Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Valley Transit

Walla Walla County

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

Published March 2, 2017

Report No. 1018622

Office of the Washington State Auditor
Pat McCarthy

March 2, 2017

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 Transit's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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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, 2014 through December 31, 2014

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 year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements, and have issued our report thereon dated February 22, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 22, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Valley Transit
Walla Walla County
January 1, 2014 through December 31, 2014

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 year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Transit's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Transit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transit'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, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 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 February 22, 2017 on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

February 22, 2017

FINANCIAL SECTION

Valley Transit
Walla Walla County
January 1, 2014 through December 31, 2014

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 year ended December 31, 2014. This section should be read in conjunction with the financial statements which follow this section.

2014 Financial Highlights

As of December 31, Valley Transit's assets increased by $312,924 in 2014. Valley Transit's net liabilities increased by $87,740 in 2014. Valley Transit's total net position increased by $225,185 during fiscal year 2014. The increase in total net position during 2014 can be attributed to an increase in local sales tax revenues received. Valley Transit remained free of long-term debt during fiscal year 2014.

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.

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

	2014	2013	2014 Increase (Decrease) Over 2013
Assets:			
Current Assets	$9,470,716	$8,520,914	$949,802
Non-Current Assets	$3,381,051	$4,017,929	($636,878)
Deferred Outflows of Resources	$0	$0	$0
Total Assets Plus Deferred Outflows	**$12,851,767**	**$12,538,843**	**$312,924**
Liabilities:			
Current Liabilities	$513,591	$415,345	$98,246
Non-Current Liabilities	$47,608	$58,114	($10,506)
Deferred Inflows of Resources	$0	$0	$0
Total Liabilities Plus Deferred Inflows	**$561,199**	**$473,459**	**$87,740**
Net Position:			
Invested In Capital Assets	$3,381,051	$4,017,929	($636,878)
Unrestricted	$8,909,518	$8,047,455	$862,063
Net Total Position	**$12,290,569**	**$12,065,384**	**$225,185**

Valley Transit's total net position increased by $225,185 in fiscal year 2014. 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

	2014	2013	2014 Increase (Decrease) Over 2013
Operating Revenues	$235,307	$293,242	($57,935)
Operating Expenses	$4,802,906	$4,761,271	$41,635
Operating Loss	**($4,567,599)**	**($4,468,029)**	**$99,570**
Taxes	$4,506,744	$4,137,492	$369,252
Other Non-Operating Revenues (net)	$286,040	$336,719	($50,679)
Total Non-Operating Revenues	**$4,792,784**	**$4,474,211**	**$318,573**
Net Income (Loss)- Before Contributions	**$225,185**	**$6,182**	**$219,003**
Capital Contributions-Grants	**$0**	**$0**	**$0**
Net Position-Beginning of Period	**$12,065,384**	**$12,059,202**	**$6,182**
Net Position-End of Period	**$12,290,569**	**$12,065,384**	**$225,185**

Operating Revenues

For the fiscal year ending December 31, 2014, fare revenues decreased 20.2 percent or $56,792. The decrease in 2014 reflects the results of the "Fare Free Summer" promotion, a price reduction on passes sold to the Walla Walla School District, and lower vanpool fares due to disbanding of one vanpool for five months.

During 2014, local sales tax revenues increased by 8.9 percent or $369,252. This reflects growth in the local economy which was driven by increased car sales and new construction projects.

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 2014.

External Subsidies - Operating Assistance Grants	2014	2013	2014 Increase (Decrease) Over 2013
Federal Transit Administration Operating Assistance			
Section 5311 Operating Assistance	$0	$0	$0
Section 5311 RTAP Training Asst.	$0	$0	$0
Section 5310 Funding	$83,370	$37,905	$45,465
Section 5317 New Freedom	$0	$52,096	($52,096)
Total Federal Operating Assistance	**$83,370**	**$90,001**	**($6,631)**
State Operating Assistance			
Rural Mobility - Special Transportation Needs	$74,331	$75,776	($1,445)
Rural Mobility – Formula Funding	$52,310	$49,953	$2,357
Rural Mobility - Transit Formula	$58,307	$28,433	$29,874
Total State Operating Assistance	**$184,948**	**$154,162**	**$30,786**
Private Operating Assistance			
WSTIP – Safety & Security Grant	$2,500	$2,500	$0
Total Private Operating Assistance	**$2,500**	**$2,500**	**$0**
Total External Subsidies - Operating Assistance	**$270,818**	**$246,663**	**$24,155**

Valley Transit's external operating subsidies increased by $24,155 in 2014.

During 2014, Valley Transit expended $58,307 of Rural Mobility – Transit Formula funding. The amount of Rural Mobility – Transit Formula funding awarded for the state fiscal year (SFY) 2014 increased over SFY 2013. 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. Slower growth in local sales tax collections within Valley Transit's Public Transportation Benefit Area compared to the state average during 2014 increased 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 $74,331 of Rural Mobility – Special Transportation Needs funding during 2014. Seniors age 65 and over are eligible to receive a Reduced Fare Permit which allows them to pay one-half regular cash fare on the Fixed-Route and Evening and Saturday Services.

Valley Transit did not receive or expend Federal Section 5311 RTAP training assistance during 2014. RTAP training assistance is passed through the Washington State Department of Transportation to assist rural transits with costs associated with training staff and employees.

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 during the state biennium ending June 30, 2015. The funding is allocated on a formula basis and paid quarterly. Valley Transit received four quarters of funding in 2014 equaling $52,310.

During 2013, Valley Transit was awarded a Federal Section 5310 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 $83,370 of Section 5310 funding to operate this service during fiscal year 2014. This grant funding will expire on June 30, 2015.

In 2014, 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 that 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 increased the capitalization threshold and this funding became an 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 2013 and 2014:

Revenue Source	2014	Percent of Total Revenue	2013	Percent of Total Revenue
Operating Revenues:				
Passenger Fares	$224,472	4.5%	$281,264	5.9%
Supplementary Transportation (Advertising)	$0	0%	$0	0%
Other Operating Revenues (Rental)	$10,835	0.2%	$11,978	0.3%
Total Operating Revenues	**$235,307**	**4.7%**	**$293,242**	**6.2%**
Non-Operating Revenues:				
Gain (Loss) on Disposal Of Assets	$0	0%	$0	0%
Sales Tax	$4,506,744	89.6%	$4,137,492	86.8%
External Operating Subsidies:				
Federal Operating Assistance	$83,370	1.7%	$90,001	1.9%
State Operating Assistance	$184,948	3.7%	$154,162	3.2%
Private Operating Assistance	$2,500	0.0%	$2,500	0.0%
Investment Income	$4,805	0.1%	$9,151	0.2%
Other Non-Operating Revenue (Recoveries)	$10,417	0.2%	$80,905	1.7%
Total Non-Operating Revenues	**$4,792,784**	**95.3%**	**$4,474,211**	**93.8%**
Total Revenues (Excluding Capital Grants)	**$5,028,091**	**100%**	**$4,767,453**	**100%**

Operating Expenses

Operating expenses increased during fiscal year 2014, by 0.9 percent.

Operations Department expenses increased 4.9 percent in 2014. The increase in 2014 operating expenses reflects increased labor costs associated with new full time operators.

Maintenance Department expenses increased 1.9 percent in 2014. 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.

Administration Department expenses increased 6.3 percent in 2014. This increase is attributable to increased labor costs, and additional cost associated with legal counsel for labor negotiations and cost for a biennial audit.

Depreciation Expense decreased 16.9 percent in 2014. This decrease 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 relationship of each major operating expense classification as compared to total operating expenses is presented in the following table:

Operating Expenses:	2014	Percent of Total Expenses	2013	Percent of Total Expenses
Operations	$2,671,496	55.6%	$2,546,867	53.5%
Maintenance	$850,319	17.7%	$834,701	17.5%
Administration	$618,115	12.9%	$581,752	12.2%
Depreciation	$662,976	13.8%	$797,951	16.8%
Other Operating Expenses	$0	0%	$0	0%
Total Operating Expenses	**$4,802,906**	**100%**	**$4,761,271**	**100%**

Valley Transit's capital assets consist of land, vehicles, equipment, passenger facilities, administration and maintenance facility, and projects in progress with an acquisition value of more than $5,000 and a useful life of more than one year. Valley Transit's investment in capital assets net of depreciation as of December 31, 2014, totaled $3,381,051. Capital assets decreased by 15.9 percent or $636,878. This decrease reflects a change in the capitalization threshold to $5,000 per asset causing the removal of several assets that no longer meet this threshold. There were no major capital acquisitions during the year. Valley Transit incurred $26,098 of Construction in Progress expenses for architectural fees associated with the reconstruction and expansion of the Market Station Transfer Center.

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. This funding replaces federal and state 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.

Current levels of local transit sales tax revenues appear to be sufficient to sustain existing Valley Transit service. Local revenues alone will not provide adequate funding to address the community's many other public 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, 2014

ASSETS

CURRENT ASSETS:		2014
Cash and Cash Equivalents	$	2,806,391
Investments		5,173,000
Taxes Receivable		802,311
Accounts Receivable		8,538
Interest Receivable		203
Grants Receivable		63,852
Inventories		505,581
Prepaid Expenses		110,840
TOTAL CURRENT ASSETS	$	9,470,716
NONCURRENT ASSETS:		
Capital Assets Not Being Depreciated		
Land	$	262,848
Construction in Progress		101,898
Capital Assets Being Depreciated		
Equipment	$	11,300,288
Less Accumulated Depreciation		(8,283,983)
TOTAL NONCURRENT ASSETS	$	3,381,051
TOTAL ASSETS	$	12,851,767
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivative	$	0
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	0

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, 2014

LIABILITIES		
CURRENT LIABILITIES:		2014
Accounts/Warrants Payable	$	340,473
Current Portion of Long-Term Obligations		173,118
TOTAL CURRENT LIABILITIES	$	513,591
NON-CURRENT LIABILITIES:		
Employee Leave Benefits	$	47,608
TOTAL NON-CURRENT LIABILITIES	$	47,608
TOTAL LIABILITIES	$	561,199
DEFERRED INFLOWS OF RESOURCES		
Accumulated Increase in Fair Value of Hedging Derivatives	$	0
TOTAL DEFERRED INFLOWS OF RESOURCES	$	0
NET POSITION:		
Invested in Capital Assets	$	3,381,051
Unrestricted Assets		8,909,518
TOTAL NET POSITION	$	12,290,569

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, 2014

		2014
OPERATING REVENUES:		
Passenger Fares	$	224,472
Supplementary Transportation		0
Other Operating Revenues		10,835
TOTAL OPERATING REVENUES	$	235,307
OPERATING EXPENSES:		
Operations	$	2,671,496
Maintenance		850,319
Administration		618,115
Depreciation/Amortization		662,976
Other Operating Expenses		0
TOTAL OPERATING EXPENSES	$	4,802,906
OPERATING INCOME (LOSS)	$	(4,567,599)
NON-OPERATING REVENUES (EXPENSES):		
Gain (Loss) on Disposal of Assets	$	0
Sales Tax		4,506,744
External Operating Subsidies		270,818
Investment Income		4,805
Other Non-Operating Revenues (Expenses)		10,417
TOTAL NON-OPERATING REVENUES (EXPENSES)	$	4,792,784
INCOME (LOSS) BEFORE CONTRIBUTIONS	$	225,185
Capital Contributions - State Grants		0
INCREASE (DECREASE) IN NET POSITION	$	225,185
NET POSITION - BEGINNING OF PERIOD		12,065,384
NET POSITION - END OF PERIOD	$	12,290,569

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

MCAG NO. 0375 | Statement E-1B

VALLEY TRANSIT

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2014

	2014 Business Type Activities			Governmental Activities
	Major Enterprise Fund	Nonmajor Enterprise Funds	Totals	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	239,745		239,745	
Payments to Suppliers	(872,755)		(872,755)	
Payments to Employees	(3,222,378)		(3,222,378)	
Internal Activities			0	
Claims Paid to Outsiders			0	
Other Receipts (payments)	10,835		10,835	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,844,553)		(3,844,553)	0
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Operating Assessments & Tax Levies	4,438,610		4,438,610	
External Operating Subsidies	267,284		267,284	
Other Non-Operating Revenues	10,417		10,417	
NET CASH PROVIDED FROM NON-CAPITAL FINANCING ACTIVITIES	4,716,311		4,716,311	0
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Purchase of Capital Assets	(26,098)		(26,098)	
Disposal of Capital Assets	0		0	
Capital Contributions - Grants	0		0	
			0	
NET CASH USED FOR CAPITAL FINANCING ACTIVITIES	(26,098)		(26,098)	0
			0	
CASH FLOWS FROM INVESTING ACTIVITIES:			0	
Proceeds from Sales and Maturities of Investments	(5,173,000)		(5,173,000)	
Interest and Dividends on Investments	4,670		4,670	
			0	
NET CASH PROVIDED BY INVESTING ACTIVITIES	(5,168,330)		(5,168,330)	0
NET INCREASE (DECREASE) IN			0	
CASH AND CASH EQUIVALENTS	(4,322,669)		(4,322,669)	
			0	
BALANCE - BEGINNING OF YEAR	7,129,060		7,129,060	
			0	
BALANCE - END OF YEAR	2,806,391		2,806,391	0

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, 2014

	2014 Business Type Activities			Governmental Activities
	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)	(4,567,599)		(4,567,599)	
ADJUSTMENTS TO RECONCILE OPERATING INCOME				
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Depreciation	662,975		662,975	
CHANGE IN ASSETS AND LIABILITIES:				
(Increase) Decrease in Accounts Receivable	15,273		15,273	
(Increase) Decrease in Inventory	(29,266)		(29,266)	
(Increase) Decrease in Prepaid Expense	(13,676)		(13,676)	
(Decrease) Increase in Warrants Payable	72,953		72,953	
(Decrease) Increase in Employee Leave Accrual	14,787		14,787	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,844,553)		(3,844,553)	0

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

Valley Transit

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2014

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Valley Transit have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are presented below.

A. Reporting Entity

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). A Public Transportation Benefit Authority is a special purpose government and as such, Valley Transit provides Fixed Route, Demand Responsive Paratransit (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.

Valley Transit is a separate entity and is fiscally independent of other state and local government entities. Per criteria of Government Accounting Standards Board (GASB) 14, Valley Transit is a primary government for reporting and there are no additional entities or funds for which Valley Transit has reporting responsibilities.

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 Presentation – Government-Wide Financial Statements

The government-wide financial statements of Valley Transit report all information on activities in accordance with GASB and the Washington State Budget, Accounting, and Reporting System (BARS) requirements for Transit Districts, which are considered Enterprise funds. Valley Transit uses one general fund to account for all of its financial resources. The Transit has no other funds or component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting and Measurement Focus

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 Systems GAAP as modified 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 components 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 fund.

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.

D. Budgetary Information

Annual appropriated budgets include the Operating and Capital budgets which are adopted for the general fund using the accrual basis of accounting. Appropriations lapse at the year-end.

The General Manager is authorized to transfer budgeted amounts between departments and object class; however, any revisions that alter the total expenditures of Valley Transit, or affect the number of authorized employee positions, salary ranges, employee benefits or other conditions of employment must be approved by the Board of Directors.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All budget amounts presented are the final authorized amounts as revised during the year.

E. 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, 2014, the Walla Walla County Treasurer was holding $13,155 of cash from maturing short term investments, $2,450,000 in short term investments maturing within ninety days, and $5,173,000 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.

		2014
Petty Cash		$3,000
Advanced Travel		3,000
Fuel Risk Management		36
Fare Revenue Transfer		22,008
Accounts Payable		188,983
Payroll		126,210
Total Revolving Funds	$	343,237
Deposits Held By WW Co. Treasurer	$	7,636,155
Total Cash and Cash Equivalents	**$**	**7,979,392**

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014 Valley Transit had no deferred outflows/inflows.

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).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014, Valley

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Transit held certificates of deposit totaling $7,623,000 of which $2,450,000 was considered cash equivalents and $5,173,000 was considered investments having a maturity greater than 90 days.

INVESTMENTS

As of December 31, 2014, Valley Transit held certificates of deposit totaling $5,173,000 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	$5,173,000	$5,173,000

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 2014. 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.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION (continued)

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 2014, 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. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Asset	Years
Vehicles	5 - 12
Buildings and Structures	10 - 40
Equipment and Furnishings	2 - 20
Land Improvements	5 - 15

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

	December 31, 2013	Add Increases	Less Decreases	December 31, 2014
Capital assets, not being depreciated:				
Land	$262,848	$0	$0	$262,848
Construction / Work in Progress	$75,800	$26,098	$0	$101,898
Total capital assets, not being depreciated	$338,648	$26,098	$0	$364,746
Capital assets, being depreciated:				
Buildings and structures	$2,774,887	$0	$1,814	$2,773,073
Machinery and equipment	$8,527,215	$0	$0	$8,527,215
Total capital assets, being depreciated	$11,302,102	$0	$1,814	$11,300,288
Less accumulated depreciation for:				
Buildings and structures	($1,902,888)	($87,990)	($0)	($1,990,878)
Machinery and equipment	($5,719,933)	($579,579)	($6,407)	($6,293,105)
Total accumulated depreciation	($7,622,821)	($667,569)	($6,407)	($8,283,983)
Total capital assets, being depreciated (net)	$3,679,281	($667,569)	($4,593)	$3,016,305

C. Impaired Capital Assets — None.

D. Collections Not Capitalized — None.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION (continued)

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.

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

Plan Description

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

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

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

NOTE 5 - PENSION PLANS (continued)

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.

NOTE 5 - PENSION PLANS (continued)

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.

NOTE 5 - PENSION PLANS (continued)

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.

NOTE 5 PENSION PLANS (continued)

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

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

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

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

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	**368,272**

Funding Policy
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS

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

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

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

NOTE 5 PENSION PLANS (continued)

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, 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
2014	$14,371	$166,674	$22,047
2013	$14,184	$137,554	$41,983
2012	$11,625	$117,396	$33,503

NOTE 6 - RISK MANAGEMENT

Valley Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To address these risks Valley Transit retains membership in the Washington State Transit Insurance Pool (WSTIP).

Chapter 48.62 RCW authorizes the governing body of any one or more governmental 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 Inter-local Cooperation Act. The Pool was formed on January 1, 1989 when eight transits in the state of Washington joined together by signing an Inter-local Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Sixteen (16) other transits have joined the Pool since then. The Pool allows members programs of joint self-insurance; joint purchasing of insurance and joint contracting for hiring of personnel to provide risk management, claims handling and administrative services. The coverage provided by the pool are property and liability insurance protecting the member systems assets and personal property and from claims arising from the negligent or other tortuous conduct of the member Transit System, their officers, employees, or agents.

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. For the fiscal year ended December 31, 2014, Valley Transit's claim settlements did not exceed insurance coverage.

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 year ended December 31, 2014.

NOTE 8 – LONG-TERM DEBT

Valley Transit had no long-term debt or leases during the year ended December 31, 2014.

NOTE 9 – RESTRICTED COMPONENTS OF NET POSITION

As of December 31, 2014 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 year 2014.

NOTE 12 – JOINT VENTURES

Valley Transit was not involved in, or committed to, any joint ventures in fiscal year 2014

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

NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT (continued)

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 year 2014, Valley Transit provided no termination benefits.

NOTE 15 – POLLUTION REMEDIATION OBLIGATIONS

During fiscal year 2014, Valley Transit had no pollution remediation obligations.

NOTE 16 – DERIVATIVE INSTRUMENTS

Valley Transit was not involved in or committed to, any derivative instruments during fiscal year 2014.

NOTE 17 – SERVICE CONCESSION ARRANGEMENTS

Valley Transit was not involved in or committed to, any service concession arrangements during fiscal year 2014.

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, 2014 was $802,311. 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, 2014 amounted to $63,852.

D. Related Party Transactions – None

E. Extraordinary and/or Special Items – None

F. Subsequent Events – None

G. Pledges and Sales of Future Revenues – None

NOTE 18 - OTHER DISCLOSURES

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.

Contact information for the State Auditor's Office	
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