

Valley Transit
City of Appleton, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2017

Valley Transit City of Appleton, Wisconsin

DECEMBER 31, 2017

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Independent auditors' report

To the Fox Cities Transit Commission
Valley Transit
City of Appleton, Wisconsin

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Valley Transit (the "Transit") a fund of the City of Appleton, Wisconsin as of and for the year ended December 31, 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors consider internal control relevant to 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 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 Transit as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As described in Note 1, the financial statements present only the Valley Transit enterprise fund of the City of Appleton, Wisconsin, and do not purport to, and do not present fairly the financial position of the City of Appleton, Wisconsin, as of December 31, 2017 and the changes in its financial position or its cash flows for the year 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 on pages 3 through 7 and the schedules relating to pensions on page 24 be presented to supplement the financial statements. Such information, although not 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. 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Transit's financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary 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. Such 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, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

REPORT ON SUMMARIZED FINANCIAL INFORMATION

We have previously audited Transit's 2016 financial statements, and our report dated June 8, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018, on our consideration of Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Transit's internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
June 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Valley Transit

City of Appleton, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

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, 2017 and 2016.

Financial Statements

Valley Transit is owned and operated by the City of Appleton, with our 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 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 financial statements, this report also contains required supplementary information and supplementary information.

The Statement of Net Position presents information on the assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5,886,980 as of December 31, 2017; compared to \$5,241,267 in 2016. The largest portion of Valley Transit's net position is the investment in capital assets (i.e. land, building, equipment and improvements). These assets are used to provide transportation services to customers.

Valley Transit

City of Appleton, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

Statement of Net Position

The following table provides a summary of Valley Transit's balances as of December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 2,593,123	\$ 2,747,504
Capital assets	3,734,540	2,907,520
Other assets	<u>1,454,328</u>	<u>1,607,910</u>
Total assets	<u>7,781,991</u>	<u>7,262,934</u>
Deferred Outflow of Resources		
Pension related amounts	<u>1,127,451</u>	<u>1,619,410</u>
Liabilities		
Current liabilities	2,303,860	2,601,257
Non-current liabilities	<u>242,719</u>	<u>417,770</u>
Total liabilities	<u>2,546,579</u>	<u>3,019,027</u>
Deferred Inflow of Resources		
Pension related amounts	<u>475,883</u>	<u>622,050</u>
Net Position		
Investment in capital assets	3,734,540	2,907,520
Restricted for depreciation reserve	1,454,328	1,607,910
Unrestricted	<u>698,112</u>	<u>725,837</u>
Total net position	<u>\$ 5,886,980</u>	<u>\$ 5,241,267</u>
Percent restricted	24.70%	30.68%

Current Assets decreased by \$154,381 in 2017 mostly due to timing differences related to accounts payable payments and receipts of federal operating support. Current liabilities were reduced by \$297,397. This was partially offset by the receipt of a long-delayed payment from the State for the balance due from the 2010 operating support. Given the uncertainty surrounding that payment, an offsetting allowance for doubtful accounts had been established.

The increase in Capital Assets during 2017 reflects capital purchases of \$1,449,372 financed by federal capital funding and local match dollars from the restricted cash account, offset by depreciation expense of approximately \$622,000.

The decreases in deferred outflow and inflows of resources and non-current liabilities in 2017 is related directly to Valley Transit's proportionate share of the financial activities of the Wisconsin Retirement System, and the better investment returns in 2016.

Valley Transit saw an increase in total Net Position during 2017 largely due to the federal capital funding received to finance bus replacements, resulting in an increase in investment in Capital Assets.

Valley Transit

City of Appleton, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

Statement of Revenues, Expenses and Changes in Net Position

The following table provides a summary of Valley Transit's operations for the years ending December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Passenger fares for transit service	\$ 1,432,547	\$ 1,481,654
Special fare assistance	43,910	37,613
Non-transportation revenue	96,054	92,992
Total operating revenues	<u>1,572,511</u>	<u>1,612,259</u>
Operating Expenses		
Salaries and wages	2,841,373	2,781,786
Fringe benefits	1,315,919	1,286,619
Services	330,574	248,021
Material and supplies	848,705	698,612
Utilities	92,722	99,432
Casualty and liability costs	209,701	184,688
Purchased transportation services	3,275,088	3,206,238
Miscellaneous	68,639	87,351
Depreciation	622,352	597,166
Total operating expenses	<u>9,605,073</u>	<u>9,189,913</u>
Operating loss	<u>(8,032,562)</u>	<u>(7,577,654)</u>
Operating Subsidies		
Local	1,564,382	1,347,269
Investment income (credited as local subsidies)	7,759	(9,161)
State	2,627,353	2,491,999
Federal	2,714,045	2,603,077
Total subsidies	<u>6,913,539</u>	<u>6,433,184</u>
Loss before contributions and transfers	<u>(1,119,023)</u>	<u>(1,144,470)</u>
Capital contributions - federal and state	1,073,780	-
Transfers - Appleton operating subsidies	690,956	631,686
Change in net position	645,713	(512,784)
Net position - beginning of year	<u>5,241,267</u>	<u>5,754,051</u>
Net position - end of year	<u>\$ 5,886,980</u>	<u>\$ 5,241,267</u>

Valley Transit

City of Appleton, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

Operating revenues decreased \$39,748 in 2017 due to a decrease in ridership. Valley Transit saw a decrease in fixed route ridership during 2017 (-4.3%) while the ridership on the paratransit services remained relatively flat. Valley Transit raised some of the fixed route fares at the beginning of 2015 and saw a resulting overall decline in ridership of 2.4%. While fare revenue remained relatively flat from 2015 to 2016 due to the increased fare per ride, a fare increase typically results in reduced ridership. During 2017, the ridership decreased while fares remained the same, resulting in a decrease in revenue. Some of the decrease in farebox revenue can be attributed to a greater use more economical fares such as the 30 day passes and Day Passes.

Operating expenses increased by \$415,160, mostly due to an increase in Salaries and Wages and Material and Supplies. Personnel cost increased approximately 2% due to a contractual increase under the labor agreement with union employees. Increased maintenance and parts for the aging fleet are reflected in the increased costs of Material and Supplies.

Capital Assets

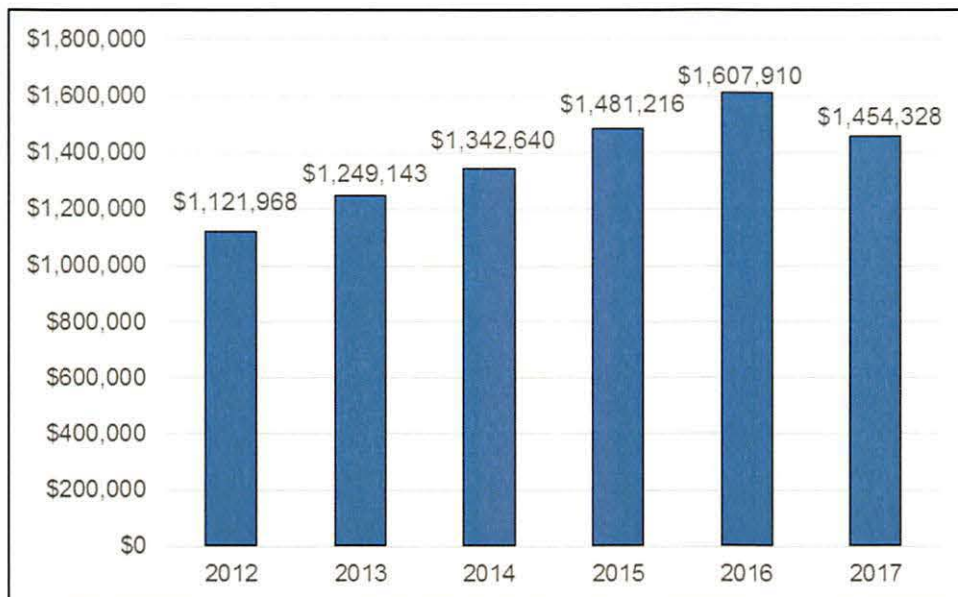
The Federal Transit Administration provided 80% of the funding to purchase Valley Transit's capital assets and therefore has significant interest in their use. The remaining 20% is funded either through Valley Transit's depreciation reserve for replacement equipment or from current year support from the various local governments that participate in Valley Transit.

During 2017, Valley Transit acquired 3 busses at a cost of \$1,342,226, with federal funding financing \$1,073,780. The remaining capital asset additions totaled \$107,146 and consisted primarily of radios and infrastructure, with Valley Transit's 5339 federal funding used to finance 80% of the acquisition cost.

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 municipal partners.

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



Valley Transit City of Appleton, Wisconsin

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2017

The decrease in the restricted cash during 2017 was due to the purchase of the three busses and using the reserve to finance Valley Transit's 20% share of the purchase.

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: Ronald McDonald, General Manager at 1.920.832.2291 or Ronald.McDonald@appleton.org.

FINANCIAL STATEMENTS

Valley Transit

City of Appleton, Wisconsin

STATEMENT OF NET POSITION
DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and investments	\$ 528,007	\$ 839,504
Accounts receivable	158,847	264,935
Due from other governments		
State of Wisconsin operating assistance	709,436	802,124
Allowance for potentially uncollectable state grant	-	(105,275)
Federal capital and operating grants	689,996	481,508
Local governments	216,147	171,960
Inventories	263,316	266,192
Prepaid items	27,374	26,556
Total current assets	<u>2,593,123</u>	<u>2,747,504</u>
Noncurrent assets		
Restricted assets		
Cash and investments	<u>1,454,328</u>	<u>1,607,910</u>
Capital assets		
Nondepreciable	896,241	891,831
Depreciable	<u>2,838,299</u>	<u>2,015,689</u>
Total capital assets	<u>3,734,540</u>	<u>2,907,520</u>
Total assets	<u>7,781,991</u>	<u>7,262,934</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related amounts	<u>1,127,451</u>	<u>1,619,410</u>
LIABILITIES		
Current liabilities		
Accounts payable	445,408	745,586
Accrued and other current liabilities	57,315	60,487
Due to other governments	1,113,962	1,265,183
Compensated absences	208,962	154,544
Unearned revenue	<u>478,213</u>	<u>375,457</u>
Total current liabilities	<u>2,303,860</u>	<u>2,601,257</u>
Long-term obligations, less current portion		
Compensated absences	94,150	124,897
Net pension liability	<u>148,569</u>	<u>292,873</u>
Total long-term liabilities	<u>242,719</u>	<u>417,770</u>
Total liabilities	<u>2,546,579</u>	<u>3,019,027</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related amounts	<u>475,883</u>	<u>622,050</u>
NET POSITION		
Investment in capital assets	3,734,540	2,907,520
Restricted for capital replacement	1,454,328	1,607,910
Unrestricted	<u>698,112</u>	<u>725,837</u>
Total net position	<u>\$ 5,886,980</u>	<u>\$ 5,241,267</u>

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

Valley Transit

City of Appleton, Wisconsin

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Regular passenger fares	\$ 1,432,547	\$ 1,481,654
Special fares	43,910	37,613
Advertising services	68,509	55,455
Other	<u>27,545</u>	<u>37,537</u>
Total operating revenues	<u>1,572,511</u>	<u>1,612,259</u>
OPERATING EXPENSES		
Salaries and wages	2,841,373	2,781,786
Fringe benefits	1,315,919	1,286,619
Services	330,574	248,021
Materials and supplies		
Fuels and lubricants	360,553	312,394
Tires and tubes	58,964	48,975
Other	429,188	337,243
Utilities	92,722	99,432
Casualty and liability costs	209,701	184,688
Purchased transportation services	3,275,088	3,206,238
Miscellaneous	68,639	87,351
Depreciation	<u>622,352</u>	<u>597,166</u>
Total operating expenses	<u>9,605,073</u>	<u>9,189,913</u>
Operating loss	<u>(8,032,562)</u>	<u>(7,577,654)</u>
NONOPERATING REVENUES		
Interest income	7,759	(9,161)
Federal operating assistance	2,714,045	2,603,077
State operating assistance	2,627,353	2,491,999
Local operating assistance	<u>1,564,382</u>	<u>1,347,269</u>
Total nonoperating revenues	<u>6,913,539</u>	<u>6,433,184</u>
Loss before contributions and transfers	(1,119,023)	(1,144,470)
Federal capital grants and contributions	1,073,780	-
Transfers in - City operating subsidy	<u>690,956</u>	<u>631,686</u>
Change in net position	645,713	(512,784)
Net position - January 1	<u>5,241,267</u>	<u>5,754,051</u>
Net position - December 31	<u>\$ 5,886,980</u>	<u>\$ 5,241,267</u>

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

Valley Transit

City of Appleton, Wisconsin

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,781,355	\$ 1,558,453
Cash paid for employee wages and benefits	(3,935,305)	(3,875,802)
Cash paid to suppliers	(5,123,549)	(4,242,821)
Net cash used by operating activities	<u>(7,277,499)</u>	<u>(6,560,170)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal operating assistance	2,505,557	2,761,938
State operating assistance	2,614,766	2,668,355
Local operating assistance	1,368,974	1,468,464
Local operating assistance - City operating subsidy	690,956	631,686
Net cash provided by noncapital financing activities	<u>7,180,253</u>	<u>7,530,443</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,449,372)	(34,243)
Contributed capital - federal	1,073,780	-
Sale of capital assets	-	(2,254)
Net cash used by capital and related financing activities	<u>(375,592)</u>	<u>(36,497)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>7,759</u>	<u>(9,161)</u>
Change in cash and cash equivalents	(465,079)	924,615
Cash and cash equivalents - January 1	<u>2,447,414</u>	<u>1,522,799</u>
Cash and cash equivalents - December 31	<u>\$ 1,982,335</u>	<u>\$ 2,447,414</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (8,032,562)	\$ (7,577,654)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	622,352	597,166
Change in liability (asset) and deferred outflows and inflows of resources		
Pension	201,488	183,817
Change in operating assets and liabilities		
Accounts receivables	106,088	(100,922)
Inventories and prepaid items	2,058	(108,242)
Accounts payable	(300,178)	446,223
Accrued and other current liabilities	(3,172)	2,091
Unearned revenue	102,756	(9,344)
Compensated absences	23,671	6,695
Net cash provided used by operating activities	<u>\$ (7,277,499)</u>	<u>\$ (6,560,170)</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 528,007	\$ 839,504
Cash and cash equivalents in restricted assets	<u>1,454,328</u>	<u>1,607,910</u>
Total cash and cash equivalents	<u>\$ 1,982,335</u>	<u>\$ 2,447,414</u>

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

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Valley Transit, City of Appleton, Wisconsin ("Transit"), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to 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:

A. REPORTING ENTITY

Valley Transit, an enterprise fund of the City of Appleton (the "City"), provides public bus transportation in the City and surrounding communities. Transit is governed by the Transit Commission which consists of City council members, citizen representations, and representatives from participating governments. In accordance with GAAP, the financial statements are required to include Transit and any separate component units that have a significant operational or financial relationship with Transit. Transit has not identified any component units that are required to be included in the financial statements in accordance with standards established in GASB Statement No. 61.

B. ENTERPRISE FUND

The accounts of Transit are accounted for in an enterprise fund as required by GAAP. An enterprise fund is used to account for government operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Transit's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. In addition, as described in Note 4.A, Transit also receives operating subsidies from state, local and federal governments. The principal operating revenues of Transit are charges to customers for services. Operating expenses include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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. Fares were made effective January 1, 2009 and revised effective January 5, 2015, as approved by the Valley Transit Commission.

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 Transit is reported as revenues on the statements of revenues, expenses and changes in net position.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

All preventative maintenance on vehicles and buildings are eligible for funding under federal capital grants. In the year these items are purchased, they are recorded as operating expenses and the related capital grants are recorded as capital cost of maintenance, operating and capital assistance.

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

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

1. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

Transit is included in the City's investment policy which follows state statutes for allowable investments.

2. Restricted Cash

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 will be used for future purchases of capital items.

3. Accounts Receivable

Transit considers receivables from government units to be fully collectible. Transit has established an allowance for potentially uncollectible state operating funds. Any reduction in state aid as a result of reduced collections would be offset by local aid recovered from the local partners.

4. Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

5. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items and are accounted for on the consumption method.

6. Capital Assets

Capital assets, which include property, plant and equipment assets, are reported in the financial statements. Capital assets are defined by Transit as assets with an initial, individual costs of \$5,000 or higher and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Capital assets of Transit are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	25
Vehicles	3 - 15
Shop equipment	2 - 10
Office equipment	3 - 10
Shelters and signs	5 - 10

7. Compensated Absences

It is Transit's policy to permit employees to accumulate earned but unused vacation and sick leave benefits in accordance with employee handbook policies and/or bargaining unit agreements. All vacation and sick leave is accrued when incurred in the fund financial statements.

8. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net position by the government that is applicable to a future reporting period. The recognition of those outflows and inflows as expenses and revenues are deferred until the future periods to which the outflows and inflows are applicable.

9. Unearned Revenues

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

10. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Wisconsin Retirement System (WRS) and additions to/deductions from WRS' fiduciary net position have been determined on the same basis as they are reported by WRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Net Position

Equity is classified as net position and displayed in three components:

- ▶ **Net investment in capital assets.** Amount of capital assets, net of accumulated depreciation, and capital related deferred outflows of resources less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and any capital related deferred inflows of resources.
- ▶ **Restricted net position.** Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

E. USE OF ESTIMATES

The 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

F. PRIOR YEAR INFORMATION

Comparative amounts for the prior year have been presented in the financial statements to provide an understanding of changes in Transit's financial position and operations. The comparative amounts may be summarized in total and not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

G. RECLASSIFICATIONS

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements with no change in previously reported net position or changes in net position.

NOTE 2: DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

Transit cash and investments are commingled with the entire City; therefore, individual fund bank balances cannot be determined. Please refer to the City's financial statements for further information.

B. RESTRICTED ASSETS

Restricted assets on December 31, 2017 totaled \$1,454,328 and consisted of cash and investments held for the following purpose:

Description	Amount	Purpose
Depreciation	<u>\$ 1,454,328</u>	To be used for the replacement of capital assets of Valley Transit

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:				
Land	\$ 891,831	\$ -	\$ -	\$ 891,831
Construction in progress	-	4,410	-	4,410
Total capital assets, nondepreciable	<u>891,831</u>	<u>4,410</u>	<u>-</u>	<u>896,241</u>
Capital assets, depreciable:				
Buildings and improvements	3,887,924	17,897	-	3,905,821
Machinery and equipment	8,690,964	1,427,065	-	10,118,029
Subtotals	<u>12,578,888</u>	<u>1,444,962</u>	<u>-</u>	<u>14,023,850</u>
Less accumulated depreciation for:				
Buildings and improvements	3,831,036	44,548	-	3,875,584
Machinery and equipment	6,732,163	577,804	-	7,309,967
Subtotals	<u>10,563,199</u>	<u>622,352</u>	<u>-</u>	<u>11,185,551</u>
Total capital assets, depreciable, net	<u>2,015,689</u>	<u>822,610</u>	<u>-</u>	<u>2,838,299</u>
Capital assets, net	<u>\$ 2,907,520</u>	<u>\$ 827,020</u>	<u>\$ -</u>	<u>3,734,540</u>

D. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of Transit for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 279,441</u>	<u>\$ 178,215</u>	<u>\$ 154,544</u>	<u>\$ 303,112</u>	<u>\$ 208,962</u>

Valley Transit City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

E. PENSION PLAN

1. Plan Description

The WRS is a cost-sharing, multiple-employer, defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at <http://etf.wi.gov/publications/cafr.htm>.

For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are 1) final average earnings, 2) years of creditable service, and 3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

2. Post-Retirement Adjustments

The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Year	Core Fund Adjustment	Variable Fund Adjustment
2007	3%	10%
2008	6.6	0
2009	(2.1)	(42)
2010	(1.3)	22
2011	(1.2)	11
2012	(7.0)	(7)
2013	(9.6)	9
2014	4.7	25
2015	2.9	2
2016	0.5	(5)

3. Contributions

Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for general category employees, including teachers, and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category was merged into the General Employee Category. Required contributions for protective employees are the same rate as general 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.

During the reporting period ending December 31, 2016, the WRS recognized \$172,278 in contributions from Transit.

Contribution rates for the reporting period are:

Employee Category	Employee	Employer
General (including teachers)	6.8%	6.8%
Protective with Social Security	6.8%	10.6%
Protective without Social Security	6.8%	14.9%

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, Transit reported a liability (asset) of \$148,569 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. Transit's proportion of the net pension liability (asset) was based on Transit's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, Transit's proportion was 0.01902499%, which was an increase of 0.00000181% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, Transit recognized pension expense of \$201,488.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

At December 31, 2017, Transit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 56,649	\$ 467,237
Net differences between projected and actual earnings on pension plan investments	739,529	-
Changes in assumptions	155,335	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,269	8,646
Employer contributions subsequent to the measurement date	173,669	-
Total	<u>\$ 1,127,451</u>	<u>\$ 475,883</u>

\$173,669 reported as deferred outflows related to pension resulting from Transit's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31,	Expense
2017	\$ 195,520
2018	195,520
2019	132,330
2020	(45,677)
2021	206
Total	<u>\$ 477,899</u>

5. Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2015
Measurement date of net pension liability (asset):	December 31, 2016
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Long-term expected rate of return:	7.2%
Discount rate:	7.2%
Salary increases:	
Inflation	3.2%
Seniority/Merit	0.2% - 5.6%
Mortality	Wisconsin 2012 Mortality Table
Post-retirement adjustments*	2.1%

- * *No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Valley Transit City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 - 2014. The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

Long-term Expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Current Asset Allocation %</u>	<u>Destination Target Asset Allocation %</u>	<u>Long-term Expected Nominal Rate of Return %</u>	<u>Long-term Expected Real Rate of Return %</u>
<u>Core Fund Asset Class</u>				
Global equities	50%	45%	8.3%	5.4%
Fixed income	24.5%	37%	4.2%	1.4%
Inflation sensitive assets	15.5%	20%	4.3%	1.5%
Real estate	8%	7%	6.5%	3.6%
Private equity/debt	8%	7%	9.4%	6.5%
Multi-asset	4%	4%	6.6%	3.7%
Total Core Fund	110%	120%	7.4%	4.5%
<u>Variable Fund Asset Class</u>				
U.S. equities	70%	70%	7.6%	4.7%
International equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5%

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%

Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

Single Discount Rate. A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long-term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan members contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

Sensitivity of Transit’s proportionate share of the net pension liability (asset) to changes in the discount rate.

The following presents Transit’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.2 percent, as well as what Transit’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

	1% Decrease to Discount Rate (6.20%)	Current Discount Rate (7.20%)	1% Increase to Discount Rate (8.20%)
Transit’s proportionate share of the net pension liability (asset)	\$ 1,954,520	\$ 148,569	\$ (1,242,095)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in separately issued financial statements available at <http://etf.wi.gov/publications/cafr.htm>.

6. Payables to the Pension Plan

At December 31, 2017, Transit reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2017.

F. 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 benefits for retirees, commonly referred to as an implicit rate subsidy. The retirees pay 100% of the premium amounts under the plan. Specific information concerning 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.

NOTE 4: OTHER INFORMATION

A. OPERATING SUBSIDIES AND TRANSFERS

Transit receives operating subsidies from the federal, state, and local governments. Transit submits an annual request for state 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. 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, included restricted capital funding, realized for 2017 amounted to an investment gain of \$7,759. At the end of the year, actual operating costs are allocated between the various local governmental units based on the number of hours of services provided to each. Any excess payments are recorded as payables, or deficiencies as receivables.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

Operating assistance for 2017 was as follows:

Governmental Unit	Amount
Federal	\$ 2,493,003
Federal - capital maintenance	1,099,518
Federal - enhanced mobility of seniors and individuals with disabilities	195,304
State of Wisconsin	2,522,153
State of Wisconsin - paratransit aid	105,200
Local	
City of Appleton (reported as transfer)	690,956
City of Appleton share of investment return	7,759
Town of Buchanan	15,012
City of Kaukauna	27,808
Village of Kimberly	17,968
City of Menasha	46,773
Fox Crossing	52,997
Fox Crossing - Elderly	7,350
City of Neenah	95,304
City of Neenah - Elderly	41,651
Village of Little Chute	20,235
Town of Grand Chute	142,479
Town of Greenville	2,539
Outagamie County - Link	73,593
Special transportation - Outagamie County	182,567
Special transportation - Winnebago County	43,350
Special transportation - Calumet County	8,569
New Hope	138,576
Appleton Downtown Inc. - Trolley Connector	14,555
Special transportation - Family Care	56,819
	576,237
Total	\$ 8,678,275

B. RISK MANAGEMENT

Transit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Transit completes an annual review of its insurance coverage to ensure adequate coverage. A description of Transit's risk management programs is presented below:

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 \$500,000 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

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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 \$99,440 in 2017 and \$95,736 in 2016. 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 2017, 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 \$2,500,000 and reinsures \$4,500,000 with Great American 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. In 2016 and 2017, Transit Mutual returned surplus to Valley Transit pursuant to its surplus management policy; in addition, dividends were paid to Valley Transit in 2016 and 2017.

The City's share of this corporation is 5.02% for auto liability and 3.28% 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 contact@transitmutal.com.

Health Insurance

The City provides health and dental care benefits to employees through a self-funded plan with specific insurance coverage. The plan is 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 procedures.

Valley Transit

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

C. COMMITMENTS AND CONTINGENCIES

From time to time, Transit is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and Transit's Attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on Transit's financial position or results of operations.

Paratransit service contracts

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

Long term contract - Running, Inc.

In 2009, Transit entered into a long-term contract with Running, Inc. effective April 1, 2009 through March 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 expired on December 31, 2014. A new three year contract began January 1, 2015.

Grants

Transit participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. An audit under the Uniform Guidance has been conducted but final acceptance is still pending. Accordingly, Transit's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although Transit expects such amounts, if any, to be immaterial.

D. UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement is effective for reporting periods beginning after December 15, 2019. Transit is currently evaluating the impact this standard will have on the financial statements when adopted.

REQUIRED SUPPLEMENTARY INFORMATION

Valley Transit

City of Appleton, Wisconsin

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Covered-Employee Payroll (plan year)</u>	<u>Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
12/31/15	0.01777468%	\$ (435,909)	\$ 1,976,149	22.06%	102.74%
12/31/16	0.01902319%	292,873	2,091,058	14.01%	98.20%
12/31/17	0.01902499%	148,569	2,048,179	7.25%	99.12%

**SCHEDULE OF CONTRIBUTIONS
WISCONSIN RETIREMENT SYSTEM
LAST 10 FISCAL YEARS**

<u>Fiscal Year Ending</u>	<u>Contractually Required Contributions</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll (fiscal year)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
12/31/15	\$ 181,575	\$ 181,575	\$ -	\$ 2,091,058	8.68%
12/31/16	178,393	178,393	-	2,048,179	8.71%
12/31/17	173,669	173,669	-	2,021,750	8.59%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

There were no changes of benefit terms or assumptions for any participating employer in the WRS.

The amounts reported for each fiscal year were determined as of the calendar year-end that occurred within the prior fiscal year. Valley Transit is required to present the last ten fiscal years of data; however accounting standards allow the presentation of as many years as are available until ten fiscal years are presented.

SUPPLEMENTARY INFORMATION

Valley Transit

City of Appleton, Wisconsin

**DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

REVENUE		
	2017	2016
401 - Passenger fares to transit service	\$ 1,432,547	\$ 1,481,654
402 - Special fare assistance	43,910	37,613
406 - Auxiliary transportation revenue		
Advertising	68,509	55,455
407 - Non-transportation revenue		
Rental of buildings and other property	6,000	6,000
Other	21,545	31,537
409 - Local operating assistance	2,197,683	1,892,149
409 - Local operating assistance - donations	65,414	77,645
411 - State operating assistance - current year	2,522,153	2,383,976
411 - State operating assistance - paratransit aid	105,200	108,023
413 - Federal operating assistance	2,493,004	2,456,156
413 - Federal operating assistance - ADA	121,872	42,414
413 - Federal operating assistance - capital maintenance	99,169	104,507
Total revenue	<u>9,177,006</u>	<u>8,677,129</u>
EXPENSES BY OBJECT CLASS TOTAL		
501 - Labor		
Operators' wages	1,804,309	1,830,677
Other salaries and wages	1,037,064	951,109
502 - Fringe benefits	1,315,919	1,286,619
503 - Services	330,574	248,021
504 - Materials and supplies		
Fuels and lubricants	360,553	312,394
Tires and tubes	58,964	48,975
Other	429,188	337,243
505 - Utilities	92,722	99,432
506 - Casualty and liability costs	209,701	184,688
508 - Purchased transportation services	3,275,088	3,206,238
509 - Miscellaneous	68,639	87,351
513 - Depreciation	622,352	597,166
Total expenses	<u>9,605,073</u>	<u>9,189,913</u>
EXCESS OF EXPENSES OVER REVENUES FOR THE YEAR *	<u>\$ (428,067)</u>	<u>\$ (512,784)</u>

* Excludes capital contributions shown on Statement of Revenues, Expenses and Changes in Net Position

Valley Transit

City of Appleton, Wisconsin

**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
OPERATING REVENUES					
Passenger fares and special fare assistance	\$ 1,668,548	\$ 1,668,548	\$ 1,476,457	\$ (192,091)	\$ 1,519,267
Non-transportation revenue	61,000	61,000	96,054	35,054	92,992
Total operating revenues	<u>1,729,548</u>	<u>1,729,548</u>	<u>1,572,511</u>	<u>(157,037)</u>	<u>1,612,259</u>
OPERATING EXPENSES (EXCLUDING DEPRECIATION)					
Labor and fringe benefits					
Operators' wages	2,198,212	2,199,642	1,804,309	395,333	\$ 1,830,677
Other salaries and wages	636,296	637,532	1,037,064	(399,532)	951,109
Fringe benefits	1,119,648	1,120,044	1,315,919	(195,875)	1,286,619
Total labor and fringe benefits	<u>3,954,156</u>	<u>3,957,218</u>	<u>4,157,292</u>	<u>(200,074)</u>	<u>4,068,405</u>
Services	<u>358,211</u>	<u>358,211</u>	<u>330,574</u>	<u>27,637</u>	<u>248,021</u>
Materials and supplies					
Fuels	605,000	605,000	342,642	262,358	293,379
Lubricants	12,000	12,000	17,911	(5,911)	19,015
Tires and tubes	61,202	61,202	58,964	2,238	48,975
Revenue equipment maintenance	217,600	217,600	249,074	(31,474)	168,211
Building and grounds maintenance	149,557	149,557	160,410	(10,853)	155,189
General office	23,994	23,994	19,704	4,290	13,843
Total materials and supplies	<u>1,069,353</u>	<u>1,069,353</u>	<u>848,705</u>	<u>220,648</u>	<u>698,612</u>
Utilities					
Electric	61,900	61,900	45,372	16,528	52,060
Gas	38,300	38,300	15,955	22,345	13,387
Water	7,850	7,850	6,792	1,058	9,219
Telephone	14,300	14,300	14,123	177	13,100
Other	11,150	11,150	10,480	670	11,666
Total utilities	<u>133,500</u>	<u>133,500</u>	<u>92,722</u>	<u>40,778</u>	<u>99,432</u>
Casualty and liability costs					
Physical damage	17,117	17,117	9,542	7,575	9,725
Public liability and property	199,865	199,865	200,159	(294)	174,963
Total casualty and liability costs	<u>216,982</u>	<u>216,982</u>	<u>209,701</u>	<u>7,281</u>	<u>184,688</u>
Purchased transportation services	<u>3,438,260</u>	<u>3,438,260</u>	<u>3,275,088</u>	<u>163,172</u>	<u>3,206,238</u>
Miscellaneous					
Dues and subscriptions	6,571	6,571	7,961	(1,390)	6,362
Advertising and promotion	50,309	50,309	28,624	21,685	52,446
Training/other miscellaneous	13,200	89,260	32,054	57,206	28,543
Total miscellaneous	<u>70,080</u>	<u>146,140</u>	<u>68,639</u>	<u>77,501</u>	<u>87,351</u>
Total operating expenses (excluding depreciation)	<u>9,240,542</u>	<u>9,319,664</u>	<u>8,982,721</u>	<u>336,943</u>	<u>8,592,747</u>
EXCESS OF OPERATING EXPENSES (EXCLUDING DEPRECIATION) OVER OPERATING REVENUES FOR THE YEAR	<u>\$ (7,510,994)</u>	<u>\$ (7,590,116)</u>	<u>\$ (7,410,210)</u>	<u>\$ (493,980)</u>	<u>\$ (6,980,488)</u>

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

Valley Transit

City of Appleton, Wisconsin

RECONCILIATION OF REVENUES AND EXPENSES TO WISDOT AND FEDERAL RECOGNIZED REVENUES AND EXPENSES - REGULATORY BASIS FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Per WisDOT Guidelines</u>	<u>Per Federal Guidelines</u>
Total revenues including operating assistance per statement of revenues, expenses and changes in net position	\$ 10,250,786	\$ 10,250,786
Less: Unrecognized Revenues		
Local operating subsidies	2,263,097	2,263,097
Federal operating subsidy (including capital maintenance)	2,714,045	2,714,045
Federal capital	1,073,780	1,073,780
State operating subsidy	2,522,153	2,522,153
State paratransit aid	105,200	105,200
Advertising services	-	68,509
Other (Non-transportation revenues)	10,837	27,545
Total Unrecognized revenues	<u>8,689,112</u>	<u>8,774,329</u>
ADJUSTED REVENUES	<u>\$ 1,561,674</u>	<u>\$ 1,476,457</u>
Total expenses per statement of revenues, expenses and changes in net position	\$ 9,605,073	\$ 9,605,073
Less: Unrecognized Expenses		
Depreciation	622,352	622,352
Capital maintenance *	99,169	99,169
Federal operating assistance - 5310 ADA	121,872	121,872
Contra-expenses	10,812	10,812
WisDOT Paratransit Costs - not eligible	105,200	105,200
Total WisDOT unrecognized expenses	<u>959,405</u>	<u>959,405</u>
RECOGNIZED EXPENSES	<u>\$ 8,645,668</u>	<u>\$ 8,645,668</u>
RECOGNIZED DEFICITS	<u>\$ (7,083,994)</u>	<u>\$ (7,169,211)</u>

* Represents 100% of operating costs funded through capital maintenance program (excludes capitalized assets)

Valley Transit

City of Appleton, Wisconsin

COMPUTATION OF THE DEFICIT DISTRIBUTION AMONG THE SUBSIDY GRANTORS FOR THE YEAR ENDED DECEMBER 31, 2017

STATE SHARE

WisDOT recognized deficit	\$ 7,083,994		
Less: Federal share	<u>2,493,004</u>		
Non-federal share of WisDOT deficit		<u>\$ 4,590,990</u>	
WisDOT recognized expenses	\$ 8,645,668		
Maximum federal and state	<u>60.00%</u>		
Recognized expenses	<u>5,187,401</u>		
Less: Federal share	<u>2,493,004</u>		
Non-Federal share		<u>\$ 2,694,397</u>	
City of Appleton and other local subsidies	<u>\$ 2,263,097</u>		
5 Times operating subsidy		<u>\$ 11,315,485</u>	
WisDOT Contract Amount		<u>\$ 2,522,153</u>	
WisDOT share			<u>\$ 2,522,153</u>

FEDERAL SECTION 5307 SHARE

Federally recognized expenses	\$ 7,169,211		
Maximum federal percentage	<u>50.00%</u>		
50% of federal deficit		<u>\$ 3,584,606</u>	
Federally recognized deficit	\$ 7,169,211		
Less WisDOT share	<u>2,522,153</u>		
Non-WisDOT share		<u>\$ 4,647,058</u>	
Maximum contract amount			
Capital cost of third party contracting	\$ 121,043		
Preventative maintenance	667,028		
Operating assistance	<u>1,704,933</u>		
Total federal funds		<u>\$ 2,493,004</u>	
Federal share			<u>\$ 2,493,004</u>

SUMMARY OF 2017 FUNDING

	Received in 2017	Receivable (payable) 12/31/17	Total
Federal section 5307 assistance	1,867,565	\$ 625,439	\$ 2,493,004
State assistance	2,274,598	247,555	2,522,153
Local assistance	<u>3,182,799</u>	<u>(1,113,962)</u>	<u>2,068,837</u>
Total funding	<u>\$ 7,324,962</u>	<u>\$ (240,968)</u>	<u>\$ 7,083,994</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR FINANCIAL STATEMENTS

Independent auditors' 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*

To the Fox Cities Transit Commission
Valley Transit
City of Appleton, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Valley Transit (the "Transit") a fund of the City of Appleton, Wisconsin, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Transit's financial statements, and have issued our report thereon which includes an emphasis of matter paragraph as indicated on page 2 dated June 22, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Transit's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Transit's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Transit's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Transit's financial statements are free from 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Transit's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transit's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Green Bay, Wisconsin

June 22, 2018