

Valley Transit
City of Appleton, Wisconsin

ANNUAL FINANCIAL REPORT

December 31, 2020



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Valley Transit

City of Appleton, Wisconsin

DECEMBER 31, 2020

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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 ("Transit"), an enterprise fund of the City of Appleton, Wisconsin as of and for the year ended December 31, 2020, 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 auditor considers 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, 2020, 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, 2020 and the changes in its financial position or, where applicable, 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**Prior-Year Comparative Information**

We have previously audited Transit's 2019 financial statements, and we expressed an unmodified opinion on the financial statements in our report dated June 16, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the schedules relating to pensions and other postemployment benefits on pages 28 through 29 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 for the year ended December 31, 2020 was conducted for the purpose of forming an opinion on 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements for the year ended December 31, 2020, 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 accompanying supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2020.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Transit as of and for the year ended December 31, 2019 (not presented herein), and have issued our report thereon dated June 16, 2020, which contained an unmodified opinion on the financial statements. The accompanying supplementary information for the year ended December 31, 2019 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2019 financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the 2019 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2019.

The financial information listed in the table of contents as other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2021, 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 solely 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 effectiveness of Transit's 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Green Bay, Wisconsin
June 7, 2021

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, 2020 and 2019.

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 these 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 \$10,327,391 as of December 31, 2020; compared to \$8,493,758 in 2019. The largest portion of Valley Transit's net position is investments in capital assets (i.e. land, building, equipment and improvements). These assets are used to provide transportation services to customers.

The following table provides a summary of Valley Transit's balances as of December 31, 2020 and 2019.

Assets	<u>2020</u>	<u>2019</u>
Current Assets	\$3,202,061	\$2,876,739
Capital Assets	9,155,990	7,419,607
Other Assets	<u>1,718,562</u>	<u>1,006,459</u>
Total Assets	14,076,613	11,302,805
 Deferred Outflow of Resources		
Deferred outflows related to pension	1,377,900	1,727,811
 Liabilities		
Current Liabilities	2,971,172	2,592,564
Non-current Liabilities	<u>470,064</u>	<u>1,077,202</u>
Total Liabilities	3,441,236	3,669,766
 Deferred Inflow of Resources		
Deferred inflows related to pension	1,685,886	867,092
 Net Assets		
Invested in capital assets	9,155,989	7,411,784
Restricted for depreciation reserve	1,718,562	1,006,459
Unrestricted	<u>(547,160)</u>	<u>75,515</u>
Total Net Assets	10,327,391	8,493,758
 Percent restricted	 16.64%	 11.85%

Current Assets increased by \$325,322 in 2020 mostly due to a higher balance in cash and investments and an increase in the prepaid items balances. Current liabilities increased by \$378,608 primarily due to a increase in unearned revenue from the sale of ADA paratransit tickets.

The increase in Capital Assets during 2020 reflects capital purchases of \$2,552,371 financed by federal and state capital funding and local match dollars, offset by depreciation expense of approximately \$817,979.

The deferred outflow and inflows of resources and non-current liabilities in 2020 & 2019 is related directly to Valley Transit's proportionate share of the financial activities of the Wisconsin Retirement System, and the investment returns. Other Assets increased and Non-current Liabilities decreased primarily due to net pension asset/liability.

Valley Transit saw an increase in total Net Position during 2020 largely due to the federal and state capital funding received to finance bus replacements and other capital projects, resulting in an increase in investment in Capital Assets.

The following table provides a summary of Valley Transit's operations for the years ending December 31, 2020 and 2019.

	2020	2019
Operating Revenues		
Passenger fares for transit service	\$902,147	\$1,441,214
Special fare assistance	25,957	43,991
Non-transportation revenue	<u>83,877</u>	<u>127,834</u>
Total Operating Revenues	<u>1,011,981</u>	<u>1,613,039</u>
 Operating Expenses		
Salaries and wages	3,027,086	2,976,418
Fringe benefits	991,862	1,219,656
Services	525,803	548,543
Materials and Supplies	793,894	873,086
Utilities	100,854	106,129
Casualty and Liability costs	191,643	181,126
Purchased transportation services	2,108,532	3,391,407
Miscellaneous	49,880	56,563
Depreciation	<u>817,979</u>	<u>816,670</u>
Total Operating Expenses	<u>8,607,533</u>	<u>10,169,598</u>
Operating Loss	<u>(7,595,552)</u>	<u>(8,556,559)</u>
 Operating Subsidies		
Local	1,232,128	1,675,978
Investment Income <small>(credited as local subsidies)</small>	72,072	83,005
State	2,915,685	2,821,197
Federal	2,099,188	2,665,049
Loss on Asset Disposal	<u>(17,119)</u>	==
Total Subsidies	<u>6,301,954</u>	<u>7,245,229</u>
 Loss Before Contributions & Transfers	(1,293,598)	(1,311,330)
 Capital Contributions - Federal & State	2,545,822	3,535,793
Transfers - Appleton Operating Subsidies	581,409	640,199
 Change in net position	1,833,633	2,864,662
 NET position - beginning of year	<u>8,493,758</u>	<u>5,629,096</u>
 NET position - end of year	<u>10,327,391</u>	<u>8,493,758</u>

Operating revenues decreased \$601,058 in 2020 due to an approximate 42% decrease in ridership on the fixed route (\$242,000) and a decrease of approximately \$315,000 in ADA and ancillary paratransit fares. The decrease in ridership was due to the COVID-19 global pandemic that shut down most of the country in mid-March 2020. Preventive measures included social distancing, travel restrictions, lockdowns and quarantines for people exposed or symptomatic. Precautions continued throughout 2020.

Operating expenses decreased by \$1,562,065 mostly due to a decrease in purchased transportation expense resulting from lower demand for ADA and ancillary paratransit services due to the pandemic. Payroll expense increased due to collective bargaining agreements for represented staff and pay for performance adjustments for non-represented staff that totaled approximately \$50,700, but was offset by a decrease in fringes of \$227,794 which was due to OPEB/net pension decrease.

In spite of lower operating revenues, the combination of lower operating expenses, an increase in State support and the receipt of CARES Act funding resulted in lower local operating support (a reduction of \$443,850). The CARES Act funding was used for safety equipment and associated operating expenses directly related to the pandemic and was a 100% reimbursement of those costs.

Valley Transit's 2020 net position has increased when compared to 2019. The largest factor contributing to the increase in net position is the capital funding received for five replacement buses purchased during 2020.

Capital Assets

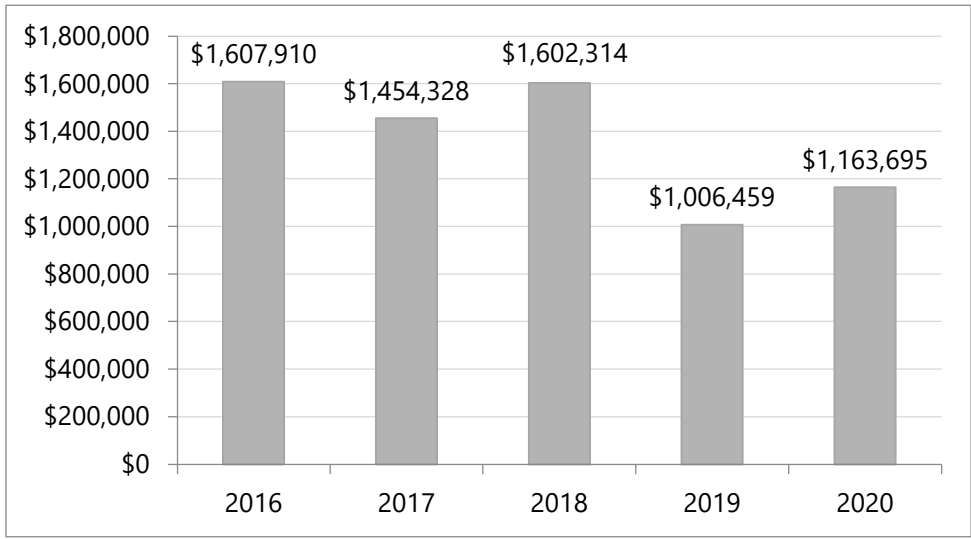
The Federal Transit Administration provided 80% of the funding to purchase Valley Transit's capital assets and therefore has significant interest in their use. The remaining 20% is funded either through Valley Transit's depreciation reserve for replacement equipment or from current year support from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

Net capital assets increased \$1,736,383 during 2020 as the result of capital purchases of \$2,552,371 financed by state and federal capital grants and local match dollars, offset by depreciation expense of \$817,979. Capital investments in 2020 consisted of five new buses at a total investment of \$2,354,614, a floor scrubber (\$59,286), bus shelter (\$10,043), Operation staff vehicle (\$38,830), maintenance software (\$55,981) and completion of two scheduling and dispatch software projects (\$35,608).

Funded Depreciation Reserve – Restricted Assets

Restricted Assets 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:



The decrease in the restricted cash during 2019 is due to utilization of the funds for the 20% capital local share of 2019's capital purchases. This is slightly offset by the annual payment of 20% of the depreciation expense by the local funding partners. The balance increased in 2020 due to investment income on the cash balance and the charge to local funding partners based on depreciation expense. None of the reserve was used for the five new buses purchased in 2020 as they were 100% financed by State of Wisconsin capital grants resulting from the Volkswagen emissions settlement. Twenty percent of that grant amount will be repaid to the State over a period of ten years via withholding from the City of Appleton's portion of State Shared Revenues. That reduction in State revenues to the City will be reimbursed to the general fund from this reserve.

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 1.920.832.5800 or Ronald.McDonald@appleton.org.

FINANCIAL STATEMENTS

Valley Transit

City of Appleton, Wisconsin

STATEMENT OF NET POSITION
DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS AS OF DECEMBER 31, 2019

	2020	2019
ASSETS		
Current assets		
Cash and investments	\$ 2,170,064	\$ 654,411
Accounts receivable	303,489	581,608
Due from other governments		
Federal capital and operating grants	413,483	1,501,351
Local governments	2,125	3,699
Prepaid items	312,900	135,670
Total current assets	<u>3,202,061</u>	<u>2,876,739</u>
Noncurrent assets		
Restricted assets		
Cash and investments	<u>1,163,695</u>	<u>1,006,459</u>
Other assets		
Net pension asset	<u>554,867</u>	<u>-</u>
Capital assets		
Nondepreciable	910,941	891,831
Depreciable	<u>8,245,049</u>	<u>6,527,776</u>
Total capital assets	<u>9,155,990</u>	<u>7,419,607</u>
Total assets	<u>14,076,613</u>	<u>11,302,805</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related amounts	1,281,687	1,674,260
Other postemployment related amounts	<u>96,213</u>	<u>53,551</u>
Total deferred outflows of resources	<u>1,377,900</u>	<u>1,727,811</u>
LIABILITIES		
Current liabilities		
Accounts payable	419,762	385,465
Accrued and other current liabilities	130,049	86,299
Due to other governments	1,290,162	1,224,358
Compensated absences	183,570	156,510
Special deposits	500	500
Unearned revenue	<u>947,129</u>	<u>739,432</u>
Total current liabilities	<u>2,971,172</u>	<u>2,592,564</u>
Long-term obligations, less current portion		
Compensated absences	112,562	140,202
Net pension liability	-	620,181
Other postemployment benefits	<u>357,502</u>	<u>316,819</u>
Total long-term liabilities	<u>470,064</u>	<u>1,077,202</u>
Total liabilities	<u>3,441,236</u>	<u>3,669,766</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related amounts	1,664,337	859,276
Other postemployment related amounts	<u>21,549</u>	<u>7,816</u>
Total deferred inflows of resources	<u>1,685,886</u>	<u>867,092</u>
NET POSITION		
Investment in capital assets	9,155,989	7,419,607
Restricted	1,718,562	1,006,459
Unrestricted	<u>(547,160)</u>	<u>67,692</u>
Total net position	<u>\$ 10,327,391</u>	<u>\$ 8,493,758</u>

See accompanying Notes to the Financial Statements.

Valley Transit

City of Appleton, Wisconsin

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019**

	2020	2019
OPERATING REVENUES		
Regular passenger fares	\$ 902,147	\$ 1,441,214
Special fares	25,957	43,991
Advertising services	43,415	69,325
Other	40,462	58,509
Total operating revenues	<u>1,011,981</u>	<u>1,613,039</u>
OPERATING EXPENSES		
Salaries and wages	3,027,086	2,976,418
Fringe benefits	991,862	1,219,656
Services	525,803	548,543
Materials and supplies		
Fuels and lubricants	237,611	418,984
Tires and tubes	40,379	29,069
Other	515,904	425,033
Utilities	100,854	106,129
Casualty and liability costs	191,643	181,126
Purchased transportation services	2,108,532	3,391,407
Miscellaneous	49,880	56,563
Depreciation	817,979	816,670
Total operating expenses	<u>8,607,533</u>	<u>10,169,598</u>
Operating loss	<u>(7,595,552)</u>	<u>(8,556,559)</u>
NONOPERATING REVENUES		
Interest income	72,072	83,005
Federal operating assistance	2,099,188	2,665,049
State operating assistance	2,915,685	2,821,197
Local operating assistance	1,232,128	1,675,978
Loss on disposal of capital assets	(17,119)	-
Total nonoperating revenues	<u>6,301,954</u>	<u>7,245,229</u>
Loss before contributions and transfers	(1,293,598)	(1,311,330)
Federal and State capital grants and contributions	2,545,822	3,535,793
Transfers in - City operating subsidy	581,409	640,199
Change in net position	1,833,633	2,864,662
Net position - January 1	<u>8,493,758</u>	<u>5,629,096</u>
Net position - December 31	<u>\$ 10,327,391</u>	<u>\$ 8,493,758</u>

See accompanying Notes to the Financial Statements.

Valley Transit

City of Appleton, Wisconsin

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,497,797	\$ 1,543,507
Cash paid for employee wages and benefits	(2,949,576)	(2,719,964)
Cash paid to suppliers	(4,905,401)	(6,245,085)
Net cash used by operating activities	<u>(6,357,180)</u>	<u>(7,421,542)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal operating assistance	3,187,056	2,392,105
State operating assistance	2,915,685	3,068,753
Local operating assistance	1,299,506	1,732,205
Local operating assistance - City operating subsidy	581,409	640,199
Net cash provided by noncapital financing activities	<u>7,983,656</u>	<u>7,833,262</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(2,571,481)	(4,402,650)
Contributed capital - federal and state	2,545,822	3,535,793
Net cash used by capital and related financing activities	<u>(25,659)</u>	<u>(866,857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	72,072	83,005
Change in cash and cash equivalents	1,672,889	(372,132)
Cash and cash equivalents - January 1	<u>1,660,870</u>	<u>2,033,002</u>
Cash and cash equivalents - December 31	<u>\$ 3,333,759</u>	<u>\$ 1,660,870</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (7,595,552)	\$ (8,556,559)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	817,979	816,670
Change in WRS asset/liability	(1,175,048)	1,147,293
Change in WRS deferred outflow	392,573	(716,215)
Change in WRS deferred inflow	805,061	(187,100)
Change in OPEB liability	40,683	(7,195)
Change in OPEB deferred outflow	(42,662)	4,495
Change in OPEB deferred inflow	13,733	(1,562)
Change in operating assets and liabilities		
Accounts receivables	278,119	(208,920)
Prepaid items	(177,230)	93,451
Accounts payable	34,297	37,974
Accrued and other current liabilities	43,750	15,413
Unearned revenue	207,697	139,388
Compensated absences	(580)	1,325
Net cash provided used by operating activities	<u>\$ (6,357,180)</u>	<u>\$ (7,421,542)</u>
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and cash equivalents in current assets	\$ 2,170,064	\$ 654,411
Cash and cash equivalents in restricted assets	<u>1,163,695</u>	<u>1,006,459</u>
Total cash and cash equivalents	<u>\$ 3,333,759</u>	<u>\$ 1,660,870</u>

See accompanying Notes to the Financial Statements.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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, Wisconsin (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, 2020

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. 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.

5. 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.

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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

6. 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.

7. 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.

8. Unearned Revenues

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

9. 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.

10. Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the Total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Other Postemployment Benefit Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

- ▶ **Unrestricted net position.** Net position that is neither classified as restricted nor as net investment in capital assets.

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, 2019, from which the summarized information was derived.

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.

The City's Comprehensive Annual Financial Report can be reviewed at www.appleton.org/government/finance.

B. RESTRICTED ASSETS

Restricted assets on December 31, 2020 totaled \$1,163,695 and consisted of cash and investments held for the following purpose:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Depreciation	<u>\$ 1,163,695</u>	To be used for the replacement of capital assets of Valley Transit

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

C. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 891,831	\$ -	\$ -	\$ 891,831
Construction in progress	-	19,110	-	19,110
Total capital assets, nondepreciable	<u>891,831</u>	<u>19,110</u>	<u>-</u>	<u>910,941</u>
Capital assets, depreciable:				
Buildings and improvements	4,188,029	-	-	4,188,029
Machinery and equipment	12,551,741	2,552,371	1,711,830	13,392,282
Subtotals	<u>16,739,770</u>	<u>2,552,371</u>	<u>1,711,830</u>	<u>17,580,311</u>
Less accumulated depreciation for:				
Buildings and improvements	3,755,758	52,863	-	3,808,621
Machinery and equipment	6,456,236	765,116	1,694,711	5,526,641
Subtotals	<u>10,211,994</u>	<u>817,979</u>	<u>1,694,711</u>	<u>9,335,262</u>
Total capital assets, depreciable, net	<u>6,527,776</u>	<u>1,734,392</u>	<u>17,119</u>	<u>8,245,049</u>
Capital assets, net	<u>\$ 7,419,607</u>	<u>\$ 1,753,502</u>	<u>\$ 17,119</u>	<u>\$ 9,155,990</u>

D. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations of Transit for the year ended December 31, 2020:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 296,712</u>	<u>\$ 26,636</u>	<u>\$ 27,216</u>	<u>\$ 296,132</u>	<u>\$ 183,570</u>

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 issued a standalone WRS Financial Report, which can be found at <https://etf.wi.gov/about-etf/reports-and-studies/financial-reports-and-statements>.

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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 executive service retirement plan participants, if hired on or before 12/31/16) are entitled to a retirement benefit based on a formula factor, their final average earnings, and creditable service.

Final average earnings is the average of the participant's three highest earnings periods. Creditable service includes current service and prior service for which a participant received earnings and made contributions as required. Creditable service also includes creditable military service. The retirement benefit will be calculated as a money purchase benefit based on the employee's contributions plus matching employer's contributions, with interest, if that benefit is higher than the formula benefit.

Vested participants may retire at or after age 55 (50 for protective occupations) and receive an actuarially-reduced benefit. Participants terminating covered employment prior to eligibility for an annuity may either receive employee-required contributions plus interest as a separation benefit or leave contributions on deposit and defer application until eligible to receive a retirement benefit.

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:

Year	Core Fund Adjustment	Variable Fund Adjustment
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)
2017	2.0	4
2018	2.4	17
2019	0	(10)

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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 year ended December 31, 2020, the WRS recognized \$196,805 in contributions from Transit.

Contribution rates for the reporting period are:

Employee Category	Employee	Employer
General (including teachers, executives and elected officials)	6.75%	6.75%
Protective with Social Security	6.75%	11.65%
Protective without Social Security	6.75%	16.25%

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

At December 31, 2020, Transit reported an asset of \$554,867 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2019, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018 rolled forward to December 31, 2019. 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 asset was based on Transit's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2019, Transit's proportion was 0.01720809%, which was a decrease of 0.00022405% from its proportion measured as of December 31, 2018.

For the year ended December 31, 2020, Transit recognized pension expense of \$204,637.

At December 31, 2020, 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	\$ 1,053,265	\$ 527,089
Net differences between projected and actual earnings on pension plan investments	-	1,134,346
Changes in assumptions	43,239	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	156	2,902
Employer contributions subsequent to the measurement date	185,027	-
Total	<u>\$ 1,281,687</u>	<u>\$ 1,664,337</u>

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\$185,027 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, 2021. 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
2021	\$ (169,569)
2022	(125,810)
2023	19,561
2024	(291,859)
Total	<u>\$ (567,677)</u>

5. Actuarial Assumptions

The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	December 31, 2018
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Long-term expected rate of return:	7.0%
Discount rate:	7.0%
Salary increases:	
Inflation	3.0%
Seniority/Merit	0.1% - 5.6%
Mortality	Wisconsin 2018 Mortality Table
Post-retirement adjustments*	1.9%

* *No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 1.9% 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 2018 that covered a three-year period from January 1, 2015 to December 31, 2017. The total pension liability for December 31, 2019 is based upon a roll-forward of the liability calculated from the December 31, 2018 actuarial valuation.

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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 geometric real rates of return for each major asset class are summarized in the following table:

	Current Asset Allocation %	Long-term Expected Nominal Rate of Return %	Long-term Expected Real Rate of Return %
<u>Core Fund Asset Class</u>			
Global equities	49%	8.0%	6.1%
Fixed income	24.5%	4.9%	2.1%
Inflation sensitive assets	15.5%	4.0%	1.2%
Real estate	9%	6.3%	3.5%
Private equity/debt	8%	10.6%	7.6%
Multi-asset	4%	6.9%	4.0%
Cash	-10%	n/a	n/a
Total Core Fund	100%	7.5%	4.6%
<u>Variable Fund Asset Class</u>			
U.S. equities	70%	7.5%	4.6%
International equities	30%	8.2%	5.3%
Total Variable Fund	100%	7.8%	4.9%

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 7.00% was used to measure the Total Pension Liability for the current and prior year. This single discount rate is based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.75% (Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2019. In describing this index, Fidelity notes that the Municipal Curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.). Because of the unique structure of WRS, the 7.00% expected rate of return implies that a dividend of approximately 1.9% 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.

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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 7.0 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 (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

	1% Decrease to Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase to Discount Rate (8.0%)
Transit's proportionate share of the net pension liability (asset)	\$ 1,428,883	\$ (554,867)	\$ (2,037,949)

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/about-etf/reports-and-studies/financial-reports-and-statements>.

6. Payables to the Pension Plan

At December 31, 2020, Transit reported no outstanding contributions to the pension plan for the year ended December 31, 2020.

F. OTHER POSTEMPLOYMENT BENEFITS

Single-employer Defined Postemployment Benefit Plan

Plan Description

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 retiree (or other qualified terminated employees) at blended premium rates. This results in another postemployment benefit (OPEB) for retirees, commonly referred to as an implicit rate subsidy. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

Employees and their eligible dependents can elect to continue medical coverage into retirement on the City’s group plan on a pay-all basis. The City does not pay any portion of the cost of coverage. Coverage continues until the retiree reaches Medicare eligibility given that the required contributions are paid.

Employees Covered by Benefit Terms

At December 31, 2020, the following employees of the City were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	58
Active employees	575
	<u>633</u>

Contributions

All retired plan members and beneficiaries currently receiving benefits are required to pay the entire cost of insurance premiums based on the employee group and their retirement date.

Total OPEB Liability

Transit’s total OPEB liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the Total OPEB liability was determined by an actuarial valuation as of January 1, 2020.

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NOTES TO FINANCIAL STATEMENTS

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Actuarial Assumptions. The total OPEB liability in the January 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Normal
Discount rate:	1.93%
Inflation:	3.0%
Salary increases:	4.0%
Healthcare cost trend rates:	5.0% for 2020 decreasing to an ultimate rate of 4.5% by 2036

Mortality, disability, retirement, and withdrawal rates are the same as those used in the December 31, 2019 Wisconsin Retirement System's (WRS) actuarial valuation report. The actuarial assumptions used in the January 1, 2019 valuation were based on the "Wisconsin Retirement System 2015 - 2017 Experience Study".

Discount Rate. The discount rate used to measure the total OPEB liability was 1.93%. The projection of cash flows used to determine the discount rate assumed that Transit contributions will be made at rates equal to the actuarially determined contribution rates.

Changes in the Total OPEB Liability

	Increase (Decrease) Total OPEB Liability (a)
Balance at December 31, 2019	\$ 316,819
Changes for the year:	
Service cost	17,085
Interest	9,854
Difference between expected & actual experience	(16,712)
Changes of assumptions and other inputs	36,969
Benefit payments	(23,095)
Other changes	16,582
Net changes	40,683
Balance at December 31, 2020	\$ 357,502

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of Transit, as well as what Transit's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.93%) or 1-percentage-point higher (2.93%) than the current rate:

	1% Decrease to Discount Rate (0.93%)	Current Discount Rate (1.93%)	1% Increase to Discount Rate (2.93%)
Total OPEB liability	\$ 334,555	\$ 357,502	\$ 382,423

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Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of Transit, as well as what Transit's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (4.0%) or 1-percentage-point higher (6.0%) than the current healthcare cost trend rates:

	<u>1% Increase</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Decrease</u>
Total OPEB liability	\$ 395,476	\$ 357,502	\$ 324,960

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2020, Transit recognized OPEB expense of \$37,426.

At December 31, 2020, Transit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 34,375	\$ 14,853
Changes in assumptions	61,838	6,696
Total	<u>\$ 96,213</u>	<u>\$ 21,549</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in other postemployment benefits expense as follows:

<u>Year Ended December 31,</u>	<u>Expense</u>
2021	\$ 10,488
2022	10,488
2023	10,488
2024	10,488
2025	10,488
2026-2028	22,224
Total	<u>\$ 74,664</u>

Payable to the OPEB Plan

At December 31, 2020, Transit reported no outstanding contributions to the Plan required for the year ended December 31, 2020.

Plan Financial Report

The Plan does not prepare a separate standalone financial report.

G. NET POSITION

The Transit reports restricted net position at December 31, 2020 as follows:

Restricted for	
Depreciation reserve	\$ 1,163,695
Pension asset	554,867
Total restricted net position	<u>\$ 1,718,562</u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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.

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 2020 amounted to an investment gain of \$72,072. 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.

Operating assistance for 2020 was as follows:

<u>Governmental Unit</u>	<u>Amount</u>
Federal	\$ 1,676,612
Federal - capital maintenance	363,858
Federal - enhanced mobility of seniors and individuals with disabilities	58,718
State of Wisconsin	2,793,718
State of Wisconsin - paratransit aid	121,967
Local	
City of Appleton (reported as transfer)	581,409
City of Appleton share of investment return	72,072
Town of Buchanan	12,315
City of Kaukauna	21,758
Village of Kimberly	14,989
City of Menasha	37,030
Fox Crossing	44,981
Fox Crossing - Elderly	1,518
City of Neenah	76,503
City of Neenah - Elderly	16,768
Village of Little Chute	15,973
Town of Grand Chute	120,088
Town of Greenville	177
Winnebago County - Elderly	297
Outagamie County - Link	87,636
Special transportation - Outagamie County	137,716
Special transportation - Winnebago County	35,929
Special transportation - Calumet County	7,532
Appleton Downtown Inc. - Trolley	1,136
Connector	60,001
Special transportation - Family Care	539,781
Total	<u>\$ 6,900,482</u>

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NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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 \$1,000 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 \$113,784 in 2020 and \$112,764 in 2019. 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 2020, 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 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 2020 and 2019, Transit Mutual returned surplus to Valley Transit pursuant to its surplus management policy; in addition, dividends were paid to Valley Transit in 2020 and 2019.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

The City's share of this corporation is 4.94% for auto liability and 3.99% 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 54912-1135 or by email from pamela@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.

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 2019, Transit entered into a long-term contract with Running, Inc. to provide Paratransit services. The contract is effective July 1, 2019 and through June 30, 2022 and allows for fixed rate payments based on one-way trips. The contract includes the option to extend for up to two additional one-year periods.

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. Transit expects any expenditures which may be disallowed by the granting agency to be immaterial.

D. RISKS AND UNCERTAINTIES

The Coronavirus Disease 2019 (COVID-19) has affected global markets, supply chains, employees of organizations and local communities. Specific to Transit, COVID-19 may impact parts of its 2021 operations and financial results. Management believes Transit is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimate as of June 7, 2021.

Valley Transit

City of Appleton, Wisconsin

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

E. 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 June 15, 2021. 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 CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 17,085	\$ 18,143	\$ 17,672
Interest	9,854	10,714	8,613
Differences between expected and actual experience	(16,712)	-	53,881
Changes of assumptions	36,969	5,772	5,188
Benefit payments	(23,095)	(24,371)	(27,644)
Other changes	16,582	(17,453)	(4,606)
Net change in total OPEB liability	40,683	(7,195)	53,104
Total OPEB liability - beginning	316,819	324,014	270,910
Total OPEB liability - ending	<u>\$ 357,502</u>	<u>\$ 316,819</u>	<u>\$ 324,014</u>
Covered-employee payroll	\$ 2,478,512	\$ 2,995,492	\$ 2,067,524
County's total OPEB liability as a percentage of covered-employee payroll	14.42%	10.58%	15.67%

* The amounts presented for each fiscal year were determined as of the current fiscal year end. Amounts for prior years were not available.

See accompanying Notes to 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>Plan 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 (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>
12/31/14	0.01777468%	\$ (435,909)	\$ 1,976,149	22.06%	102.74%
12/31/15	0.01902319%	292,873	2,091,058	14.01%	98.20%
12/31/16	0.01902499%	148,569	2,048,179	7.25%	99.12%
12/31/17	0.01775315%	(527,112)	2,012,410	26.19%	102.93%
12/31/18	0.01743214%	620,181	2,067,524	30.00%	96.45%
12/31/19	0.01720809%	(554,867)	2,046,949	27.11%	102.96%

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 (fiscal year)</u>	<u>Contributions as a Percentage of Covered 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	-	2,012,410	8.63%
12/31/18	182,915	182,915	-	2,008,775	9.11%
12/31/19	182,258	182,258	-	2,046,949	8.90%
12/31/20	185,027	185,027	-	2,045,359	9.05%

See accompanying Notes to Required Supplementary Information.

Valley Transit

City of Appleton, Wisconsin

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2020

A. WISCONSIN RETIREMENT SYSTEM

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

No significant change in assumptions were noted from the prior year.

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.

B. OTHER POSTEMPLOYMENT BENEFIT PLANS

Single-employer Defined Postemployment Benefit Plan

In addition to changes required by GASB Statement No. 75, the updated actuarial valuation decreased the discount rate used from 3.26% to 1.93%. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

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

**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual	Variance with	2019
	Original	Final		Final Budget - Positive (Negative)	
OPERATING REVENUES					
Passenger fares and special fare assistance	\$ 1,649,048	\$ 1,649,048	\$ 928,104	\$ (720,944)	\$ 1,485,205
Non-transportation revenue	79,000	73,000	83,877	10,877	127,834
Total operating revenues	<u>1,728,048</u>	<u>1,722,048</u>	<u>1,011,981</u>	<u>(710,067)</u>	<u>1,613,039</u>
OPERATING EXPENSES (EXCLUDING DEPRECIATION)					
Labor and fringe benefits					
Operators' wages	2,206,176	2,206,176	1,981,445	224,731	1,967,256
Other salaries and wages	933,507	1,045,507	1,045,641	(134)	1,009,162
Fringe benefits	1,246,877	1,290,877	991,862	299,015	1,219,656
Total labor and fringe benefits	<u>4,386,560</u>	<u>4,542,560</u>	<u>4,018,948</u>	<u>523,612</u>	<u>4,196,074</u>
Services	<u>507,304</u>	<u>620,620</u>	<u>525,803</u>	<u>94,817</u>	<u>548,543</u>
Materials and supplies					
Fuels	582,500	582,500	233,960	348,540	400,292
Lubricants	25,000	25,000	3,651	21,349	18,692
Tires and tubes	41,500	41,500	40,379	1,121	29,069
Revenue equipment maintenance	178,000	178,000	78,469	99,531	227,591
Building and grounds maintenance	116,351	119,152	113,067	6,085	107,319
General office	479,109	3,350,078	324,368	3,025,710	90,123
Total materials and supplies	<u>1,422,460</u>	<u>4,296,230</u>	<u>793,894</u>	<u>3,502,336</u>	<u>873,086</u>
Utilities					
Electric	50,225	50,225	51,466	(1,241)	50,239
Gas	17,500	17,500	13,021	4,479	17,250
Water	7,850	7,850	8,066	(216)	7,805
Telephone	8,100	8,100	8,079	21	10,020
Other	22,201	22,201	20,222	1,979	20,815
Total utilities	<u>105,876</u>	<u>105,876</u>	<u>100,854</u>	<u>5,022</u>	<u>106,129</u>
Casualty and liability costs					
Physical damage	15,803	15,803	6,229	9,574	8,535
Public liability and property	212,221	212,221	185,414	26,807	172,591
Total casualty and liability costs	<u>228,024</u>	<u>228,024</u>	<u>191,643</u>	<u>36,381</u>	<u>181,126</u>
Purchased transportation services	<u>3,743,513</u>	<u>3,743,513</u>	<u>2,108,532</u>	<u>1,634,981</u>	<u>3,391,407</u>
Miscellaneous					
Dues and subscriptions	18,835	18,835	16,585	2,250	14,862
Advertising and promotion	50,309	50,309	16,583	33,726	18,883
Training/other miscellaneous	29,549	29,549	16,712	12,837	22,818
Total miscellaneous	<u>98,693</u>	<u>98,693</u>	<u>49,880</u>	<u>48,813</u>	<u>56,563</u>
Total operating expenses (excluding depreciation)	<u>10,492,430</u>	<u>13,635,516</u>	<u>7,789,554</u>	<u>5,845,962</u>	<u>9,352,928</u>
EXCESS OF OPERATING EXPENSES (EXCLUDING DEPRECIATION) OVER OPERATING REVENUES FOR THE YEAR					
	<u>\$ (8,764,382)</u>	<u>\$ (11,913,468)</u>	<u>\$ (6,777,573)</u>	<u>\$ 5,135,895</u>	<u>\$ (7,739,889)</u>

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

OTHER INFORMATION

Valley Transit

City of Appleton, Wisconsin

DETAILED SCHEDULE OF REVENUES AND EXPENSES - REGULATORY BASIS FOR THE YEAR ENDED DECEMBER 31, 2020

REVENUE

401 - Passenger fares to transit service	\$ 902,147
402 - Special fare assistance	25,957
406 - Auxiliary transportation revenue	
Advertising	43,415
407 - Non-transportation revenue	
Rental of buildings and other property	6,000
Other	34,462
409 - Local operating assistance	1,834,256
409 - Local operating assistance - donations	51,353
411 - State operating assistance - current year (State Operating 85.20)	2,793,718
413 - Federal operating assistance (Federal 5307 and Cares Act)	2,056,331
Total revenue	<u>7,747,639</u>

EXPENSES BY OBJECT CLASS TOTAL

501 - Labor	
Operators' wages	1,981,445
Other salaries and wages	1,045,641
502 - Fringe benefits	991,862
503 - Services	525,803
504 - Materials and supplies	
Fuels and lubricants	237,611
Tires and tubes	40,379
Other	515,904
505 - Utilities	100,854
506 - Casualty and liability costs	191,643
508 - Purchased transportation services	2,108,532
509 - Miscellaneous	49,880
513 - Depreciation	817,979
Total expenses	<u>8,607,533</u>

EXCESS OF EXPENSES OVER REVENUES FOR THE YEAR *	<u>\$ (859,894)</u>
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* Excludes capital contributions shown on Statement of Revenues, Expenses and Changes in Net Position

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, 2020

	<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	\$ 10,441,166	\$ 10,441,166
Less: Revenues Not Included per Guidelines		
Federal capital - maintenance	191,209	191,209
Federal 5310 Operating Grant	42,857	42,857
State capital	2,354,613	2,354,613
WisDOT Paratransit Costs - not eligible	121,967	121,967
Loss on Disposal of Capital Assets	(17,119)	(17,119)
Total Revenues Not Included per Guidelines	<u>2,693,527</u>	<u>2,693,527</u>
ADJUSTED REVENUES FOR REGULATORY BASIS	<u>7,747,639</u>	<u>7,747,639</u>
Less: Unrecognized Revenues		
Local operating subsidies	1,885,609	1,885,609
Federal operating subsidy	2,056,331	2,056,331
State operating subsidy	2,793,718	2,793,718
Advertising services	-	43,415
Other (Non-transportation revenues)	6,410	14,258
Less: Additional Contra Expense		
Credit Card Rebates	7,624	7,624
Damage to City Property	18,579	18,579
Total Unrecognized revenues	<u>6,768,271</u>	<u>6,819,534</u>
ADJUSTED REVENUES	<u>\$ 979,368</u>	<u>\$ 928,105</u>
Total expenses per statement of revenues, expenses and changes in net position	\$ 8,607,533	\$ 8,607,533
Less: Unrecognized Expenses		
Depreciation	817,979	817,979
Capital maintenance *	191,209	191,209
Contra-expenses:		
Credit Card Rebates	7,624	7,624
Damage to City Property	18,579	18,579
Total WisDOT unrecognized expenses	<u>1,035,391</u>	<u>1,035,391</u>
RECOGNIZED EXPENSES	<u>\$ 7,572,142</u>	<u>\$ 7,572,142</u>
RECOGNIZED DEFICITS	<u>\$ (6,592,774)</u>	<u>\$ (6,644,037)</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, 2020

STATE SHARE

WisDOT recognized deficit	\$ 6,592,774		
Less: Federal share	<u>2,104,790</u>		
Non-federal share of WisDOT deficit		<u>\$ 4,487,984</u>	
WisDOT recognized expenses	\$ 7,572,142		
Maximum federal and state*	<u>N/A</u>		
Recognized expenses	<u>7,572,142</u>		
Less: Federal share	<u>2,104,790</u>		
Non-Federal share		<u>\$ 5,467,352</u>	
City of Appleton and other local subsidies	<u>\$ 1,885,609</u>		
5 Times operating subsidy		<u>\$ 9,428,045</u>	
WisDOT Contract Amount		<u>\$ 2,793,718</u>	
WisDOT share			<u>\$ 2,793,718</u>

*State specified no maximum percent for 2020.

FEDERAL SECTION 5307 SHARE

Federally recognized expenses	\$ 6,644,037		
Maximum federal percentage	<u>50.00%</u>		
50% of federal deficit		<u>\$ 3,322,019</u>	
Federally recognized deficit	\$ 6,644,037		
Less WisDOT share	<u>2,793,718</u>		
Non-WisDOT share		<u>\$ 3,850,319</u>	
Maximum contract amount			
Capital cost of third party contracting	\$ 140,242		
Preventative maintenance	363,858		
Operating assistance	<u>1,600,690</u>		
Total federal funds		<u>\$ 2,104,790</u>	
Federal share			<u>\$ 2,104,790</u>

SUMMARY OF 2020 FUNDING

	Received in 2020	Receivable (payable) 12/31/20	Total
Federal section 5307 assistance	\$ 48,459	\$ 2,056,331	\$ 2,104,790
State assistance	2,793,718	-	2,793,718
Local assistance	<u>2,984,428</u>	<u>(1,290,162)</u>	<u>1,694,266</u>
Total funding	<u>\$ 5,826,605</u>	<u>\$ 766,169</u>	<u>\$ 6,592,774</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, 2020, 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 7, 2021.

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) as a basis for determining 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 financial statements. 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 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Green Bay, Wisconsin

June 7, 2021