

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, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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 Matter

As discussed in Note 1, the financial statements present only the Transit enterprise fund and do not purport to, and do not present fairly the financial position of the City of Appleton, Wisconsin, as of December 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

Supplementary Information

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 are 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.

To the Honorable Mayor and Common Council
Valley Transit

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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 13, 2014

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, 2012 and 2013.

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 prior 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 \$5,961,921 as of December 31, 2013; compared to \$6,362,048 in 2012. 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

	2013	2012	2011	2010	2009
Assets					
Current Assets	\$1,967,774	\$2,488,472	\$2,159,533	\$1,938,905	\$2,137,842
Capital Assets	4,726,762	5,215,657	5,533,803	5,477,133	5,340,097
Other Assets	<u>1,249,143</u>	<u>1,121,968</u>	<u>990,969</u>	<u>845,894</u>	<u>709,949</u>
Total Assets	7,943,679	8,826,097	8,684,305	8,261,932	8,187,888
Liabilities					
Current Liabilities	1,854,177	2,306,593	1,889,494	1,560,190	1,713,165
Non-current Liabilities	<u>127,581</u>	<u>157,456</u>	<u>226,674</u>	<u>324,060</u>	<u>334,241</u>
Total Liabilities	1,981,758	2,464,049	2,116,168	1,884,250	2,047,406
Net Assets					
Invested in capital assets	4,726,762	5,215,657	5,533,803	5,477,133	5,340,097
Restricted	1,249,143	1,121,968	990,969	845,894	709,949
Unrestricted	<u>(13,984)</u>	<u>24,423</u>	<u>43,365</u>	<u>54,655</u>	<u>90,436</u>
Total Net Assets	5,961,921	6,362,048	6,568,137	6,377,682	6,140,482
Percent restricted	20.95%	17.64%	15.09%	13.26%	11.56%

Both Current Assets and Current Liabilities had increased between 2011 and 2012 because the third quarter local partner reimbursement of State and Federal operating support was delayed until after year end. This resulted in an increase in both the cash balance and current liabilities relative to 2011. In 2013, the third quarter local partner reimbursements were issued prior to the year ending, resulting in a reduction of both accounts. This is also reflected in the Statement of Cash Flows.

Non-current Liabilities are an accrual for payouts of accumulated sick leave on behalf of employees upon retirement. The reduction during 2012 and 2013 is due to several retirements of long term employees.

The decline in Capital Assets and the decrease in total Net Position during 2013 reflects a lower than average year of capital asset additions. Depreciation expense of approximately \$655,000 was recorded as compared to asset acquisitions of approximately \$173,000. 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 small projects were completed in 2012 with the remaining projects completed in 2013.

The following table provides a summary of Valley Transit's operations for the years ending December 31, 2009 - 2013.

Statement of Revenues, Expenses and Changes in Net Position

	2013	2012	2011	2010	2009
Operating Revenues					
Passenger fares for transit service	\$1,472,445	\$1,410,215	\$1,435,751	\$1,322,057	\$1,378,650
Special fare assistance	0	545	639	2,774	12,124
Non-transportation revenue	<u>75,113</u>	<u>74,757</u>	<u>81,218</u>	<u>58,909</u>	<u>61,814</u>
Total Operating Revenues	<u>1,547,558</u>	<u>1,485,517</u>	<u>1,517,608</u>	<u>1,383,740</u>	<u>1,452,588</u>
Operating Expenses					
Salaries and wages	2,282,429	2,198,590	2,193,681	2,235,027	2,115,650
Fringe benefits	1,305,491	1,252,792	1,321,894	1,454,733	1,406,598
Services	271,349	220,147	188,649	222,368	201,453
Materials and Supplies	905,241	789,402	800,097	623,858	492,107
Utilities	101,937	85,422	91,133	84,673	100,965
Casualty and Liability costs	90,011	130,233	190,285	179,927	154,484
Purchased transportation services	3,098,708	2,869,326	2,869,324	2,820,515	2,779,032
Miscellaneous	63,865	45,258	53,641	53,422	60,505
Depreciation	<u>655,108</u>	<u>616,297</u>	<u>571,706</u>	<u>539,325</u>	<u>534,269</u>
Total Operating Expenses	<u>8,774,139</u>	<u>8,207,467</u>	<u>8,280,410</u>	<u>8,213,848</u>	<u>7,845,063</u>
Operating Loss	<u>(7,226,581)</u>	<u>(6,721,950)</u>	<u>(6,762,802)</u>	<u>(6,830,108)</u>	<u>(6,392,475)</u>
Operating Subsidies					
Local	1,348,844	1,164,332	1,124,915	1,180,467	1,044,355
Investment Income <small>(credited as local subsidies)</small>	(2,450)	26,455	123,432	36,011	13,387
State	2,208,486	2,169,356	2,322,036	1,936,798	1,612,854
Federal	<u>2,649,815</u>	<u>2,455,837</u>	<u>2,336,554</u>	<u>2,739,622</u>	<u>2,841,965</u>
Total Subsidies	<u>6,204,695</u>	<u>5,815,980</u>	<u>5,906,937</u>	<u>5,892,898</u>	<u>5,512,561</u>
Loss Before Contributions & Transfers	(1,021,886)	(905,970)	(855,865)	(937,210)	(879,914)
Capital Contributions - Federal & State	126,488	268,163	605,512	633,385	246,136
Capital Contributions - Local	-	-	-	2,358	45,709
Loss on Asset Disposal	-	625	(712)	-	-
Transfers - Appleton Operating Subsidies	495,271	431,093	441,519	538,667	345,255
Transfers - Appleton Capital Subsidies	-	-	-	-	<u>62,731</u>
Change in Net Assets	<u>(400,127)</u>	<u>(206,089)</u>	<u>190,454</u>	<u>237,200</u>	<u>(180,083)</u>
NET Assets - Beginning 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>
NET Assets - End of Year	<u>5,961,921</u>	<u>6,362,048</u>	<u>6,568,137</u>	<u>6,377,682</u>	<u>6,140,482</u>

Valley Transit saw a slight decrease in fixed route ridership during 2013 (-.2%). On the other hand, Valley Transit saw an increase in fixed route operating revenues (2%). This can be attributed to a decrease in the use of the fixed price Appleton Area School District (AASD) pass program, and an increase in the use of cash fares.

During 2013 Valley Transit saw an increase in operating expense primarily due to higher cost of contracted services, fuel and personnel cost. The reduction in Casualty and Liability cost during both 2012 and 2013 reflects a return of prior years' surplus based on a comprehensive review of reserves available for future obligations (\$131,532). In both years, this was partially offset by a charge 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 charges were approximately \$64,000 during 2012 and \$28,000 for 2013. The Risk Management fund had fallen out of compliance with its reserve policy due mainly due to overall unfavorable claims history over the past five years. The extraordinary charges were allocated to all funds based on full time equivalent employees.

Valley Transit's rise in personnel expense in 2013 is due to a negotiated 3% across the board increase for union personnel implemented on December 31, 2012. Fringe Benefits reflect a 1.5% increase in required contributions to the Wisconsin Retirement System, which is assessed on a higher payroll expense due to the negotiated wage increase. That increase is partially offset by a reduction in overall health care benefits expense.

In 2013, operating expenses were up from 2012 by \$566,672 (6.9%). Aside from the increase in personnel costs, this was due to mostly a combination of rising fuel costs and increased contractor fees for paratransit services; which affected both the Material and Supplies line item and the Purchased Transportation services. Several 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 purchases fuel for the ADA paratransit provider in exchange for reduced per ride costs. These fuel purchases are included in the Purchased Transportation Services expense in the Statement of Revenues, Expenses and Changes in Net Position.

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 support from the various local governments that participate in Valley Transit.

As previously stated, during 2013 Valley Transit completed unfinished projects from the 2011 capital grant. Valley Transit remodeled the Administration offices to comply with ADA requirements and purchased a staff vehicle. Both projects cost a total of \$142,750 and was reimbursed at 80% through the capital grant. Valley Transit also completed installation of an Intelligent Transit System funded under an ARRA grant (\$29,620 reimbursed at 100%).

In 2012 capital projects 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 implementing a large portion of the 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 also received a planning grant from the Wisconsin Department of Transportation for an operational analysis (total cost of \$62,402, reimbursed at 80%).

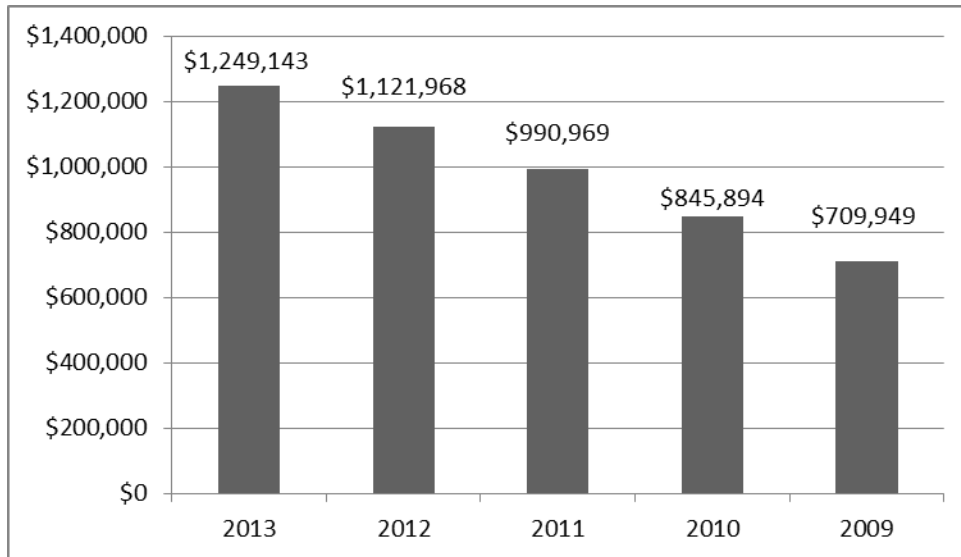
In 2009, Valley Transit had six active capital grants under which \$317,077 in purchases were made. Of these purchases, \$204,720 was applied to five existing capital grants and reimbursed at 80% (\$163,776). The sixth grant, a newly awarded ARRA grant had one project completed in 2009; roof replacement 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. There is no reduction to the depreciation reserve account to offset the increase from the charge to local partners when a purchase is 100% funded by a grant such as the American Recovery and Reinvestment Act (ARRA).

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 2013 including: funding partners, services provided, operating statistics and a list of accomplishments.

VALLEY TRANSIT BY THE NUMBERS 2013

1,274,139 RIDES ON ALL SERVICES

1,093,202 RIDES ON FIXED ROUTE

18

FIXED BUS ROUTES

3

TRIPPER ROUTES

1

CALL-A-RIDE ZONE

216,154 URBANIZED POPULATION

117 SQUARE MILE RADIUS

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
Community Foundation of the Fox Cities
IRIS
Lakeland Care District
Menasha Corp. Thrivent
Financial for Lutherans
United Way Fox Cities



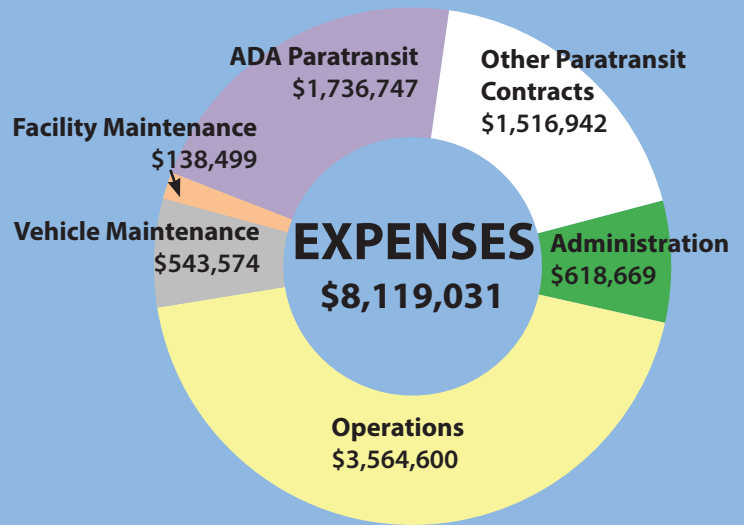
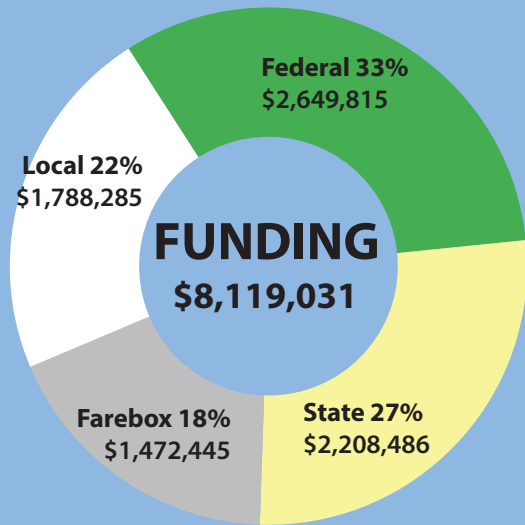
27
BUSES IN FLEET



21
PEAK HOUR BUSES

201,770 RIDES TAKEN BY AASD STUDENTS

54% OF TRIPS TO JOBS OR JOB TRAINING



10 SERVICES PROVIDED

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

KEY ACCOMPLISHMENTS

- Completed ADA remodel of Administrative Office to make main entrance and public restroom ADA accessible.
- Replaced a fully depreciated supervisor vehicle with a Ford Escape.
- Worked with Outagamie County to provide three 1,000# lift capacity vehicles for paratransit services.
- Settled labor contract with 2 two-year contracts which include employees contributing more to pension and health care costs and getting modest pay increases to compensate.
- Awarded grant from WisDOT using federal planning money to develop a strategic plan and conduct a rider survey with local shared coming from the Community Foundation of the Fox Valley Region.
- Implemented SMS/text message program allowing customers to text with their bus stop ID to get real-time bus arrival information.
- Launched myvtbus.com – an e-alert service that allows customers to sign up to receive email alerts on a variety of topics including alerts, detours, promotions and other information.

FOR MORE INFORMATION:
 Deborah Wetter, General Manager
 920-832-2291
 Deborah.Wetter@appleton.org



VALLEY TRANSIT

STATEMENTS OF NET POSITION As of December 31, 2013 and 2012

	ASSETS	
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and investments	\$ -	\$ 1,095,338
Accounts Receivable		
State of Wisconsin operating assistance	779,202	581,581
Federal capital and operating grants	600,154	373,067
Local governments	61,876	51,424
Other	316,345	182,464
Inventory	180,502	193,529
Prepaid expenses	29,695	11,069
Total Current Assets	<u>1,967,774</u>	<u>2,488,472</u>
NONCURRENT ASSETS		
Restricted Assets		
Capital asset cash and investments	1,249,143	1,121,968
Capital Assets		
Plant in service	14,328,952	14,155,876
Accumulated depreciation	(9,602,190)	(8,955,102)
Construction in progress	-	14,883
Total Noncurrent Assets	<u>5,975,905</u>	<u>6,337,625</u>
 Total Assets	 <u>7,943,679</u>	 <u>8,826,097</u>

LIABILITIES

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts Payable		
Trade	\$ 246,335	\$ 268,568
Local governments	897,910	1,484,729
Due to municipality	102,508	-
Unearned revenues	314,442	281,774
Accrued payroll liabilities		
Wages	133,977	107,760
Accrued vacation	159,005	163,762
Total Current Liabilities	<u>1,854,177</u>	<u>2,306,593</u>
NON-CURRENT LIABILITIES		
Accrued sick leave	<u>127,581</u>	<u>157,456</u>
Total Liabilities	<u>1,981,758</u>	<u>2,464,049</u>
	NET POSITION	
NET POSITION		
Invested in capital assets	4,726,762	5,215,657
Restricted for capital replacement	1,249,143	1,121,968
Unrestricted	<u>(13,984)</u>	<u>24,423</u>
TOTAL NET POSITION	<u>\$ 5,961,921</u>	<u>\$ 6,362,048</u>

See accompanying notes to financial statements.

VALLEY TRANSIT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Passenger fares for transit service	\$ 1,472,445	\$ 1,410,215
Special fare assistance	-	545
Non-Transportation Revenue		
Advertising	52,699	51,744
Other	2,368	1,081
Contra - expenses	20,046	21,932
Total Operating Revenues	1,547,558	1,485,517
OPERATING EXPENSES		
Labor		
Operators' wages	1,683,990	1,564,661
Other salaries and wages	598,439	633,929
Fringe benefits	1,305,491	1,252,792
Services	271,349	220,147
Materials and Supplies		
Fuels and lubricants	645,593	593,053
Tires and tubes	39,868	51,602
Other	219,780	144,747
Utilities	101,937	85,422
Casualty and liability costs	90,011	130,233
Purchased transportation services	3,098,708	2,869,326
Miscellaneous	63,865	45,258
Depreciation	655,108	616,297
Total Operating Expenses	8,774,139	8,207,467
Operating Loss	(7,226,581)	(6,721,950)
OPERATING SUBSIDIES		
Local	1,348,844	1,164,332
Investment income credited as local subsidies	(2,450)	26,455
State	2,208,486	2,169,356
Federal	2,649,815	2,455,837
Total Subsidies	6,204,695	5,815,980
Loss Before Contributions and Transfers	(1,021,886)	(905,970)
CAPITAL CONTRIBUTIONS-FEDERAL & STATE	126,488	268,163
GAIN (LOSS) ON ASSET DISPOSAL	-	625
TRANSFERS-CITY OPERATING SUBSIDY	495,271	431,093
CHANGE IN NET POSITION	(400,127)	(206,089)
NET POSITION - Beginning of Year	6,362,048	6,568,137
NET POSITION - END OF YEAR	\$ 5,961,921	\$ 6,362,048

See accompanying notes to financial statements.

VALLEY TRANSIT

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers	\$ 1,446,345	\$ 1,577,817
Paid to suppliers for goods and services	(5,563,775)	(5,286,396)
Paid to employees for services	(2,474,112)	(2,374,226)
Cash Flows from Operating Activities	(6,591,542)	(6,082,805)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies received - federal	2,430,222	2,322,212
Operating subsidies received - state	1,995,508	1,968,824
Operating subsidies received - local	1,246,844	2,084,458
Cash Flows from Noncapital Financing Activities	5,672,574	6,375,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income and unrealized losses	(2,450)	26,455
Cash Flows from Investing Activities	(2,450)	26,455
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(181,096)	(444,575)
Contributed capital - federal	134,351	488,407
Cash Flows from Capital and Related Financing Activities	(46,745)	43,832
Net Change in Cash and Cash Equivalents	(968,163)	362,976
CASH AND CASH EQUIVALENTS - Beginning of Year	2,217,306	1,854,330
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,249,143	\$ 2,217,306
NONCASH CAPITAL AND FINANCING ACTIVITIES		
Change in Capital Grants Accrued	\$ 7,863	\$ (7,863)

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (7,226,581)	\$ (6,721,950)
Noncash items included in operating loss		
Depreciation	655,108	616,297
Changes in assets and liabilities		
Accounts receivable - other	(133,881)	45,724
Inventory	13,027	(13,775)
Prepaid expenses	(18,626)	(527)
Accounts payable - trade	(7,350)	21,631
Due to municipality	102,508	-
Unearned revenues	32,668	46,576
Accrued payroll liabilities	<u>(8,415)</u>	<u>(76,781)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (6,591,542)</u>	<u>\$ (6,082,805)</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS		
Statement of Net Assets Accounts		
Current cash and investments	\$ -	\$ 1,095,338
Restricted capital investments	<u>1,249,143</u>	<u>1,121,968</u>
CASH AND CASH EQUIVALENTS	<u>\$ 1,249,143</u>	<u>\$ 2,217,306</u>

See accompanying notes to financial statements.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

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.

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, 2013 and 2012

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, 2013 and 2012

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 \$5,000 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, 2013 and 2012

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

ASSETS, LIABILITIES, AND NET POSITION (cont.)

Due to Municipality

The partners contribute an estimated portion of the local share throughout the year. At the end of the year, the amount over or under collected is shown as due to municipality or receivable from local governments, respectively, on the statements of net position.

Unearned Revenues

Unearned revenues represent tickets that have been sold to agencies, but not yet used or redeemed.

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 statements of revenues, expenses and changes in net position.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

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

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial reporting for Nonexchange Financial Guarantees*. Application of these standards may restate portions of these financial statements.

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.

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 3 – CHANGES IN CAPITAL ASSETS

A summary of changes in transit capital assets for 2013 and 2012 follows:

	Balance 1/1/13	Additions	Retirements	Balance 12/31/13
Capital assets, not being depreciated				
Land	\$ 891,831	\$ -	\$ -	\$ 891,831
Capital assets being depreciated				
Building	3,795,555	108,027	-	3,903,581
Vehicles	8,665,188	54,791	-	8,719,979
Shop equipment	267,887	4,175	-	272,062
Office equipment	285,204	14,104	(8,020)	291,288
Bus stop signs	34,389	-	-	34,389
Shelters and benches	215,822	-	-	215,822
Total Capital Assets Being Depreciated	13,264,045	181,097	(8,020)	13,437,121
Total Capital Assets	14,155,876	181,097	(8,020)	14,328,952
Less: Accumulated depreciation				
Building	(3,266,153)	(116,080)	-	(3,382,189)
Vehicles	(4,975,046)	(509,631)	-	(5,484,677)
Shop equipment	(266,733)	(1,466)	-	(268,199)
Office equipment	(250,434)	(17,208)	8,020	(259,621)
Bus stop signs	(8,051)	(2,772)	-	(10,823)
Shelters and benches	(188,685)	(7,953)	-	(196,681)
Total Accumulated Depreciation	(8,955,102)	(655,109)	8,020	(9,602,190)
Construction in progress	14,883	-	(14,883)	-
Net Transit System Plant	\$ 5,215,657			\$ 4,726,762

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 3 – CHANGES IN CAPITAL ASSETS (cont.)

	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	263,202	196,257	(444,576)	14,883
Net Transit System Plant	<u>\$ 5,533,803</u>			<u>\$ 5,215,657</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 2013 and 2012 amounted to (\$2,450) and \$26,455, 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, 2013 and 2012

NOTE 4 – OPERATING SUBSIDIES AND TRANSFERS (cont.)

Operating assistance for 2013 and 2012 was as follows:

	2013	2012
Governmental Unit		
Federal	\$ 2,443,889	\$ 2,251,540
Federal – capital maintenance	17,332	42,766
State of Wisconsin	2,129,982	2,005,109
State of Wisconsin – paratransit aid	78,504	83,482
WETAP/JARC – State and Federal	188,594	242,296
Local		
City of Appleton (reported as transfer)	495,271	431,093
City of Appleton share of investment income	(2,450)	26,455
Town of Buchanan	11,120	10,284
City of Kaukauna	19,290	17,696
Village of Kimberly	13,323	12,221
City of Menasha	32,817	30,225
Town of Menasha	39,225	36,638
Town of Menasha – Elderly	9,959	10,314
City of Neenah	66,036	61,842
City of Neenah – Dial-A-Ride	34,548	38,072
Village of Little Chute	14,119	12,935
Town of Grand Chute	108,560	99,937
Town of Harrison	1,230	343
Winnebago County – Heritage Dial-a-Ride	2,998	2,839
Outagamie County – Link	86,160	34,419
Special transportation – Outagamie County	233,925	215,921
Special transportation – Winnebago County	54,492	44,696
Special transportation – Calumet County	16,048	7,798
Calumet County – New Hope	78,515	74,865
Appleton Downtown Inc. – Trolley	9,280	12,249
Connector	92,782	71,085
IRIS	13,389	10,239
Lakeland	34,827	37,794
Community Care	343,378	294,544
AASD Tripper	32,823	27,376
	\$ 6,699,966	\$ 6,247,073
Totals	\$ 6,699,966	\$ 6,247,073

VALLEY TRANSIT

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended December 31, 2013 and 2012

NOTE 5 – LONG-TERM OBLIGATIONS

LONG-TERM OBLIGATIONS SUMMARY

	1/1/13 Balance	Additions	Reductions	12/31/13 Balance	Due Within One Year
Accrued sick leave	\$ 157,456	\$ 15,645	\$ 45,520	\$ 127,581	\$ -

	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	\$ -

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, 2013 and 2012, 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, 2013 and 2012, Valley Transit has \$1,249,143 and \$1,121,968 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, 2013 and 2012

NOTE 7 – EMPLOYEES’ RETIREMENT SYSTEMS (cont.)

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. Contribution rates for 2013 and 2012 are:

	<u>Employees</u>	<u>Employer</u>
2013 General category	6.65%	6.65%
2012 General category	5.90%	5.90%

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

	Year Ended December 31,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Covered Transit System Payroll	<u>\$ 2,474,112</u>	<u>\$ 2,374,226</u>	<u>\$ 2,469,064</u>
Total Required Contributions	<u>\$ 329,057</u>	<u>\$ 280,160</u>	<u>\$ 283,645</u>
Total Required Contributions (%)	<u>13.3%</u>	<u>11.8%</u>	<u>11.6%</u>

Details of the plan are disclosed in the general purpose financial statements of the City of Appleton for the years ended December 31, 2013 and 2012.

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 at blended premium rates. This results in 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, 2013 and 2012

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 \$106,886 in 2013 and \$141,847 in 2012. 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 2013, 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 2013 and 2012, TMI issued refunds of \$131,532 each year 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, 2013 and 2012

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

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN (TMI) (cont.)

The city's share of this corporation is 4.96% for auto liability and 3.31% 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, PO Box 1135, Appleton, WI 54915-1483 or by email from tmi@transitmutual.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 second option year agreement will expire December 31, 2014. 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.

S U P P L E M E N T A L I N F O R M A T I O N

VALLEY TRANSIT

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS For the Years Ended December 31, 2013 and 2012

	2013	2012
REVENUE		
401 - Passenger fares for transit service	\$ 1,472,445	\$ 1,410,215
402 - Special fare assistance		545
407 - Non-transportation revenue		
Advertising	52,699	51,744
Other	2,368	1,081
Contra-expenses	20,046	21,932
409 - Local operating assistance	1,767,313	1,537,564
409 - Local operating assistance - Donations	74,352	84,316
411 - State operating assistance - current year	2,129,982	2,005,109
411 - State operating assistance - paratransit aid	78,504	83,482
411 - State operating assistance - WETAP/JARC	-	80,765
413 - Federal operating assistance	2,443,889	2,251,540
413 - Federal operating assistance - WETAP/JARC	188,594	161,531
413 - Federal operating assistance - capital	17,332	42,766
	<u>8,247,524</u>	<u>7,732,590</u>
Total Revenue		
EXPENSES - BY OBJECT CLASS TOTAL		
501 - Labor		
Operators' wages	1,683,990	1,564,661
Other salaries and wages	598,439	633,929
502 - Fringe benefits	1,305,491	1,252,792
503 - Services	271,349	220,147
504 - Materials and supplies		
Fuels and lubricants	645,593	593,053
Tires and tubes	39,868	51,602
Other	219,780	144,747
505 - Utilities	101,937	85,422
506 - Casualty and liability costs	90,011	130,233
508 - Purchased transportation services	3,098,708	2,869,326
509 - Miscellaneous - Training	63,865	45,258
513 - Depreciation	655,108	616,297
	<u>8,774,139</u>	<u>8,207,467</u>
Total Expenses		
EXCESS EXPENSES OVER REVENUES FOR THE YEAR *	<u>\$ (526,615)</u>	<u>\$ (474,877)</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, 2013

	Budget*	Actual	Variance- Favorable (Unfavorable)
OPERATING REVENUES			
Passenger fares and special fare assistance	\$ 1,541,891	\$ 1,472,445	\$ (69,446)
Non-transportation revenue	61,000	75,113	14,113
Total Operating Revenues	<u>1,602,891</u>	<u>1,547,558</u>	<u>(55,333)</u>
OPERATING EXPENSES (Excluding Depreciation)			
Labor and Fringe Benefits			
Operators' wages	1,536,051	1,683,990	(147,939)
Other salaries and wages	660,485	598,439	62,046
Fringe benefits	1,486,854	1,305,491	181,363
Total Labor and Fringe Benefits	<u>3,683,390</u>	<u>3,587,920</u>	<u>95,470</u>
Services	<u>334,726</u>	<u>271,349</u>	<u>63,377</u>
Materials and Supplies			
Fuels	648,555	627,810	20,745
Lubricants	11,000	17,783	(6,783)
Tires and tubes	28,000	39,868	(11,868)
Revenue equipment maintenance	106,000	87,959	18,041
Building and grounds maintenance	-	2,679	(2,679)
General office	53,302	129,142	(75,840)
Total Materials and Supplies	<u>846,857</u>	<u>905,241</u>	<u>(58,384)</u>
Utilities			
Electric	57,709	56,629	1,080
Gas	22,007	20,987	1,020
Water	6,122	6,255	(133)
Telephone	9,300	8,832	468
Other	9,475	9,234	241
Total Utilities	<u>104,613</u>	<u>101,937</u>	<u>2,676</u>
Casualty and Liability Costs			
Physical damage	15,025	10,435	4,590
Public liability and property	57,115	79,576	(22,461)
Total Casualty and Liability Costs	<u>72,140</u>	<u>90,011</u>	<u>(17,871)</u>

VALLEY TRANSIT

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (cont.) For the Year Ended December 31, 2013

	Budget*	Actual	Variance- Favorable (Unfavorable)
OPERATING EXPENSES (Excluding Depreciation) (cont.)			
Purchased Transportation Services	<u>\$ 3,375,613</u>	<u>\$ 3,098,708</u>	<u>\$ 276,905</u>
Miscellaneous			
Dues and subscriptions	5,286	4,821	465
Advertising and promotion	42,000	48,671	(6,671)
Training/other miscellaneous	<u>6,350</u>	<u>10,373</u>	<u>(4,023)</u>
Total Miscellaneous	<u>53,636</u>	<u>63,865</u>	<u>(10,229)</u>
Total Operating Expenses (Excluding Depreciation)	<u>8,470,975</u>	<u>8,119,031</u>	<u>351,944</u>
EXCESS OF OPERATING EXPENSES (EXCLUDING DEPRECIATION) OVER OPERATING REVENUES FOR THE YEAR	<u>\$ (6,868,084)</u>	<u>\$ (6,571,473)</u>	<u>\$ 296,611</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, 2013

	<u>Per WisDOT Guidelines</u>	<u>Per Federal Guidelines</u>
Total revenues including operating assistance	\$ 8,247,524	\$ 8,247,524
Less: Unrecognized Revenues		
Local operating subsidies	1,841,665	1,841,665
Federal operating subsidy (including \$42,766 capital maintenance)	2,461,221	2,461,221
State operating subsidy	2,129,982	2,129,982
State paratransit aid	78,504	78,504
WETAP/JARC	188,594	188,594
Advertising	-	52,699
Non-transportation revenues	22,414	22,414
Total Unrecognized Revenues	<u>6,722,380</u>	<u>6,775,079</u>
ADJUSTED REVENUES	<u>\$ 1,525,144</u>	<u>\$ 1,472,445</u>
Total expenses per statement of revenues and expenses	\$ 8,774,139	\$ 8,774,139
Less: Unrecognized Expenses		
Depreciation	655,108	655,108
Capital maintenance funded by capital grants	20,177	20,177
Connector funded by JARC	377,186	377,186
Contra-expenses	20,046	20,046
WisDOT Paratransit Costs - not eligible	78,504	78,504
Total WisDOT Unrecognized Expenses	<u>1,151,021</u>	<u>1,151,021</u>
RECOGNIZED EXPENSES	<u>\$ 7,623,118</u>	<u>\$ 7,623,118</u>
RECOGNIZED DEFICITS	<u>\$ (6,097,974)</u>	<u>\$ (6,150,673)</u>

VALLEY TRANSIT

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS
For the Year Ended December 31, 2013

FEDERAL FUNDS

Capital Cost of Third Party Contracting	\$	281,192	
Preventative Maintenance		334,950	
Operating Assistance		<u>1,827,747</u>	
			\$ <u>2,443,889</u>

STATE FUNDS

WisDOT Recognized Deficit		\$ <u>6,097,974</u>	
WisDOT Contract Amount		\$ <u>2,129,982</u>	
WisDOT Recognized Expenses	\$	7,623,118	
Maximum Federal and State	60.00%	4,573,871	
Less: Federal Share		<u>2,443,889</u>	
Non-Federal Share		\$ <u>2,129,982</u>	
City of Appleton and Other Local Subsidies	\$	<u>1,841,665</u>	
5 Times Operating Subsidy		\$ <u>9,208,325</u>	
STATE SHARE - LEAST OF THE FOUR			\$ <u>2,129,982</u>

SUMMARY OF 2013 FUNDING

	Received in 2013	Receivable (Payable) 12/31/13	Totals
Federal Operating Funds*	\$ 1,774,370	\$ 669,519	\$ 2,443,889
State Funds**	1,916,984	212,998	2,129,982
Local Public Subsidies	<u>2,739,575</u>	<u>(897,910)</u>	<u>1,841,665</u>
TOTAL FUNDING	\$ <u>6,430,929</u>	\$ <u>(15,393)</u>	\$ <u>6,415,536</u>

- * - Revenues exclude JARC/WETAP of \$188,594 and capital funding of \$17,332.
- Receivable excludes capital maintenance grants of \$69,365 due to US Department of Transportation.
- ** - Revenues exclude paratransit funding of \$78,504.
- Receivable excludes prior year operating aid and JARC/WETAP grants of \$515,218 and \$50,986, respectively.