

**VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2016**

**VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
December 31, 2016**

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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") as of and for the year ended December 31, 2016, 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 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, 2016, 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 A, 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, 2016 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 response 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 the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2017, on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Certified Public Accountants
Green Bay, Wisconsin
June 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016 and 2015.

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 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 \$5,241,267 as of December 31, 2016; compared to \$5,754,051 in 2015. 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.

	2016	2015
Assets		
Current Assets	\$2,747,504	\$2,212,158
Capital Assets	2,907,520	3,468,189
Other Assets	<u>1,607,910</u>	<u>1,910,863</u>
Total Assets	7,262,934	7,591,210
Deferred Outflow of Resources		
Deferred outflows related to pension	1,619,410	458,657
Liabilities		
Current Liabilities	2,601,257	2,177,614
Non-current Liabilities	<u>417,770</u>	<u>118,202</u>
Total Liabilities	3,019,027	2,295,816
Deferred Inflow of Resources		
Deferred inflows related to pension	622,050	-
Net Position		
Investment in capital assets	2,907,520	3,468,189
Restricted for depreciation reserve	1,607,910	1,481,216
Restricted for pension	-	429,647
Unrestricted	<u>725,837</u>	<u>374,999</u>
Total Net Position	5,241,267	5,754,051
Percent restricted	30.68%	25.74%

Current Assets increased in 2016 mostly due to payments owed to Valley Transit from the State towards accrued grants. Final payments on the State operating grants are received once the State Department of Transportation has completed its audit of Valley Transit's financial statements, which in recent years has lagged. Valley Transit received payments for 2012 and 2014 during 2016 but is still waiting for final payments on State grants from 2010, 2011, 2015 and 2016.

The decline in Capital Assets reflects a lower than average capital asset addition due to a lack of federal capital funding available for bus replacement and bus facilities. Depreciation expense of approximately \$597,000 and asset retirements of approximately \$9,000 were recorded.

The increase in Current Liabilities is due to the timing of the third quarter refunds to the funding partners. Checks were issued shortly after the end of the year. The increase in deferred inflows of resources in 2016 is related to a net pension liability representing Valley Transit's portion of the net deficit of the Wisconsin Retirement system.

Valley Transit saw a decrease in total Net Position during 2016 largely due to the decrease in Capital Assets and the increase in Current Liabilities as discussed above.

The following table provides a summary of Valley Transit's operations for the years ending December 31, 2016 and 2015.

	2016	2015
Operating Revenues		
Passenger fares for transit service	\$1,481,654	\$1,481,947
Special fare assistance	37,613	4,267
Non-transportation revenue	<u>92,992</u>	<u>107,184</u>
Total Operating Revenues	<u>1,612,259</u>	<u>1,593,398</u>
Operating Expenses		
Salaries and wages	2,781,786	2,414,557
Fringe benefits	1,286,619	1,338,533
Services	248,021	440,747
Materials and Supplies	698,612	738,432
Utilities	99,432	100,395
Casualty and Liability costs	184,688	180,072
Purchased transportation services	3,206,238	3,163,972
Miscellaneous	87,351	91,529
Depreciation	<u>597,166</u>	<u>641,396</u>
Total Operating Expenses	<u>9,189,913</u>	<u>9,109,633</u>
Operating Loss	<u>(7,577,654)</u>	<u>(7,516,235)</u>
Operating Subsidies		
Local	1,347,269	1,342,550
Investment Income <small>(credited as local subsidies)</small>	(9,161)	3,024
State	2,491,999	2,598,948
Federal	<u>2,603,077</u>	<u>2,481,702</u>
Total Subsidies	<u>6,433,184</u>	<u>6,426,224</u>
Loss Before Contributions & Transfers	(1,144,470)	(1,090,011)
Capital Contributions - Federal & State	-	-
Capital Contributions - Local	-	-
Loss on Asset Disposal	-	-
Transfers - Appleton Operating Subsidies	631,686	585,506
Transfers - Appleton Capital Subsidies	<u>-</u>	<u>-</u>
Change in Net Position	(512,784)	(504,505)
NET Position - Beginning of Year	5,754,051	5,388,703
Cumulative effect of a change in accounting principle	<u>-</u>	<u>869,853</u>
NET Position - End of Year	<u>5,241,267</u>	<u>5,754,051</u>

Operating revenues increased \$18,861 in 2016, mainly due to an increase in Special Fare Assistance revenue which was due to a reclassification of revenue received from a funding partner for fixed route service. This revenue was recorded as a local subsidy in 2015. Valley Transit saw a small decrease in fixed route ridership during 2016 (-4.7%) along with an overall decrease in use of paratransit services (-4.6%). In January 2015, fixed route fares were raised which resulted in an overall decline in ridership for 2015. While fare revenue remained relatively flat from 2015 to 2016, a fare increase typically results in reduced ridership. Some of the decrease in farebox revenue can be attributed to customers opting to use a more economical form of fare payment. During 2016, Valley Transit saw an increased use of both the 30 day senior disabled tickets and the reduced youth fares.

Operating expenses increased by \$80,280, mostly due to an increase in Salaries and Wages and Purchased Transportation costs, offset by decreases in other areas. Personnel cost increased approximately 12% due to additional pension expense along with a negotiated 2% contractual increase under the labor agreement with union employees.

Capital Assets

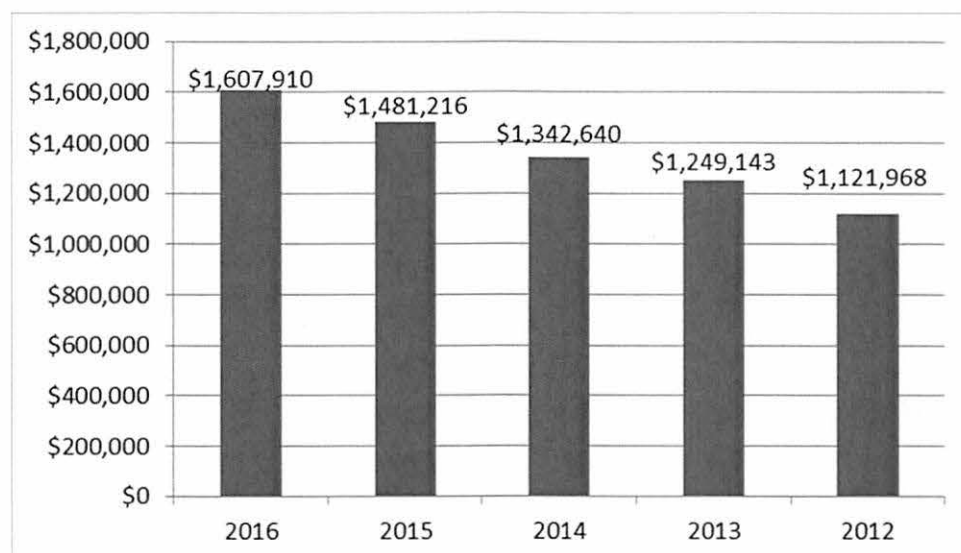
The Federal Transit Administration provides 80% of the funding to purchase Valley Transit's capital assets and therefore has significant interest in their use. The remaining 20% is funded either through Valley Transit's depreciation reserve for replacement equipment or from current year support from the various local governments that participate in Valley Transit. Net position in years in which there are no major capital acquisitions can be expected to decline by 80% of depreciation expense.

During 2016, Valley Transit did not acquire any new capital assets.

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 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: 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, 2016

ASSETS

Current Assets

Cash and investments	\$ 839,504
Accounts receivable	
State of Wisconsin operating assistance	802,124
Allowance for potentially uncollectable state grant	(105,275)
Federal capital and operating grants	481,508
Local governments	171,960
Other receivables	264,935
Inventories	266,192
Prepaid expenses	26,556
Total Current Assets	<u>2,747,504</u>

Restricted Assets

Cash and investments	<u>1,607,910</u>
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Capital Assets

Land	891,831
Building and improvements	3,887,924
Vehicles	8,042,035
Shop equipment	272,062
Office equipment	128,897
Bus shelters and signs	247,970
Gross capital assets	<u>13,470,719</u>
Less: accumulated depreciation	<u>(10,563,199)</u>
Total Capital Assets, net	<u>2,907,520</u>

TOTAL ASSETS	<u>7,262,934</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension	<u>1,619,410</u>
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LIABILITIES

Current Liabilities

Accounts payable	745,586
Unearned revenues	375,457
Accrued expenses	215,031
Due to local governments	1,265,183
Total Current Liabilities	<u>2,601,257</u>

Long-term

Accrued sick leave	124,897
Net pension liability	292,873
Total Long-term Liabilities	<u>417,770</u>

TOTAL LIABILITIES	<u>3,019,027</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pension	<u>622,050</u>
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NET POSITION

Investment in capital assets	2,907,520
Restricted for capital expenditures	1,607,910
Unrestricted	<u>725,837</u>
TOTAL NET POSITION	<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, 2016

Operating Revenues	
Regular passenger fares	\$ 1,481,654
Special fares	37,613
Advertising services	55,455
Other	37,537
Total Operating Revenues	<u>1,612,259</u>
Operating Expenses	
Salaries and wages	2,781,786
Employee fringe benefits	1,286,619
Contractual services	248,021
Fuels and lubricants	312,394
Materials and supplies - tires and tubes	48,975
Materials and supplies - other	337,243
Utilities	99,432
Depreciation	597,166
Insurance and taxes	184,688
Purchased transportation services	3,206,238
Miscellaneous	87,351
Total Operating Expenses	<u>9,189,913</u>
Operating Loss	<u>(7,577,654)</u>
Nonoperating Revenues	
Return on investments	(9,161)
Federal operating assistance	2,603,077
State operating assistance	2,491,999
Local operating assistance	1,347,269
Total Nonoperating Revenues	<u>6,433,184</u>
Net Loss Before Transfers	(1,144,470)
Transfer from other funds - City operating subsidy	<u>631,686</u>
Change in Net Position	(512,784)
Net Position - January 1	<u>5,754,051</u>
Net Position - December 31	<u><u>\$ 5,241,267</u></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, 2016

Cash Flows from Operating Activities	
Cash received from user charges	\$ 1,501,993
Cash payments to suppliers	(4,186,361)
Cash payments to employees	(3,875,802)
Net Cash Used by Operating Activities	<u>(6,560,170)</u>
Cash Flows from Noncapital Financing Activities	
Federal operating assistance	2,761,938
State operating assistance	2,668,355
Local operating assistance	2,100,150
Net Cash Provided by Noncapital Financing Activities	<u>7,530,443</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(34,243)
Loss on the sale of capital assets	(2,254)
Net Cash Used by Capital and Related Financing Activities	<u>(36,497)</u>
Cash Flows from Investing Activities	
Interest received on investments	<u>(9,161)</u>
Net Increase in Cash and Cash Equivalents	924,615
Cash and Cash Equivalents - January 1	<u>1,522,799</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 2,447,414</u></u>
Reconciliation of Operating Loss to Net Cash	
Used by Operating Activities:	
Operating loss	\$ (7,577,654)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	597,166
Change in pension related assets and deferred outflows	(731,106)
Change in pension related liabilities and deferred inflows	914,923
Cash provided (used) by changes in assets and liabilities	
Accounts receivable	(100,922)
Inventories	(106,444)
Prepaid expense	(1,798)
Accounts payable	446,223
Accrued payroll and payroll taxes	2,091
Accrued sick leave	6,695
Unearned revenue	(9,344)
Net Cash Used by Operating Activities	<u><u>\$ (6,560,170)</u></u>
Reconciliation of cash and cash equivalents to Statements of Net Position	
Statement of Net Position accounts	
Current cash and investments	\$ 839,504
Restricted cash and investments	1,607,910
Cash and Cash Equivalents	<u><u>\$ 2,447,414</u></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, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Valley Transit (the "Transit"), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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 used by the Transit are described below

1. Reporting Entity

Valley Transit, an enterprise fund of the City of Appleton (the "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 representatives from participating governments.

2. Measurement Focus and Basis of Accounting

The Transit is presented as an enterprise fund of the City. Enterprise funds are to be used 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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange takes place. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

3. 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 are considered to be cash equivalents.

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

4. Restricted 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 not to be used for future purchases of capital items.

5. Accounts Receivable

Transit considers receivables from government units to be fully collectible. The 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.

6. Inventories

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

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

7. Prepaid expenses

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

8. Capital Assets

Capital assets are defined by the Transit as assets with an initial, individual cost of \$5,000 or higher and an estimated useful life in excess of one 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.

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

<u>Assets</u>	<u>Years</u>
Building and improvements	25
Vehicles	3 - 15
Shop Equipment	2 - 10
Office Equipment	3 - 10
Shelters and Signs	5 - 10

9. Capital Associated Maintenance Items

Certain major vehicle 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.

10. Revenue Recognition

The Transit 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 D, the transit system also receives operating subsidies from state, local, and federal governments. Operating expenses include cost of sales, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

11. 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.

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Transit has one item that qualifies for reporting in this category in the statement of net position. The item is related to the Transit's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The item is related to the Transit's proportionate share of the Wisconsin Retirement System pension plan and is deferred and amortized over the expected remaining service lives of the pension plan participants.

13. Unearned Revenues

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

14. Compensated Absences

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.

15. Charges for Services

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.

16. Capital Contributions

The 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
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

17. Fund Equity

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. As of December 31, 2016, Valley Transit does not have any outstanding debt.
- Restricted net position - Amount of net position that are 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. As of December 31, 2016, Valley Transit has \$1,607,910 of restricted net position.
- Unrestricted net position - Net position that are neither classified as restricted nor as net investment in capital assets.

NOTE B - CASH AND INVESTMENTS

1. Cash and Investments

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

2. Fair Value Measurements

The Transit implemented GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ending December 31, 2016. The Transit categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant observable inputs; Level 3 inputs are significant unobservable inputs. Please refer to the City-wide financial statements for further information.

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets, not being depreciated:				
Land	\$ 891,831	\$ -	\$ -	\$ 891,831
Capital assets, being depreciated:				
Building and improvements	3,860,428	34,246	6,750	3,887,924
Vehicles	8,042,035	-	-	8,042,035
Shop equipment	272,062	-	-	272,062
Office equipment	128,897	-	-	128,897
Bus shelters and signs	247,970	-	-	247,970
Subtotals	12,551,392	34,246	6,750	12,578,888
Less accumulated depreciation	9,975,037	597,167	9,005	10,563,199
Total capital assets, being depreciated, net	2,576,355	(562,921)	(2,255)	2,015,689
Capital assets, net	\$ 3,468,186	\$ (562,921)	\$ (2,255)	\$ 2,907,520

NOTE D - OPERATING SUBSIDIES AND TRANSFERS

The Transit receives operating subsidies from the federal, state, and local governments. The 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. 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, included restricted capital funding, realized for 2016 amounted to an investment loss of \$9,161. 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, 2016

NOTE D - OPERATING SUBSIDIES AND TRANSFERS (Continued)

Operating assistance for 2016 was as follows:

	<u>2016</u>
Governmental Unit	
Federal	\$ 2,456,156
Federal - capital maintenance	30,946
Federal - enhanced mobility of S/D	115,975
State of Wisconsin	2,383,976
State of Wisconsin - paratransit aid	108,023
Local	
City of Appleton (reported as transfer)	631,686
City of Appleton share of investment return	(9,161)
Town of Buchanan	13,241
City of Kaukauna	24,141
Village of Kimberly	16,301
City of Menasha	40,724
Fox Crossing	48,446
Fox Crossing - Elderly	7,490
City of Neenah	84,349
City of Neenah - Elderly	33,338
City of Neenah - Industrial route	11,462
Village of Little Chute	17,414
Town of Grand Chute	130,282
Town of Harrison	185
Town of Greenville	567
Outagamie County - Link	73,810
Special transportation - Outagamie County	168,300
Special Transportation - Winnebago County	40,814
Special transportation - Calumet County	3,971
New Hope	133,301
Appleton Downtown Inc. - Trolley	13,321
Connector	67,882
IRIS	18,668
Lakeland Care District	24,719
Community Care - Specialized Transportation	374,543
	<u>\$ 7,064,870</u>

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE E - LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended December 31, 2016 was as follows:

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Accrued sick leave	\$ 118,202	\$ 18,622	\$ 11,927	\$ 124,897	\$ -

NOTE F - 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 1,200 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.

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.

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE F - PENSION PLAN (Continued)

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:

Year	Core Fund Adjustment	Variable Fund Adjustment
2006	0.8%	3%
2007	3.0%	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%

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. 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, the WRS recognized \$178,393 in contributions from the Transit.

Contribution rates as of December 31, 2016 are:

Employee Category	Employee	Employer
General	6.6%	6.6%
Executives & Elected Officials	6.6%	6.6%
Protective with Social Security	6.6%	9.4%
Protective without Social Security	6.6%	13.2%

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE F - PENSION PLAN (Continued)

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

At December 31, 2016, the Transit reported a liability of \$292,873 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to December 31, 2015. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The Transit's proportion of the net pension liability was based on the Transit's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2015, the Transit's proportion was 0.01802318%, which was an increase of 0.00027640% from its proportion measured as of December 31, 2014.

For the year ended December 31, 2016, the Transit recognized pension expense of \$183,817.

At December 31, 2016, the 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	\$ 49,546	\$ 616,347
Net differences between projected and actual earnings on pension plan investments	1,199,107	-
Changes in assumptions	204,907	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,253	5,703
Employer contributions subsequent to the measurement date	162,597	-
Total	<u>\$ 1,619,410</u>	<u>\$ 622,050</u>

\$162,597 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 in the year ended December 31, 2017. 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	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 378,362	\$ 150,537
2017	378,362	150,537
2018	378,362	150,537
2019	315,172	150,537
2020	6,555	19,902
	<u>\$ 1,456,813</u>	<u>\$ 622,050</u>

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE F - PENSION PLAN (Continued)

5. Actuarial Assumption

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date:	December 31, 2014
Measurement Date of Net Pension Liability:	December 31, 2015
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.

Actuarial assumptions are based upon an experience study conducted in 2012 using experience from 2009 - 2011. The total pension liability for December 31, 2015 is based upon a roll-forward of the liability calculated from the December 31, 2014 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:

	Current Asset Allocation %	Destination Target Asset Allocation %	Long-Term Expected Nominal Rate of Return %	Long-Term Expected Real Rate of Return %
Core Fund Asset Class				
U.S. Equities	27%	23%	7.6%	4.7%
International Equities	24.5%	22%	8.5%	5.6%
Fixed Income	27.5%	37%	4.4%	1.6%
Inflation Sensitive Assets	10%	20%	4.2%	1.4%
Real Estate	7%	7%	6.5%	3.6%
Private Equity/Debt	7%	7%	9.4%	6.5%
Multi-Asset	4%	4%	6.7%	3.8%
Total Core Fund	107%	120%	7.4%	4.5%
Variable Fund Asset Class				
U.S. Equities	70%	70%	7.6%	4.7%
International Equities	30%	30%	8.5%	5.6%
Total Variable Fund	100%	100%	7.9%	5.0%

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE F - PENSION PLAN (Continued)

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 3.57%. 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 member 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.

Sensitivity of the Transit's proportionate share of the net pension liability (asset) to changes in the discount rate. The following presents the Transit's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.20 percent, as well as what the 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 (6.2%)	Current Discount Rate (7.2%)	1% Increase to Discount Rate (8.2%)
Transit's proportionate share of the net pension liability (asset)	\$ 2,054,218	\$ 292,873	\$ (1,082,768)

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. Payable to the WRS

At December 31, 2016 Transit reported a payable of \$0 for the outstanding amount of contributions to the pension plan for the year ended December 31, 2016.

NOTE G - OTHER POST EMPLOYMENT 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 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
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE H - RISK MANAGEMENT

1. Self-Insurance

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 and 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 official's claim is \$500,000 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 \$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.

2. Transit Mutual Insurance Corporation of Wisconsin (TMi)

Transit Mutual Insurance Corporation of Wisconsin (TMi) is a municipal 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 2016, 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. TMi insures \$2,500,000 and reinsures \$4,500,000 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 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, Transit Mutual returned surplus to Valley Transit pursuant to its surplus management policy; in addition, dividends were paid to Valley Transit in 2016.

The City's share of this corporation is 4.87% for auto liability and 3.39% for 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, P.O. Box 1135, Appleton, WI 54915-1483 or by email from tmi@transitmutual.com.

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Notes to Financial Statements
December 31, 2016

NOTE H - RISK MANAGEMENT (Continued)

3. 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.

NOTE I - COMMITMENTS AND CONTINGENCIES

1. 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.

2. 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.

3. Grants

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 has recorded an allowance for potentially uncollectible state grants and believes any remaining disallowances would be immaterial.

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 Payroll</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	0.01774678%	\$ (435,909)	\$ 1,976,149	22.06%	102.74%
12/31/16	0.01802318%	292,873	2,091,058	14.01%	98.20%

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 Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
12/31/15	\$ 181,575	\$ 181,575	\$ -	\$ 1,976,149	9.19%
12/31/16	178,393	178,393	-	2,091,058	8.53%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

There were no changes of benefit terms 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. The 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, 2016

REVENUE

401 - Passenger fares to transit service	\$ 1,481,654
402 - Special fare assistance	37,613
407 - Non-transportation revenue	
Advertising	55,455
Other	1,698
Contra-expenses	35,839
409 - Local operating assistance	1,892,149
409 - Local operating assistance - donations	77,645
411 - State operating assistance - current year	2,383,976
411 - State operating assistance - paratransit aid	108,023
413 - Federal operating assistance	2,456,156
413 - Federal operating assistance - ADA	42,414
413 - Federal operating assistance - capital maintenance	104,507
Total Revenue	<u>8,677,129</u>

EXPENSES BY OBJECT CLASS TOTAL

501 - Labor	
Operators' wages	1,830,677
Other salaries and wages	951,109
502 - Fringe benefits	1,286,619
503 - Services	248,021
504 - Materials and supplies	
Fuels and lubricants	312,394
Tires and tubes	48,975
Other	337,243
505 - Utilities	99,432
506 - Casualty and liability costs	184,688
508 - Purchased transportation services	3,206,238
509 - Miscellaneous - Training	87,351
513 - Depreciation	597,166
Total Expenses	<u>9,189,913</u>

EXCESS OF EXPENSES OVER REVENUES
FOR THE YEAR *

\$ (512,784)

* Excludes capital contributions and loss on asset disposal shown on Statement of Revenues and Expenses

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
Statement of Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Operating Revenues				
Passenger fares and special fare assistance	\$ 1,654,728	\$ 1,654,728	\$ 1,519,267	\$ (135,461)
Non-transportation revenue	61,000	62,000	92,992	30,992
Total Revenues	1,715,728	1,716,728	1,612,259	(104,469)
Operating Expenses (Excluding Depreciation)				
Labor and Fringe Benefits				
Operators' wages	1,930,052	1,931,155	1,830,677	100,478
Other salaries and wages	772,534	775,154	951,109	(175,955)
Fringe benefits	1,052,919	1,052,919	1,286,619	(233,700)
Total Labor and Fringe Benefits	3,755,505	3,759,228	4,068,405	(309,177)
Services	240,128	240,128	248,021	(7,893)
Materials and Supplies				
Fuels	642,021	642,021	293,379	348,642
Lubricants	11,000	11,000	19,015	(8,015)
Tires and tubes	35,600	35,600	48,975	(13,375)
Revenue equipment maintenance	204,313	204,313	168,211	36,102
Building and grounds maintenance	144,293	144,293	155,189	(10,896)
General office	47,151	48,151	13,843	34,308
Total Materials and Supplies	1,084,378	1,085,378	698,612	386,766
Utilities				
Electric	61,864	61,864	52,060	9,804
Gas	38,300	38,300	13,387	24,913
Water	7,841	7,841	9,219	(1,378)
Telephone	13,528	13,528	13,100	428
Other	11,047	11,047	11,666	(619)
Total Utilities	132,580	132,580	99,432	33,148
Casualty and Liability Costs				
Physical damage	15,972	15,972	9,725	6,247
Public liability and property	169,514	169,514	174,963	(5,449)
Total Casualty and Liability Costs	185,486	185,486	184,688	798
Purchased Transportation Services	3,425,922	3,425,922	3,206,238	219,684
Miscellaneous				
Dues and subscriptions	6,085	6,085	6,362	(277)
Advertising and promotion	50,000	50,000	52,446	(2,446)
Training/other miscellaneous	13,162	13,162	28,543	(15,381)
Total Miscellaneous	69,247	69,247	87,351	(18,104)
Total Operating Expenses (Excluding Depreciation)	8,893,246	8,897,969	8,592,747	305,222
EXCESS OF OPERATING EXPENSES (EXCLUDING DEPRECIATION) OVER OPERATING REVENUES FOR THE YEAR	\$ (7,177,518)	\$ (7,181,241)	\$ (6,980,488)	\$ 200,753

* 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, 2016

	Per WisDot Guidelines	Per Federal Guidelines
Total revenues including operating assistance per statement of revenues, expenses and changes in net position	\$ 8,677,129	\$ 8,677,129
Less: Unrecognized Revenues		
Local operating subsidies	1,969,794	1,969,794
Federal operating subsidy (including capital maintenance)	2,560,663	2,560,663
State operating subsidy	2,383,976	2,383,976
State paratransit aid	108,023	108,023
Advertising	55,455	55,455
Non-transportation revenues	37,537	37,537
Total Unrecognized revenues	7,115,448	7,115,448
ADJUSTED REVENUES	\$ 1,561,681	\$ 1,561,681
Total expenses per statement of revenues, expenses and changes in net position	\$ 9,189,913	\$ 9,189,913
Less: Unrecognized Expenses		
Depreciation	597,166	597,166
Capital maintenance *	30,945	30,945
5310 Funding	115,975	115,975
Contra-expenses	35,839	35,839
WisDot Paratransit Costs - not eligible	108,023	108,023
Total WisDot Unrecognized Expenses	887,948	887,948
RECOGNIZED EXPENSES	\$ 8,301,965	\$ 8,301,965
RECOGNIZED DEFICITS	\$ (6,740,284)	\$ (6,740,284)

* Represents 100% of costs funded through capital maintenance program

VALLEY TRANSIT
CITY OF APPLETON, WISCONSIN
 Computation of the Deficit Distribution Among the Subsidy Grantors
 For the Year Ended December 31, 2016

FEDERAL FUNDS

Capital cost of third party contracting	\$ 213,581	
Preventative maintenance	565,278	
Operating Assistance	<u>1,781,804</u>	
Total federal funds		<u>\$ 2,560,663</u>

STATE FUNDS

WisDOT recognized deficit	<u>\$ 6,740,284</u>	
WisDOT Contract Amount	<u>\$ 2,383,976</u>	
WisDOT Recognized Expenses	\$ 8,301,965	
Maximum Federal and State	<u>60.00%</u>	
	4,981,179	
Less: Federal share	<u>(2,560,663)</u>	
Non-Federal share		<u>\$ 2,420,516</u>
City of Appleton and Other Local Subsidies	<u>\$ 1,969,794</u>	
5 Times operating subsidy		<u>\$ 9,848,970</u>
State Share		<u>\$ 2,383,976</u>

SUMMARY OF 2016 FUNDING

	Received in 2016	Receivable (payable) 12/31/16	Total
Federal operating funds	\$ 2,079,155	\$ 481,508	\$ 2,560,663
State funds	2,145,578	238,398	2,383,976
Local public subsidies	<u>3,234,977</u>	<u>(1,265,183)</u>	1,969,794
Total funding	<u>\$ 7,459,710</u>	<u>\$ (545,277)</u>	<u>\$ 6,914,433</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 Valley Transit, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Valley Transit's financial statements, and have issued our report thereon, which included an emphasis of matter paragraph as indicated on page 2, dated June 8, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Valley 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 Valley 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 results of that testing, and not to provide an opinion on the effectiveness of Valley 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 Valley Transit's internal control and on compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
June 8, 2017