

VALLEY TRANSIT

An Enterprise Fund of the
City of Appleton, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2012 and 2011

VALLEY TRANSIT

An Enterprise Fund of the City of Appleton, Wisconsin

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Common Council
Valley Transit
Appleton, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Transit (Transit), an enterprise fund of the City of Appleton, Wisconsin, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditors' 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 auditors' 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 over financial reporting 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 Transit as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

To the Honorable Mayor and Common Council
Valley Transit

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Transit enterprise fund and are not intended to present fairly the financial position of the City of Appleton, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Transit adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

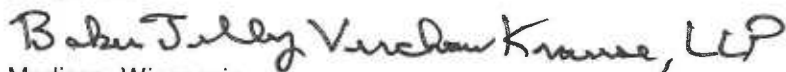
Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Management has elected to include more information in the Management's Discussion and Analysis than is required by the standards. 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The Detailed Schedule of Revenues and Expenses – Regulatory Basis, Statement of Revenues and Expenses – Budget and Actual, Reconciliation of Revenues and Expenses to WisDOT and Federal Recognized Revenues and Expenses, and the Computation of the Deficit Distribution Among the Subsidy Grantors are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Detailed Schedule of Revenues and Expenses – Regulatory Basis, Statement of Revenues and Expenses – Budget and Actual, Reconciliation of Revenues and Expenses to WisDOT and Federal Recognized Revenues and Expenses, and the Computation of the Deficit Distribution Among the Subsidy Grantors are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the City of Appleton'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, including those systems applicable to the Transit. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Transit's internal control over financial reporting and compliance.



Madison, Wisconsin
May 29, 2013

Valley Transit

Management's Discussion and Analysis

The management of Valley Transit offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2011 and 2012.

Basic Financial Statements

Valley Transit is owned and operated by the City of Appleton, with our basic financial statements prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. These are followed by the notes to the financial statements. In addition to the basic financial statements, this report also contains required supplementary information.

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

The Statement of Revenue, Expenses and Changes in Net Position reports the operating revenues and expenses and non-operating revenues and expenses of Valley Transit for the fiscal year, with the difference – the net income or loss – being combined with any capital grants to determine the net change in position for the fiscal year. That change combined with the net position at the end of the previous year equals the net position at the end of the current fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance equals the cash and cash equivalent balance at the end of the current fiscal year.

An analysis of Valley Transit's financial position begins with a review of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position. These two statements report Valley Transit's net position and changes to it. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth and new regulations.

Net position may serve over time as a useful indicator of the government's financial position. In the case of Valley Transit, assets exceeded liabilities by \$6,362,048 as of December 31, 2012; compared to \$6,568,137 in 2011. The largest portion of Valley Transit's net position is investments in capital assets (i.e. land, building, equipment and improvements). These assets are used to provide

transportation services to customers. The Federal Transit Administration provided 80% of the funding to purchase Valley Transit's capital assets and therefore, has significant interest in their use.

Statement of Valley Transit's Net Position

	2012	2011	2010	2009	2008
Assets					
Current Assets	\$2,488,472	\$2,159,533	\$1,938,905	\$2,137,842	\$2,072,302
Capital Assets	5,215,657	5,533,803	5,477,133	5,340,097	5,600,485
Other Assets	<u>1,121,968</u>	<u>990,969</u>	<u>845,894</u>	<u>709,949</u>	<u>628,960</u>
Total Assets	8,826,097	8,684,305	8,261,932	8,187,888	8,301,747
Liabilities					
Current Liabilities	2,306,593	1,889,494	1,560,190	1,713,165	1,644,686
Non-current Liabilities	<u>157,456</u>	<u>226,674</u>	<u>324,060</u>	<u>334,241</u>	<u>336,496</u>
Total Liabilities	2,464,049	2,116,168	1,884,250	2,047,406	1,981,182
Net Position					
Invested in capital assets	5,215,657	5,533,803	5,477,133	5,340,097	5,600,485
Restricted	1,121,968	990,969	845,894	709,949	628,960
Unrestricted	<u>24,423</u>	<u>43,365</u>	<u>54,655</u>	<u>90,436</u>	<u>91,120</u>
Total Net Position	6,362,048	6,568,137	6,377,682	6,140,482	6,320,565

Current Liabilities have increased from 2011 because the third quarter local partner reimbursement of State and Federal operating support was delayed until after year end due to staff absence. The higher level of Current Assets is elevated cash balances for the reimbursements pending.

Non-current Liabilities are an accrual for payouts of accumulated sick leave on behalf of employees upon retirement. The reduction is due to retirements that occurred in 2012.

The decline in Capital Assets and the decrease in total Net Position during 2012 reflects a lower than average year of capital asset additions. Depreciation expense of approximately \$616,000 was recorded as compared to asset acquisitions of approximately \$298,000. Valley Transit was awarded a capital grant of \$276,000 in 2011 but notification was received too late in the year to begin any of the projects funded by the grant. Several smaller projects were completed in 2012, but the majority of expenditures on the larger projects will not occur until 2013 due to project bidding and contractor qualification requirements.

The following table provides a summary of Valley Transit's operations for the years ending December 31, 2008 - 2012.

Statement of Revenues, Expenses and Changes in Net Position

	2012	2011	2010	2009	2008
Operating Revenues					
Passenger fares for transit service	\$1,410,215	\$1,435,751	\$1,322,057	\$1,378,650	\$1,192,126
Special fare assistance	545	639	2,774	12,124	15,248
Non-transportation revenue	<u>74,757</u>	<u>81,219</u>	<u>58,909</u>	<u>61,814</u>	<u>102,813</u>
Total Operating Revenues	<u>1,485,517</u>	<u>1,517,609</u>	<u>1,383,740</u>	<u>1,452,588</u>	<u>1,310,187</u>
Operating Expenses					
Salaries and wages	2,198,590	2,193,681	2,235,027	2,115,650	2,055,613
Fringe benefits	1,252,792	1,321,894	1,454,733	1,406,598	1,468,039
Services	220,147	188,649	222,368	201,453	232,368
Materials and Supplies	867,131	800,097	623,858	492,107	794,756
Utilities	85,422	91,133	84,673	100,965	101,888
Casualty and Liability costs	130,233	190,285	179,927	154,484	130,708
Purchased transportation services	2,791,597	2,869,324	2,820,515	2,779,032	2,804,789
Miscellaneous	45,258	53,641	53,422	60,505	57,970
Depreciation	<u>616,297</u>	<u>571,706</u>	<u>539,325</u>	<u>534,269</u>	<u>507,946</u>
Total Operating Expenses	<u>8,207,467</u>	<u>8,280,410</u>	<u>8,213,848</u>	<u>7,845,063</u>	<u>8,154,077</u>
Operating Loss	<u>(6,721,950)</u>	<u>(6,762,801)</u>	<u>(6,830,108)</u>	<u>(6,392,475)</u>	<u>(6,843,890)</u>
Operating Subsidies					
Local	1,164,332	1,124,915	1,180,467	1,044,355	1,260,842
Investment Income <small>(credited as local subsidies)</small>	26,455	123,432	36,011	13,387	165,573
State	2,169,356	2,322,036	1,936,798	1,612,854	2,001,653
Federal	<u>2,455,837</u>	<u>2,336,554</u>	<u>2,739,622</u>	<u>2,841,965</u>	<u>2,244,027</u>
Total Subsidies	<u>5,815,980</u>	<u>5,906,937</u>	<u>5,892,898</u>	<u>5,512,561</u>	<u>5,672,095</u>
Loss Before Contributions & Transfers	(905,970)	(855,864)	(937,210)	(879,914)	(1,171,795)
Capital Contributions - Federal & State	268,163	605,512	633,385	246,136	7,711
Capital Contributions - Local	-	-	2,358	45,709	141,319
Loss on Asset Disposal	625	(712)	-	-	-
Transfers - Appleton Operating Subsidies	431,093	441,519	538,667	345,255	603,616
Transfers - Appleton Capital Subsidies	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,731</u>	<u>60,233</u>
Change in Net Position	<u>(206,089)</u>	<u>190,455</u>	<u>237,200</u>	<u>(180,083)</u>	<u>(358,916)</u>
Net Position - Beginning of Year	<u>6,568,137</u>	<u>6,377,682</u>	<u>6,140,482</u>	<u>6,320,565</u>	<u>6,679,481</u>
Net Position - End of Year	<u>6,362,048</u>	<u>6,568,137</u>	<u>6,377,682</u>	<u>6,140,482</u>	<u>6,320,565</u>

Valley Transit's ridership increased in both 2012 and 2011, as the economy continued to rebound and Valley Transit's customers returned to work and use of the fixed route system. In 2011 this can be seen in the higher operating revenues. In 2012, even though ridership continued to increase (2%), operating revenue was down slightly (\$32,091) when compared to 2011. This can be attributed to a greater use of pre-paid fares and passes, which incorporate a discount from single ride cash fares.

During 2012 Valley Transit saw a small decline in operating expense primarily due to both lower Casualty and Liability cost and lower personnel cost. The reduction in Casualty and Liability cost reflects a return of prior years' surplus based on a comprehensive review of reserves available for future obligations (\$131,532). This was partially offset by a one-time charge (approximately \$64,000) assessed from the City's Risk Management Internal Services Fund to all units that it provides workers compensation coverage to, in order to assist the fund in complying with established balance reserve policies. The Risk Management fund had fallen out of compliance with its reserve policy which was mainly due to overall unfavorable claims history over the past five years.

Valley Transit's decline in personnel expense in both 2012 and 2011 was mostly due to retirements of long term employees and, during 2011, because of a change in benefits requiring employees to pay a portion of their contribution to the Wisconsin Retirement System.

In 2010, operating expenses were up from 2009 by \$368,785 (4.7%). This was due to rising fuel costs at the end of 2010, which affected both the Material and Supplies line item and the Purchased Transportation services. Most of Valley Transit's paratransit providers have a fuel clause in their contracts that increases the cost of the service when there is a significant increase in the cost of fuel. Valley Transit also saw an increase in Casualty and Liability costs due to market trends. During 2009 and 2010, Valley Transit finished work on various capital projects, which included lighting, HVAC and replacement of insulation in the roof of the Transit Center.

Even though ridership decreased during 2009, operating revenues increased \$142,401 (10.9%) from 2008 to 2009 because of a fare increase that went into effect January 1, 2009. The economic downturn during 2009 had a direct effect on non-operating revenue; bus advertising sales decreased \$40,999. During 2010, Valley Transit continued to see a slight decrease in operating revenues due to a continuation of the troubled economy. Bus advertising sales continued to decrease as advertisers continued to cut their costs by not advertising as often. As the economy in the Fox Cities continued to struggle, passengers moved to purchasing more economical and convenient special fare tickets and passes in lieu of paying full cash fare which has kept the operating revenues on the decline.

Capital Assets

Valley Transit's capital assets are 80% funded by Federal Transit Administration grants. The remaining 20% is funded either through Valley Transit's depreciation reserve for replacement equipment or from current year local tax levy dollars for first time purchases.

As previously stated, Valley Transit was awarded a capital grant in 2011 but was unable to begin any of the projects until 2012 with completion planned for 2013. Small projects completed in 2012 included purchasing two staff vehicles, two bus shelters and capital maintenance items (\$124,578 reimbursed at 80%). In 2012, Valley Transit also continued to work on projects associated with the

ARRA grant; purchasing and installing new bus stop signs and largely completing installation of an Intelligent Transit System for the fixed route buses (\$211,192 reimbursed at 100%).

During 2011, Valley Transit also worked on projects associated with the ARRA grant; purchasing two twenty-passenger hybrid buses, in addition to beginning installation of the Intelligent Transit System for the fixed route buses.

During 2010, Valley Transit purchased registering fareboxes (\$504,205 reimbursed at 100%) with ARRA funds and used capital money to complete upgrades to the HVAC, lighting and buildings; also resulting in an increase in restricted and net capital assets. Valley Transit received a planning grant in 2010 from the Wisconsin Department of Transportation for an operational analysis; the analysis was completed by the end of the year (total cost of \$62,402, reimbursed at 80%).

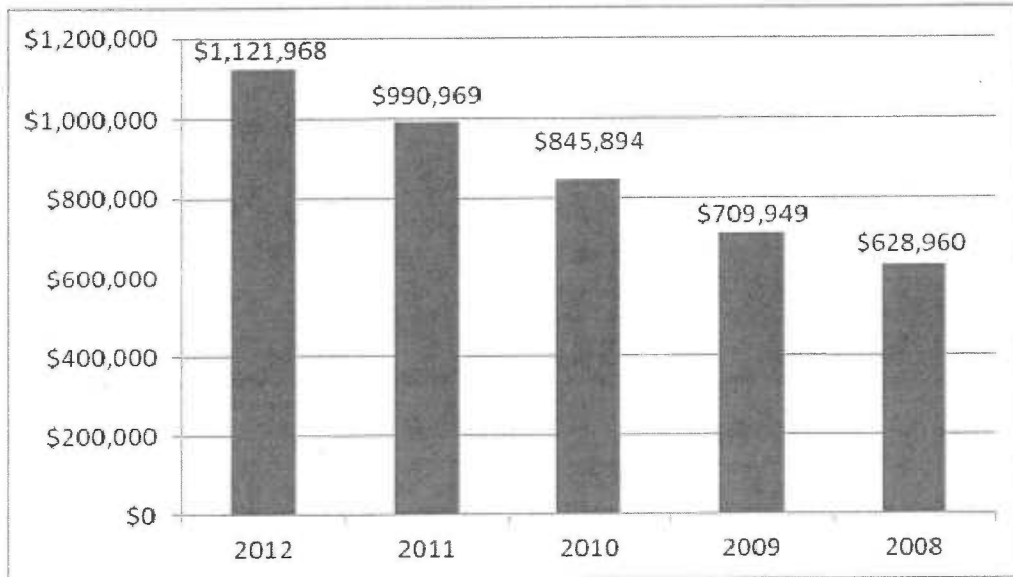
In 2009, Valley Transit had six active capital grants under which \$317,077 in purchases were made. Of these purchases, \$204,720 was applied to five old capital grants and reimbursed at 80% (\$163,776). The first project in the newly awarded ARRA grant was completed in 2009; roof replacement on the Valley Transit Administration/Maintenance building (\$112,357 reimbursed 100%).

The expenditures of the five capital grants included replacement of fleet asset management software, upgrading the ADA paratransit scheduling database, replacement of HVAC at Valley Transit's Administration/Maintenance facility, replacement of the lighting at both the Administration/Maintenance building and Transit Center, purchasing new tables and chairs for the Transit Center, ADA accessibility renovation at the Transit Center, replacement of the insulation in the roof at the Transit Center, and replacement of vehicle spare parts. These grants were all completed and closed out.

Funded Depreciation Reserve – Restricted Assets

Restricted Net Position represents a funded reserve used to pay for asset replacements that are not paid for by capital grants; typically 20% of the asset value. This reserve is funded by a charge equal to 20% of annual depreciation expense levied on the system's fixed route local partners. In 2011, because the hybrid buses and AVL purchases were 100% funded by a grant through the American Recovery and Reinvestment Act (ARRA), there was no reduction to the depreciation reserve account to offset the increase from the charge to local partners.

The balance of this account over the past five years is as follows:



While capital assets are 80% funded by Federal Transit grants, and Valley Transit has purchased capital items over the last five years using the depreciation reserve for the remaining 20%, we have not made significant purchases so the balance in this fund is appropriately increasing.

Requests for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of Valley Transit’s finances. If you have questions about this report or need any additional information contact the City of Appleton, Valley Transit Attn: Deborah S. Wetter, General Manager at 1.920.832.2291 or Deborah.Wetter@appleton.org.

Valley Transit Statistics and Accomplishments

The following section provides detailed information about a variety of topics relating to Valley Transit operations in 2012 including: funding partners, services provided, operating statistics and a list of accomplishments.



Valley Transit

Connecting the Fox Cities

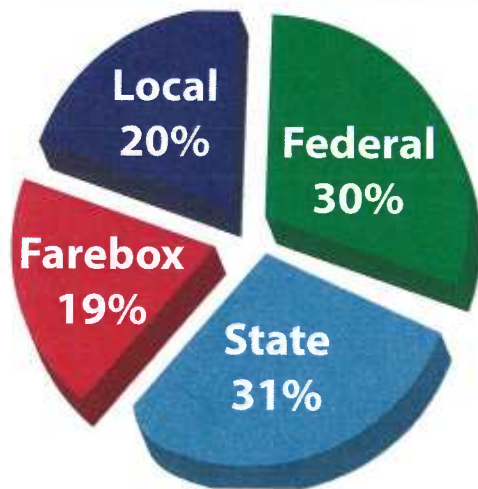
Snap Shot of Transportation

- 1,273,311 ridership in 2012 on all services
- Fixed route ridership 1,095,650 - up 2% in 2012
- 117 square mile service area
- 216,154 urbanized population
- 18 fixed routes
- 3 tripper routes
- 1 Call-A-Ride Zone
- 22 buses in primary fleet
- 7 buses in secondary fleet
- 1 central transfer facility
- 1 administrative building and garage

Services Provided

- Fixed Route Bus Service
- Valley Transit II ADA Paratransit
- Appleton Downtown Trolley
- Calumet County Rural Transportation
- Call-A-Ride
- The Connector
- New Hope Transportation
- Northern Winnebago County Dial-A-Ride
- Outagamie County Employment
- Outagamie County Rural

Funding



Expense Summary by Program:

	2012	2011
Administration*	\$583,236	\$647,387
Operations	3,355,899	3,432,482
Vehicle Maintenance	533,967	521,099
Facility Maintenance	110,897	107,144
ADA Paratransit	1,628,381	1,612,891
Ancillary Contracts (Other Paratransit)	1,378,790	1,387,701
TOTALS	\$7,591,170	\$7,708,704

*Excludes depreciation

13 Municipalities as Local Funding Partners

City of Appleton, City of Kaukauna, City of Menasha, City of Neenah, Town of Buchanan, Town of Grand Chute, Town of Harrison, Town of Menasha, Village of Kimberly, Village of Little Chute, Calumet County, Outagamie County, Winnebago County

Other Local Funding Partners

Appleton Area School District, Appleton Downtown, Inc., Community Care, IRIS, Lakeland Care District, Menasha Corp., Thrivent Financial for Lutherans, United Way Fox Cities



Valley Transit boosts economic growth

More than 40% of the trips taken with Valley Transit's services in 2012 were for jobs or job training and many employers in the Fox Cities rely on transit to attract and retain employees.

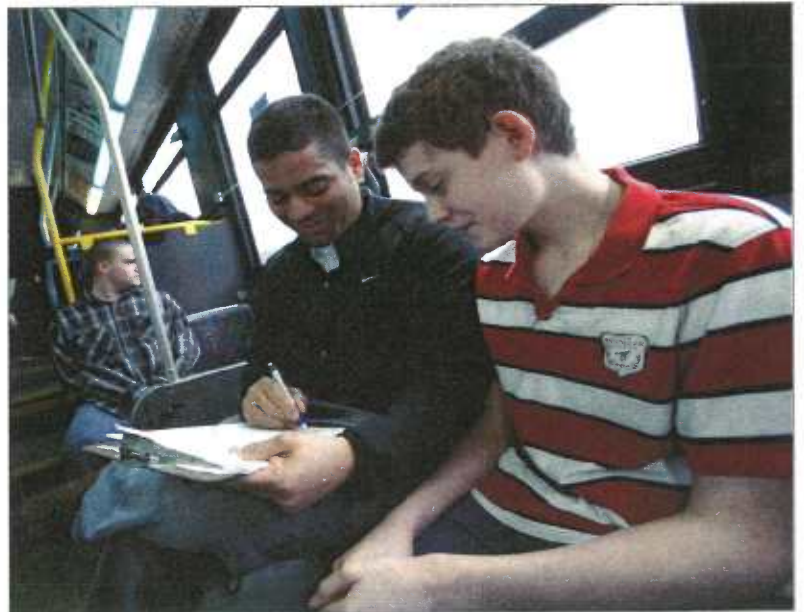
93% of trips taken with The Connector in 2012 were for employment purposes and the service has allowed employees to access jobs outside of Valley Transit's regular hours and service area.

Valley Transit plays a role in economic development

Valley Transit connects students to education

Since January 2010 in partnership with the Appleton Area School District (AASD), all AASD public and parochial middle school and high school students have been allowed to ride Valley Transit by showing their student ID card. The rides are valid on all regular Valley Transit bus routes anytime and anywhere the buses operated on weekdays and on Saturdays. The rides are paid for by AASD.

In addition to helping ease the financial burden and stress on families to get their kids to and from school, after-school programs, tutoring and other activities, the program has created additional community support for public transportation in the Fox Cities. By giving youth a positive transit experience early in life, they are more likely to be transit users later in life and will gain an appreciation for the role public transportation plays in our community and the environment.



***More than 203,000 rides taken by AASD students in 2012.
A 13% increase over 2011.***



Valley Transit keeps the community moving

Public transit helps to retain jobs, provide access to healthcare and education, and support a high quality of life. Transit is a public good that benefits riders and non-riders alike.

When people are working they build self-esteem and the financial resources to care for their family. When they are working they have less need, or no need at all, to use social services we all pay for. When people are working they contribute to the economic development so important for our communities to get and stay healthy.

Key Accomplishments



New bus stop signs funded by ARRA.

- Implemented Route 9 - The Link to provide service to 70 transit dependent seniors who were displaced from a senior housing complex across the street from our Transit Center to a location that has no transit service. Also secured most of the local share of the service through state senior/disabled transportation money.
- Valley Transit took over fuel purchasing for the vehicles used for our Valley Transit II paratransit and Connector services. Savings are estimated to be \$12,000 per year.
- Replaced two fully depreciated 17- and 19-year old staff vehicles with two hybrid Ford Fusions.
- Partnered with several downtown businesses and City of Appleton departments to hire a "neighborhood monitor" to monitor nuisance issues happening in and around the Downtown Transit Center, Public Library and surrounding parking ramps.
- Continued to work on Regional Transit Authority legislation in state to allow another local funding source for Valley Transit.
- Worked closely with U.S. Representatives Reid Ribble and Tom Petri to secure federal legislation that allowed Valley Transit to continue to receive federal operating support.
- Installed the Intelligent Transit System that provides enhanced communications with our passengers, reduce radio traffic between dispatchers and drivers, and provide reliable on-time performance data.
- Installed more than 1,000 new bus stop signs that provide better information to the public including routes serving each stop.
- Created a Paratransit Coordinator position that will be responsible for the oversight of paratransit operations which accounts for 40% of the budget.

Wisconsin DOT Management Performance Audit: Valley Transit is a cost-effective and efficient system

The Wisconsin Department of Transportation is required to conduct a management performance audit of all urban transit systems receiving state aid at least once every five years. The latest audit was done in 2012 and found that "Valley Transit operates an efficient transit system that is near the norm for most performance indicators. The management of the system is effective and has established many good practices for a variety of management issues."

Valley Transit was found to be BETTER THAN AVERAGE compared to their National and Wisconsin peers in:

- Cost Effectiveness
- Service Efficiency
- Passenger Revenue Miles and Effectiveness (measures amount each passenger is paying to use the service and the level of operating expenses that are recovered through passenger fare payment)

The report made seven recommendations for additional improvements to the system which Valley Transit is working to implement.

U.S. Representatives Reid Ribble and Tom Petri Keep Valley Transit Moving

In 2011, Rep. Ribble and Rep. Petri pledged their support for finding a way to allow Valley Transit and Green Bay Metro to continue receiving federal operating support in spite of both communities going over 200,000 in population. Thanks to their hard work and dedication and that of the 100 Bus Coalition, MAP-21 was passed in 2012 and allows Valley Transit and other small systems operating fewer than 75 peak hour buses to use 75% of the federal funds for operations. Without their efforts it is unlikely that the language to allow us to continue to receive federal funding for operations would have been included in the bill. And without the federal transit operating funds, we would have faced the very real threat of having to shut down more than half of our transit system at a time when more and more people are using transit to access jobs, medical care and educational opportunities.

VALLEY TRANSIT

STATEMENTS OF NET POSITION As of December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and investments	1,095,338	863,361
Accounts Receivable		
State of Wisconsin operating assistance	581,581	391,675
Federal capital and operating grants	373,067	449,060
Local governments	51,424	36,953
Other	182,464	228,188
Inventory	193,529	179,754
Prepaid expenses	11,069	10,542
Total Current Assets	<u>2,488,472</u>	<u>2,159,533</u>
NONCURRENT ASSETS		
Restricted Assets		
Capital asset cash and investments	1,121,968	990,969
Capital Assets		
Plant in service	14,155,876	13,848,939
Accumulated depreciation	(8,955,102)	(8,578,338)
Construction in progress	14,883	263,202
Total Noncurrent Assets	<u>6,337,625</u>	<u>6,524,772</u>
 Total Assets	 <u>8,826,097</u>	 <u>8,684,305</u>

LIABILITIES		
	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts Payable		
Trade	\$ 268,568	\$ 393,986
Local governments	1,484,729	981,225
Unearned revenues	281,774	235,198
Accrued payroll liabilities		
Wages	107,760	101,171
Accrued vacation	<u>163,762</u>	<u>177,914</u>
Total Current Liabilities	<u>2,306,593</u>	<u>1,889,494</u>
NON-CURRENT LIABILITIES		
Accrued sick leave	<u>157,456</u>	<u>226,674</u>
Total Liabilities	<u>2,464,049</u>	<u>2,116,168</u>
NET POSITION		
NET POSITION		
Invested in capital assets	5,215,657	5,533,803
Restricted for capital replacement	1,121,968	990,969
Unrestricted	<u>24,423</u>	<u>43,365</u>
TOTAL NET POSITION	<u>\$ 6,362,048</u>	<u>\$ 6,568,137</u>

See accompanying notes to financial statements.

VALLEY TRANSIT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Passenger fares for transit service	\$ 1,410,215	\$ 1,435,751
Special fare assistance	545	639
Non-Transportation Revenue		
Advertising	51,744	44,817
Other	141	89
Contra - expenses	22,872	36,313
Total Operating Revenues	1,485,517	1,517,609
OPERATING EXPENSES		
Labor		
Operators' wages	1,564,661	1,535,189
Other salaries and wages	633,929	658,492
Fringe benefits	1,252,792	1,321,894
Services	220,147	188,649
Materials and Supplies		
Fuels and lubricants	670,782	598,916
Tires and tubes	51,602	37,761
Other	144,747	163,420
Utilities	85,422	91,133
Casualty and liability costs	130,233	190,285
Purchased transportation services	2,791,597	2,869,324
Miscellaneous	45,258	53,641
Depreciation	616,297	571,706
Total Operating Expenses	8,207,467	8,280,410
Operating Loss	(6,721,950)	(6,762,801)
OPERATING SUBSIDIES		
Local	1,164,332	1,124,915
Investment income credited as local subsidies	26,455	123,432
State	2,169,356	2,322,036
Federal	2,455,837	2,336,554
Total Subsidies	5,815,980	5,906,937
Loss Before Contributions and Transfers	(905,970)	(855,864)
CAPITAL CONTRIBUTIONS-FEDERAL & STATE	268,163	605,512
GAIN (LOSS) ON ASSET DISPOSAL	625	(712)
TRANSFERS-CITY OPERATING SUBSIDY	431,093	441,519
CHANGE IN NET POSITION	(206,089)	190,455
NET POSITION - Beginning of Year	6,568,137	6,377,682
NET POSITION - END OF YEAR	\$ 6,362,048	\$ 6,568,137

See accompanying notes to financial statements.

VALLEY TRANSIT

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,577,817	\$ 1,401,865
Paid to suppliers for goods and services	(5,286,396)	(5,279,451)
Paid to employees for services	<u>(2,374,226)</u>	<u>(2,469,064)</u>
Cash Flows from Operating Activities	<u>(6,082,805)</u>	<u>(6,346,650)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies received - federal	2,322,212	2,775,882
Operating subsidies received - state	1,968,824	2,199,509
Operating subsidies received - local	<u>2,084,458</u>	<u>1,734,047</u>
Cash Flows from Noncapital Financing Activities	<u>6,375,494</u>	<u>6,709,438</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>26,455</u>	<u>123,432</u>
Cash Flows from Investing Activities	<u>26,455</u>	<u>123,432</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(444,575)	(467,156)
Contributed capital - local	-	-
Contributed capital - federal	<u>488,407</u>	<u>507,509</u>
Cash Flows from Capital and Related Financing Activities	<u>43,832</u>	<u>40,353</u>
Net Change in Cash and Cash Equivalents	362,976	526,573
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>1,854,330</u>	<u>1,327,757</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,217,306</u>	<u>\$ 1,854,330</u>
NONCASH CAPITAL AND FINANCING ACTIVITIES		
Capital Grants Accrued	<u>\$ (7,863)</u>	<u>\$ (228,107)</u>

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (6,721,950)	\$ (6,762,801)
Noncash items included in operating loss		
Depreciation	616,297	571,706
Changes in assets and liabilities		
Accounts receivable - other	45,724	(115,744)
Inventory	(13,775)	(18,207)
Prepaid expenses	(527)	(696)
Accounts payable - trade	21,631	1,328
Unearned revenues	46,576	96,417
Accrued payroll liabilities	(76,781)	(118,653)
CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (6,082,805)</u>	<u>\$ (6,346,650)</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS		
Statement of Net Assets Accounts		
Current cash and investments	\$ 1,095,338	\$ 863,361
Restricted capital investments	<u>1,121,968</u>	<u>990,969</u>
CASH AND CASH EQUIVALENTS	<u>\$ 2,217,306</u>	<u>\$ 1,854,330</u>

See accompanying notes to financial statements.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Valley Transit (transit) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by transit are described below:

REPORTING ENTITY

Valley Transit, an enterprise fund of the City of Appleton (city), provides public bus transportation in the city and surrounding communities. The transit is governed by the Transit Commission which consists of city council members, citizen representatives and participating government's representatives.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The transit is presented as an enterprise fund of the city. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The transit made the decision to implement this standard effective January 1, 2012.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION

Deposits and Investments

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Investment of transit funds is restricted by state statutes. Investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, local professional baseball park district, local professional football stadium district, local cultural arts district, the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

The transit is included in the city's investment policy which follows the state statutes for allowable investments.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statements as increases or decreases in investment income. Market values may have changed significantly after year end.

Accounts Receivable

Transit considers receivables from government units to be fully collectible; accordingly, no allowance for doubtful accounts from governmental units is presented.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Inventory

Materials and supplies are generally used for operation and maintenance work, not for resale. They are valued at lower of cost or market utilizing the average cost method and charged to operation and maintenance expense when used.

Restricted Assets – Capital Asset Cash and Investments

Valley Transit collects the local share of capital additions from the contributing municipalities in advance based on depreciation expense. These funds are shown as restricted assets in the financial statements and are to be used for the future purchases of capital items.

Capital Assets

Capital assets are defined by the transit as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Additions to and replacements of transit capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. The cost of renewals and betterments relating to retirement units is added to capital asset accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from capital asset accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation. Any local share of proceeds on sale of property is treated as additional contributed capital from local shares.

The provision for depreciation shown in the financial statements results from the application of straight-line rates to original costs.

A summary of depreciation lives follows:

	<u>Years</u>
Building	25
Vehicles	3–15
Shop Equipment	2–10
Office equipment	3–10
Bus stop signs	10
Shelters and benches	5–10

Capital Associated Maintenance Items

Certain major vehicle repair parts such as tires, transmissions, differentials, etc. as well as certain special studies are eligible for funding under federal capital grants. These items are called “capital associated maintenance items.” In the year these items are purchased, they are recorded as operating expenses and the related capital grants are recorded as federal operating assistance.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Sick Leave and Vacation Policies

All permanent employees are allowed to accumulate up to 960 hours of sick time. Upon retirement, the equivalent value of the accumulated sick leave up to 720 hours shall be paid to the employee. Non-represented employees are also entitled to an additional 240 hours of accumulated sick leave, if available, which can be used to pay for health insurance premiums under the city's group insurance policy.

Employees earn varying amounts of vacation based on years of service. Vacation time is awarded on January 1 based on the prior year's service and is therefore accrued at the end of each year.

REVENUES AND EXPENSES

Revenue Recognition

The transit system distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services. The principal operating revenues of the transit system are charges to customers for services. In addition, as fully described in Note 4, the transit system also receives operating subsidies from state, local and federal governments. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Charges for Services

Valley Transit fares are recorded as revenue continuously through the year. The value of tickets for various paratransit services sold but not used is recorded as a liability. Current fares were made effective January 1, 2009 as approved by the Valley Transit Commission.

Capital Contributions

Transit has received federal, state, local and other grants to pay a portion of the costs of capital assets or capital associated maintenance items. The value of property contributed to the transit is reported as revenues on the statement of revenues, expenses and statement of net position.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*; Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; and Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. Application of these standards may restate portions of these financial statements.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

COMPARATIVE DATA

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

Generally accepted accounting principles require the disclosure of the transit's cash and investment balances and their applicable investment insurance coverage. The transit cash and investments are commingled with the entire city, therefore, individual fund bank balances cannot be determined. Please refer to the citywide statements for further information.

NOTE 3 – CHANGES IN CAPITAL ASSETS

A summary of changes in transit capital assets for 2012 and 2011 follows:

	Balance 1/1/12	Additions	Retirements	Balance 12/31/12
Capital assets, not being depreciated				
Land	\$ 891,831	\$ -	\$ -	\$ 891,831
Capital assets being depreciated				
Building	3,795,555	-	-	3,795,555
Vehicles	8,387,859	500,609	(223,280)	8,665,188
Shop equipment	267,887	-	-	267,887
Office equipment	281,015	4,189	-	285,204
Bus stop signs	22,919	27,724	(16,254)	34,389
Shelters and benches	201,873	13,949	-	215,822
Total Capital Assets Being Depreciated	<u>12,957,108</u>	<u>546,471</u>	<u>(239,534)</u>	<u>13,264,045</u>
Total Capital Assets	<u>13,848,939</u>	<u>546,471</u>	<u>(239,534)</u>	<u>14,155,876</u>
Less: Accumulated depreciation				
Building	(3,152,896)	(113,257)	-	(3,266,153)
Vehicles	(4,718,620)	(479,706)	223,280	(4,975,046)
Shop equipment	(265,963)	(770)	-	(266,733)
Office equipment	(233,023)	(17,411)	-	(250,434)
Bus stop signs	(22,919)	(1,386)	16,254	(8,051)
Shelters and benches	(184,917)	(3,768)	-	(188,685)
Total Accumulated Depreciation	<u>(8,578,338)</u>	<u>(616,298)</u>	<u>239,534</u>	<u>(8,955,102)</u>
Construction in progress	<u>263,202</u>	<u>196,257</u>	<u>(444,576)</u>	<u>14,883</u>
Net Transit System Plant	<u>\$ 5,533,803</u>			<u>\$ 5,215,657</u>

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 3 – CHANGES IN CAPITAL ASSETS (cont.)

	Balance 1/1/11	Additions	Retirements	Balance 12/31/11
Capital assets, not being depreciated				
Land	\$ 891,831	\$ -	\$ -	\$ 891,831
Capital assets being depreciated				
Building	3,789,491	15,686	(9,622)	3,795,555
Vehicles	8,040,715	347,144	-	8,387,859
Shop equipment	273,899	2,309	(8,321)	267,887
Office equipment	280,018	997	-	281,015
Bus stop signs	22,919	-	-	22,919
Shelters and benches	183,033	18,840	-	201,873
Total Capital Assets Being Depreciated	<u>12,590,075</u>	<u>384,976</u>	<u>(17,973)</u>	<u>12,957,108</u>
Total Capital Assets	<u>13,481,906</u>	<u>384,976</u>	<u>(17,973)</u>	<u>13,848,939</u>
Less: Accumulated depreciation				
Building	(3,048,887)	(112,668)	8,659	(3,152,896)
Vehicles	(4,281,995)	(436,625)	-	(4,718,620)
Shop equipment	(273,899)	(385)	8,321	(265,963)
Office equipment	(212,880)	(20,143)	-	(233,023)
Bus stop signs	(22,919)	-	-	(22,919)
Shelters and benches	(183,033)	(1,884)	-	(184,917)
Total Accumulated Depreciation	<u>(8,023,613)</u>	<u>(571,705)</u>	<u>16,980</u>	<u>(8,578,338)</u>
Construction in progress	<u>18,840</u>	<u>263,202</u>	<u>(18,840)</u>	<u>263,202</u>
Net Transit System Plant	<u>\$ 5,477,133</u>			<u>\$ 5,533,803</u>

NOTE 4 – OPERATING SUBSIDIES AND TRANSFERS

The transit receives operating subsidies from the federal, state and local governments. The transit submits an annual request for federal subsidies which are limited by 1) the maximum amount of the grant award, 2) five times the local contribution, and 3) the non-federal share of the audited operating deficit. The transit combined state and federal operating assistance shall not exceed 60% of audited operating expenses.

State operating assistance is received in quarterly payments from the Wisconsin Department of Transportation. A portion of the fourth quarter is withheld pending final audit by the DOT staff.

Local governments contribute their estimated share of operating costs either monthly or quarterly. Funds not needed for immediate operations are invested and the interest earned is credited to the various local governmental units based upon their contributions. The interest, including restricted capital funding, earned for 2012 and 2011 amounted to \$26,455 and \$123,432, respectively. At the end of the year, actual operating costs are allocated between the various local governmental units based on the number of hours of service provided to each. Any excess payments are recorded as payables, or deficiencies as receivables.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 4 – OPERATING SUBSIDIES AND TRANSFERS (cont.)

Operating assistance for 2012 and 2011 was as follows:

	2012	2011
Governmental Unit		
Federal	\$ 2,251,540	\$ 2,163,791
Federal – capital maintenance	42,766	-
State of Wisconsin	2,005,109	2,235,654
State of Wisconsin – paratransit aid	83,482	-
WETAP/JARC – State and Federal	242,296	259,145
Local		
City of Appleton (reported as transfer)	431,093	441,519
City of Appleton share of investment income	26,455	123,432
Town of Buchanan	10,284	12,076
City of Kaukauna	17,696	19,435
Village of Kimberly	12,221	13,426
City of Menasha	30,225	33,687
Town of Menasha	36,638	38,803
Town of Menasha – Elderly	10,314	8,412
City of Neenah	61,842	64,463
Village of Little Chute	12,935	14,160
Town of Grand Chute	99,937	107,951
Town of Harrison	343	289
City of Neenah – Dial-A-Ride	38,072	37,052
Special transportation – Outagamie County	215,921	220,417
Special transportation – Winnebago County	44,696	52,609
Special transportation – Calumet County	7,798	6,298
Calumet County – New Hope	74,865	78,114
Appleton Downtown Inc. – Trolley	12,249	11,276
United Way – Connector	71,085	69,051
IRIS	10,239	8,876
Lakeland	37,794	31,899
Heritage	2,839	2,479
Community Care	294,544	273,190
AASD Tripper	61,795	20,952
	<u>\$ 6,247,073</u>	<u>\$ 6,348,456</u>
Totals		

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 5 – LONG-TERM OBLIGATIONS

LONG-TERM OBLIGATIONS SUMMARY

	1/1/12 Balance	Additions	Reductions	12/31/12 Balance	Due Within One Year
Accrued sick leave	\$ 226,674	\$ 21,667	\$ 90,885	\$ 157,456	\$ -

	1/1/11 Balance	Additions	Reductions	12/31/11 Balance	Due Within One Year
Accrued sick leave	\$ 324,060	\$ 25,583	\$ 122,969	\$ 226,674	\$ -

NOTE 6 – NET POSITION

GASB No. 34 requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of December 31, 2012 and 2011, Valley Transit does not have any outstanding debt.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. As of December 31, 2012 and 2011, Valley Transit has \$1,121,968 and \$990,969 of restricted net position, respectively.

Unrestricted net position – The component of net position consist of net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the transit’s policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEMS

All eligible employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees, initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1,200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEMS (cont.)

Prior to June 29, 2011, covered employees in the General category were required by statute to contribute 6.5% of their salary to the plan. Employers could make these contributions to the plan on behalf of employees. Employers were required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for General category employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement. Prior to 2012, the transit made the employee’s required contribution. Beginning in 2012, the employee was required to make this contribution. Contribution rates for 2012 and 2011 are:

	<u>Employees</u>	<u>Employer</u>
2012 General category	5.9%	5.9%
2011 General category	5.8%	5.8%

Covered payroll listed below is substantially the same as total payroll.

	Year Ended December 31,		
	2012	2011	2010
Total Covered Transit System Payroll	\$ 2,374,226	\$ 2,469,064	\$ 2,572,734
Total Required Contributions	\$ 280,160	\$ 283,645	\$ 283,001
Total Required Contributions (%)	11.8%	11.6%	11.0%

Details of the plan are disclosed in the general purpose financial statements of the City of Appleton for the years ended December 31, 2012 and 2011.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS

The city administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The city’s group health insurance plan provides coverage to active employees and retirees (or other qualified terminated employees) at blended premium rates. This results in an other postemployment benefit for retirees, commonly referred to as an implicit rate subsidy. The retirees pay 100% of the premium amounts under the plan. Specific information concerning the transit’s other postemployment benefits has not been determined. Please refer to the city’s financial statements for information concerning the city’s other postemployment benefits.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

NOTE 9 – RISK MANAGEMENT (COMMERCIAL/SELF INSURANCE)

SELF INSURANCE

Valley Transit participates in the City of Appleton's Insurance Fund (an internal service fund). The city established this fund to account for and finance its common insurance premiums, risk management costs and uninsured risks of loss. All funds of the city participate in the fund and make payments based on historical estimates of the amounts needed to pay prior and current year claims and administration costs. The charge considers recent trends in actual claims experience of the city as a whole and makes provision for losses relating to catastrophes. The city carries a variety of self insured retention (SIR) levels and deductibles. The SIR for each general, automobile, police professional or public officials claim is \$200,000 per occurrence up to \$800,000 in a year and \$300,000 per occurrence for each worker's compensation claim. The deductibles for property damage claims range from \$100 to \$10,000. The city also purchases commercial insurance coverage in excess of the SIR and deductible. In addition, the city retains a balance in the fund for uninsured losses such as environmental/pollution claims and employment practices claims. Settled claims for Valley Transit have not exceeded this commercial coverage in any of the past three years. Valley Transit's share of insurance fund costs was \$141,847 in 2012 and \$69,084 in 2011. The city's Comprehensive Annual Financial Report contains additional information about the insurance fund and the city's risk management policies.

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI)

Transit Mutual Insurance Corporation of Wisconsin (TMI) is a municipal mutual insurance corporation, which insures auto liability and vehicle physical damage for municipally-owned transit systems in Wisconsin. Each insured property is an owner of the mutual insurance corporation. The city insures its transit systems' auto liability and physical damage with TMI and is an owner of the corporation.

In 2012, TMI issued to the city an auto liability insurance policy with a \$250,000 per person policy limit and a \$7,000,000 per accident policy limit. Of the per accident policy limit, TMI insures \$2,000,000 and reinsures \$5,000,000 with Genesis Insurance. In addition, the city's policy provides for \$25,000 per person and \$50,000 per accident in uninsured/underinsured motorist insurance.

The physical damage policy issued by TMI to the city provides collision and comprehensive coverage for the lesser of the agreed value or the cost of repairs minus a \$500 per accident deductible for private passenger and service units and a \$1,000 per accident deductible for bus units.

Management of TMI consists of a board of directors comprised of one representative for each member. The city does not exercise any control over the activities of the corporation beyond its representation on the board of directors.

Premiums are determined in advance of each premium year, which begins on January 1. TMI is an assessable mutual; accordingly, the board of directors may require that supplemental contributions be made by members to ensure adequate funds are available to meet the obligations applicable to the premium year. Members are required by Wisconsin statute and TMI bylaws to fund any deficit attributable to a premium year during which they were a member. TMI was incorporated in 1985 and began issuing insurance policies in 1986; there has never been a member assessment beyond the annual premiums. During 2012, TMI issued a refund of \$131,532 to Valley Transit based on a comprehensive review of reserves available for future obligations.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2012 and 2011

NOTE 9 – RISK MANAGEMENT (COMMERCIAL/SELF INSURANCE) (cont.)

The city's share of this corporation is 4.79% for auto liability and 3.37% of physical damage liability. A list of the other members and their share of participation is available in the TMI report which is available from TMI, 2575 S. Memorial Drive, Suite 105, Appleton, WI 54915-1483 or by email from tmi@new.rr.com.

HEALTH CARE

The city provides health and dental care benefits to employees through a self-funded plan with specific insurance coverage. The plans are administered by United Health Care and Delta Dental. Insurance premiums, based on historical cost, are paid into the general fund from all other city funds and are available to pay claims, administrative costs, and stop loss claims.

The estimated liability for self-funded losses is based on reported claims for the year and those received subsequent to year end.

The city's Comprehensive Annual Financial Report contains additional information about the insurance fund and the city's risk management policies.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

PARATRANSIT SERVICE CONTRACTS

Valley Transit contracts with a number of surrounding cities and counties for demand-responsive paratransit services. Contract terms and conditions vary for each provider.

LONG-TERM CONTRACT – RUNNING, INC.

In 2009, Valley Transit entered into a long-term contract with Running, Inc. effective April 1, 2009 through March 31, 2012. The contract contained two option years and was extended through December 31, 2012 while negotiating the first option year. The first option year agreement will expire December 31, 2013. The contract payments are based on the number of trips provided.

GRANTS

Valley Transit has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

ARRA GRANT

Valley Transit has been awarded \$1,477,900 in American Recovery and Reinvestment Act grant funds through section 5307 for various capital improvements including structure repairs, equipment purchases and the purchase of hybrid paratransit vehicles. As of December 31, 2012, \$1,448,277 had been expended and recognized as revenue under this grant.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011

NOTE 10 – COMMITMENTS AND CONTINGENCIES (cont.)

UNION CONTRACT

The current union contract expired on January 1, 2013. The transit has not been able to come to a new agreement yet.

NOTE 11 – SUBSEQUENT EVENTS

In 2013, the city's self-insurance retention increased from \$300,000/\$350,000 to \$500,000. Also, the city's health insurance maximum per employee increased from \$200,000 to \$250,000.

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

Independent Auditors' Report

To the Honorable Mayor and Common Council
Valley Transit
Appleton, Wisconsin

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 Valley Transit, an enterprise fund of the City of Appleton, Wisconsin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon May 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Transit's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley 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 entity'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 Valley Transit's financial statements are free of material misstatement, we performed tests of its 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 did not identify any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Honorable Mayor and Common Council
Valley Transit

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Vuchan Krause, LLP

Madison, Wisconsin
May 29, 2013

SUPPLEMENTAL INFORMATION

VALLEY TRANSIT

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS For the Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE		
401 - Passenger fares for transit service	\$ 1,410,215	\$ 1,435,751
402 - Special fare assistance	545	639
407 - Non-transportation revenue		
Advertising	51,744	44,817
Other	141	89
Contra-expenses	22,872	36,313
409 - Local operating assistance	1,537,564	1,610,032
409 - Local operating assistance - Donations	84,316	79,834
411 - State operating assistance - current year	2,005,109	2,234,826
411 - State operating assistance - prior years	-	828.00
411 - State operating assistance - paratransit aid	83,482	-
411 - State operating assistance - WETAP/JARC	80,765	86,382
413 - Federal operating assistance	2,251,540	2,163,791
413 - Federal operating assistance - WETAP/JARC	161,531	172,763
413 - Federal operating assistance - capital maintenance	42,766	-
	<u>7,732,590</u>	<u>7,866,065</u>
Total Revenue		
	<u>7,732,590</u>	<u>7,866,065</u>
EXPENSES - BY OBJECT CLASS TOTAL		
501 - Labor		
Operators' wages	1,564,661	1,535,189
Other salaries and wages	633,929	658,492
502 - Fringe benefits	1,252,792	1,321,894
503 - Services	220,147	188,649
504 - Materials and supplies		
Fuels and lubricants	670,782	598,916
Tires and tubes	51,602	37,761
Other	144,747	163,420
505 - Utilities	85,422	91,133
506 - Casualty and liability costs	130,233	190,285
508 - Purchased transportation services	2,791,597	2,869,324
509 - Miscellaneous	45,258	53,641
513 - Depreciation	616,297	571,706
	<u>8,207,467</u>	<u>8,280,410</u>
Total Expenses		
	<u>8,207,467</u>	<u>8,280,410</u>
EXCESS EXPENSES OVER REVENUES FOR THE YEAR *	<u>\$ (474,877)</u>	<u>\$ (414,345)</u>

* Excludes capital contributions shown on Statements of Revenues and Expenses.

VALLEY TRANSIT

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL For the Year Ended December 31, 2012

	Budget*	Actual	Variance- Favorable (Unfavorable)
OPERATING REVENUES			
Passenger fares and special fare assistance	\$ 1,512,198	\$ 1,410,760	\$ (101,438)
Non-transportation revenue	61,000	74,757	13,757
Total Operating Revenues	<u>1,573,198</u>	<u>1,485,517</u>	<u>(87,681)</u>
OPERATING EXPENSES (Excluding Depreciation)			
Labor and Fringe Benefits			
Operators' wages	1,479,947	1,564,661	(84,714)
Other salaries and wages	653,405	633,929	19,476
Fringe benefits	1,452,213	1,252,792	199,421
Total Labor and Fringe Benefits	<u>3,585,565</u>	<u>3,451,382</u>	<u>134,183</u>
Services	<u>166,516</u>	<u>220,147</u>	<u>(53,631)</u>
Materials and Supplies			
Fuels	628,131	652,198	(24,067)
Lubricants	10,000	18,584	(8,584)
Tires and tubes	23,530	51,602	(28,072)
Revenue equipment maintenance	106,500	87,959	18,541
Building and grounds maintenance	-	566	(566)
Other maintenance and supplies	2,500	525	1,975
General office	80,109	55,697	24,412
Total Materials and Supplies	<u>850,770</u>	<u>867,131</u>	<u>(16,361)</u>
Utilities			
Electric	50,925	50,470	455
Gas	34,416	12,309	22,107
Water	8,169	6,082	2,087
Telephone	4,632	7,879	(3,247)
Other	12,970	8,682	4,288
Total Utilities	<u>111,112</u>	<u>85,422</u>	<u>25,690</u>
Casualty and Liability Costs			
Physical damage	25,775	21,326	4,449
Public liability and property	50,683	108,907	(58,224)
Total Casualty and Liability Costs	<u>76,458</u>	<u>130,233</u>	<u>(53,775)</u>

VALLEY TRANSIT

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (cont.) For the Year Ended December 31, 2012

	<u>Budget*</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
OPERATING EXPENSES (Excluding Depreciation) (cont.)			
Purchased Transportation Services	<u>\$ 3,095,828</u>	<u>\$ 2,791,597</u>	<u>\$ 304,231</u>
Miscellaneous			
Dues and subscriptions	5,054	5,662	(608)
Advertising and promotion	37,000	36,619	381
Training/other miscellaneous	<u>6,050</u>	<u>2,977</u>	<u>3,073</u>
Total Miscellaneous	<u>48,104</u>	<u>45,258</u>	<u>2,846</u>
Total Operating Expenses (Excluding Depreciation)	<u>7,934,353</u>	<u>7,591,170</u>	<u>343,183</u>
 EXCESS OF OPERATING EXPENSES (EXCLUDING DEPRECIATION) OVER OPERATING REVENUES FOR THE YEAR	 <u>\$ (6,361,155)</u>	 <u>\$ (6,105,653)</u>	 <u>\$ 255,502</u>

* Budget numbers reflect the city's approved budget excluding current year capital and capital carryover.

VALLEY TRANSIT

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES - REGULATORY BASIS For the Year Ended December 31, 2012

	<u>Per WisDOT Guidelines</u>	<u>Per Federal Guidelines</u>
Total revenues including operating assistance	\$ 7,732,590	\$ 7,732,590
Less: Unrecognized Revenues		
Local operating subsidies	1,621,880	1,621,880
Federal operating subsidy (including \$42,766 capital maintenance)	2,294,306	2,294,306
State operating subsidy	2,005,109	2,005,109
State paratransit aid	83,482	83,482
WETAP/JARC	242,296	242,296
Advertising	-	51,744
Non-transportation revenues	<u>23,013</u>	<u>23,013</u>
Total Unrecognized Revenues	<u>6,270,086</u>	<u>6,321,830</u>
ADJUSTED REVENUES	<u>\$ 1,462,504</u>	<u>\$ 1,410,760</u>
Total expenses per statement of revenues and expenses	\$ 8,207,467	\$ 8,207,467
Less: Unrecognized Expenses		
Depreciation	616,297	616,297
Capital maintenance	53,458	53,458
Connector funded by JARC	323,061	323,061
Contra-expenses	<u>22,872</u>	<u>22,872</u>
Total WisDOT Unrecognized Expenses	<u>1,015,688</u>	<u>1,015,688</u>
RECOGNIZED EXPENSES	<u>\$ 7,191,779</u>	<u>\$ 7,191,779</u>
RECOGNIZED DEFICITS	<u>\$ (5,729,275)</u>	<u>\$ (5,781,019)</u>

VALLEY TRANSIT

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS
For the Year Ended December 31, 2012

FEDERAL SECTION 9 FUNDS

Federally Recognized Deficit		\$ <u>5,781,019</u>
50% of Federal Deficit		\$ <u>2,890,510</u>
Federal Recognized Deficit	5,781,019	
Less: State Share	<u>2,005,109</u>	
Non-State Share		\$ <u>3,775,910</u>
WisDOT Recognized Expenses	7,191,779	
Maximum Federal and State	60.00%	
		4,315,067
Less: State Share		<u>2,005,109</u>
Federal Share		\$ <u>2,309,958</u>
Maximum Federal Share Per Grant Award		\$ <u>2,251,540</u>
FEDERAL SECTION 9 SHARE - LEAST OF THE THREE		<u>\$ 2,251,540</u>

STATE FUNDS

WisDOT Recognized Deficit		\$ <u>5,729,275</u>
WisDOT Contract Amount		\$ <u>2,005,109</u>
WisDOT Recognized Expenses	\$ 7,191,779	
Maximum Federal and State	60.00%	
		4,315,067
Less: Federal Share		<u>2,251,540</u>
Non-Federal Share		\$ <u>2,063,527</u>
City of Appleton and Other Local Subsidies		\$ <u>1,621,880</u>
5 Times Operating Subsidy		\$ <u>8,109,400</u>
STATE SHARE - LEAST OF THE FOUR		<u>\$ 2,005,109</u>

SUMMARY OF 2012 FUNDING

	Received in 2012	Receivable (Payable) 12/31/12	Totals
Federal Section 9 Operating Funds*	\$ 1,816,971	\$ 434,569	\$ 2,251,540
State Funds**	1,804,598	200,511	2,005,109
Local Public Subsidies	<u>3,106,609</u>	<u>(1,484,729)</u>	<u>1,621,880</u>
TOTAL FUNDING	<u>\$ 6,728,178</u>	<u>\$ (849,649)</u>	<u>\$ 5,878,529</u>

* - Revenues exclude JARC/WETAP of \$161,531 and capital funding of \$42,766.
- Receivable excludes capital and capital maintenance grants of \$7,863 and \$69,365 due to US Department of Transportation.

** - Revenues exclude JARC/WETAP of \$80,765 and paratransit funding of \$83,482.
- Receivable excludes prior year operating aid and JARC/WETAP grants of \$314,706 and \$66,363, respectively.