and 50, Pension Disclosures, an Amendment of GASB Statements 25 and 27.

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

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

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

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

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

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

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

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

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

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

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

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

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

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

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

Members Not Participating in JBM:

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

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

Members Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

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

** Plan 3 defined benefit portion only.

***Minimum rate.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$14,184	$137,554	$41,983
2012	$11,625	$117,396	$33,503
2011	$19,186	$158,621	$35,835

NOTE 6 - RISK MANAGEMENT

A. Valley Transit is a member of the Washington State Transit Insurance Pool (WSTIP). Chapter 48.62 RCW authorizes the governing body of any one or more government entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.94 RCW, the Interlocal Cooperation Act.

The Pool was formed on January 1, 1989 when eight transit agencies in the State of Washington joined together by signing an interlocal government agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Seventeen (17) transit systems have since joined the pool.

Valley Transit joined the Washington State Transit Insurance Pool (WSTIP) on December 1, 2004. Under the pooling arrangement Valley Transit assumes liability for claims up to the deductible amounts listed. Risk associated with claims in excess of the deductible amount has been transferred to the WSTIP.

Type of Coverage	Amount of Coverage	Deductible
Comprehensive General Liability	$12,000,000 each occurrence	$ 0
Auto/Garage Liability	$12,000,000 each occurrence	$ 0
Property Damage	$1,000,000,000 each occurrence	$5,000
Boiler and Machinery	$100,000,000 each occurrence	$5,000
Public Honesty Bond	$1,000,000 each occurrence	$10,000
Pollution Liability	$5,000,000 each occurrence	$ 0
Public Official Liability	$12,000,000 each occurrence	$5,000
Auto Physical Damage	Actual Cash Value	$2,500
Underground Storage	$1,000,000 each occurrence	$25,000

NOTE 7 – SHORT-TERM DEBT

Valley Transit had no short-term debt or short-term debt activities during the years ended December 31, 2013 and 2012.

NOTE 8 – LONG -TERM DEBT

Valley Transit had no long-term debt or leases during the years ended December 31, 2013 and 2012.

NOTE 9 – RESTRICTED COMPONENTS OF NET POSITION

As of December 31, 2013 and 2012 Valley Transit held no restricted components of net position.

NOTE 10 – CONTINGENCIES AND LITIGATION

Valley Transit's financial statements include all material liabilities. There are no contingent liabilities to record.

A. Federal Grants - Valley Transit participates in a number of federal and state financial assistance programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowances, if any, will be immaterial.

B. Environmental Liability - As a public transit operation, Valley Transit has certain environmental risks related to its operation involving the storage, liability, 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 Valley Transit.

NOTE 11 – DEFERRED (CREDITS) DEBITS

In accordance with Generally Accepted Accounting Principles for regulated businesses, the Transit had no deferred debits or credits in fiscal years 2013 and 2012.

NOTE 12 – JOINT VENTURES

Valley Transit was not involved in, or committed to, any joint ventures in fiscal years 2013 or 2012.

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

Valley Transit offers no explicit post-employment benefits other than pensions (See Note 5).

As a member of the Public Employees Benefit Board (PEBB) Valley Transit offers employees who retire the option to continue medical coverage on a self-pay basis. Since the premiums for retired employees are blended with the rates for active employees. This blending of rates is considered an implicit subsidy paid by Valley Transit. Using the alternative measurement method permitted under GASB statement 45, this subsidy was found to be immaterial to the financial statements presentation. Therefore no adjustments or provisions were made to these financial statements.

NOTE 14 – TERMINATION BENEFITS

During fiscal years 2013 and 2012, Valley Transit provided no termination benefits.

NOTE 15 – POLLUTION REMEDIATION OBLIGATIONS

During fiscal years 2013 and 2012, Valley Transit had no pollution remediation obligations.

NOTE 16 – DERIVATIVE INSTRUMENTS

Valley Transit entered into a Fuel Risk Management agreement with five Washington State transit agencies for the purpose of entering into a fuel price "hedge" contract to mitigate the variability of fuel prices by providing predictable and stable pricing over a set time period. Parties to the Interlocal Agreement include Link Transit, Ben Franklin Transit, Clallam Transit, Grant Transit Authority, Jefferson Transit Authority, and Valley Transit. The role of Project Administrator was assumed by Link Transit.

Using a competitive process, the transit agencies selected a vendor and contractually agreed to purchase approximately 84,000 gallons of low sulfur #2 diesel fuel each month in the amounts shown in the Fuel Purchase Calculation table below.

The selected vendor offers a contract which provides the opportunity for the Transits to mitigate the variability in the price of fuel. Under this contract, no specific supplier is required and the transit agencies can purchase fuel from providers other than the specified vendor. If the monthly average index price for fuel of the type purchased by the transit agencies, in this case, OPIS (Spot Prices for Pacific Northwest Low Sulfur #2

Diesel Fuel) rises above the price agreed upon, the Contractor agrees to reimburse to the Transits, the difference between the fixed price and the monthly average index price on the day the fuel was purchased. If the monthly average index price falls below the agreed upon fixed price, the Transits pay the contractor the difference between the fixed price and the monthly average index price on the day the fuel was purchased. This type of contract is referred to as a "Paper Swap" contract.

The contract provides the transit agencies with a predictable and stable price throughout the contract period. The market price may fluctuate above or below the fixed price, requiring either the Transits or the Contractor to pay the other, but the net effect to the Transits is to narrow the degree of fluctuation in the price the transit agencies pay for fuel. There is no guarantee that market prices will not fall below the fixed price in the contract.

The transit agencies collectively obligate to purchase fuel in lots of 42,000 gallons per month. On February 1, 2012, the Transits extended the contract for a period of twelve months and agreed to purchase two lots which decreased the total number of gallons purchased to 84,000 per month. To determine how many gallons each transit is committed to purchase, the number of gallons in the total number of lots committed for purchase each month is multiplied by the percentage share of each transit property. The sum of each multiplication for the designated transit agency equals the number of gallons of fuel that each specific transit commits to purchase each month, pursuant to this agreement. Using Valley Transit as an example, if the total number of lots to be purchased is two, and Valley Transit's percentage share is three percent as shown in the table below, Valley Transit would be obligated to purchase 2,500 gallons of fuel each month to meet the provisions of this agreement.

Fuel Purchase Calculation

Agency	Gallons prior to 2/1/10	% of Total
Ben Franklin	38,500	45.8
Link	18,000	21.4
Clallam	14,000	16.7
Grant	7,000	8.3
Jefferson	4,000	4.8
Valley	2,500	3.0
Total	84,000	100.0

On a monthly basis the average change in the OPIS price index is calculated and compared to the contract base price ($3.00 per gallon). If the OPIS index price for Pacific NW #2 low sulfur diesel fuel is lower than the contract price, the Contractor bills the Transits collectively for the difference multiplied by the number of gallons contracted. If the price of the index is higher than the base price, the Contractor pays the Transits collectively for the difference. The amount each transit owes or receives during this monthly settling is based on the percentages presented in the Fuel Purchase Calculation table above. Valley Transit recognizes gains or losses from this contract on a monthly basis.

A. Summary of Derivative Instruments

Valley Transit had the following derivative instruments outstanding at December 31, 2013 and 2012.

	Changes in Fair Value		**Fair Value at December 31,**			
	Classification	**Amount**	**Classification**	**Date**	**Amount**	**Notional**
Fair Value Hedges:						
Cash Flow Hedges						
Commodity Forward	Deferred Inflow	$0	Derivative Instrument	2013	$0	0 gal
Commodity Forward	Deferred Inflow	$3,103	Derivative Instrument	2012	$124	2,500 gal
Investment Derivatives:						
Fiduciary Funds						
Investment Derivatives:						

B. Objective and Terms of Hedging Derivatives

Type	**Objective**	**Notional Amount**	**Effective Date**	**Maturity Date**	**Terms**	**Counter Party Rating**
Commodity Forward Contract	Hedge of cash flows due to market price fluctuation #2 Low Sulfur Diesel Fuel	2,500	2/1/2010	2/1/2013	Pay $3.00 per gallon; settlement based on OPIS Pacific NW #2 Low Sulfur Diesel Fuel	AA/Aa2

C. Net Cash Flows of Derivatives Hedging Debt - None

D. Hedging Derivative Risks

Valley Transit had hedging derivative risk associated with the ongoing fluctuations in the commodities pricing for diesel fuel. Valley Transit was responsible for fluctuations in fuel pricing that causes the OPIS index to drop below the base contract price of $3.00 per gallon.

Year	Base Gallons Per Year	Rate	Base $ amount Per Year	Average Rates	Earnings (Payments) Per Year	Total Hedging Gains (Losses)
2006	30,000	1.989	59,670	2.0936	3,138	3,138
2007	30,000	2.1675	65,025	2.2373	2,095	5,232
2008	30,000	2.72	81,600	2.9946	15,103	13,470
1/1/2009	2,500	2.72	6,800	1.5081	-6,060	-10,440
2/1/2009	60,000	2.40	144,000	1.7301	-36,844	-29,753
2010	60,000	2.40	144,000	2.2315	-8,755	-38,508
2011	60,000	2.40	144,000	3.0799	40,792	2,284
1/1/2012	5,000	2.40	12,000	3.0454	-3227	-943
2/1/2012	30,000	3.00	90,000	3.0546	-1502	-2,455

E. Investment Derivative Risks - None

F. Contingent Features –None

NOTE 17 – SERVICE CONCESSION ARRANGEMENTS

Valley Transit was not involved in or committed to, any service concession arrangements during fiscal years 2013 and 2012.

NOTE 18 - OTHER DISCLOSURES

A. Prior Period Adjustments – None

B. Accounting and Reporting Changes – None

C. Major Receivables

Sales tax due Valley Transit on December 31, 2013 and 2012 was $734,177 and $736,028 respectively. Sales taxes collected by local merchants are paid to the State of Washington's Department of Revenue, which remits Valley Transit's portion of the local sales tax (.6 percent) on a monthly basis.

Valley Transit participates in federal and state financial assistance programs that provide funding for specific transportation services. This funding is provided on a reimbursement basis where Valley Transit must first incur the cost of providing the services, then submit a request for reimbursement to the funding agency. Reimbursements due to Valley Transit on December 31, 2013 and 2012 amounted to $60,318 and $226,547 respectively.

D. Related Party Transactions – None

E. Extraordinary and/or Special Items – None

F. Subsequent Events – None

G. Pledges and Sales of Future Revenues – None

H. Bankruptcy – None

I. Going Concern - None

J. Other – None

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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