

# **ROCKFORD MASS TRANSIT DISTRICT**

A Component Unit of the City of Rockford, Illinois

## **FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

# ROCKFORD MASS TRANSIT DISTRICT

A Component Unit of the City of Rockford, Illinois

## TABLE OF CONTENTS

As of and for the Years Ended June 30, 2018 and 2017

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Independent Auditors' Report	1 – 2
Required Supplementary Information	
Management's Discussion and Analysis	3 – 11
Financial Statements	
Statements of Net Position	12 – 13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15 – 16
Notes to Financial Statements	17 – 37
Required Supplementary Information	
Defined Benefit Pension Plan – Schedule of the Changes in the Employer's Net Pension Liability and Related Ratios	38
Defined Benefit Pension Plan – Schedule of Employer Contributions and Notes to Required Supplementary information	39
Other Post-Employment Benefit Plan – Schedule of Changes in Net OPEB Liability and Related Ratios	40
Other Post-Employment Benefit Plan – Schedule of Contributions	41
Other Post-Employment Benefit Plan Under GASB 45 – Schedule of Funding Progress and Schedule of Contributions	42
Supplementary Information	
Operating Expenses, Excluding Depreciation	43
Illinois Department of Transportation	
Independent Auditors' Report on Compliance with Laws and Regulations Applicable to the Financial Assistance Received from the Illinois Department of Transportation	44 – 45
Schedule of Operating Subsidy	46
Report on Federal Awards	
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 <i>Government Auditing Standards</i>	47 – 48
Independent Auditors' Report on Compliance for Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	49 – 51
Schedule of Expenditures of Federal Awards	52
Notes to Schedule of Expenditures of Federal Awards	53 – 54
Schedule of Findings and Questioned Costs	55 – 56

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Rockford Mass Transit District  
Rockford, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Rockford Mass Transit District (the District), a component unit of the City of Rockford, Illinois, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the District'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 District'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 Rockford Mass Transit District as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, effective July 1, 2017. Our opinion is not modified with respect to this matter.

### **Other Matter**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have issued our report on our consideration of the District'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 the District'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 the District's internal control over financial reporting and compliance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
December 4, 2018

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

This section of the Rockford Mass Transit District's (RMTD) annual financial report presents a discussion and analysis of RMTD's financial performance during the fiscal year that ended June 30, 2018. Please read this section in conjunction with the transmittal letter at the front of this report and RMTD's financial statements that follow this section.

## **FINANCIAL HIGHLIGHTS**

- Total operating revenues for fiscal year 2018, at \$1,738,362, was 6.89% higher than the comparable fiscal year 2017 total operating revenues of \$1,626,332. *Fixed Route passenger service* for fiscal year 2018, at 1,551,899 was 1.43% lower than the comparable fiscal year 2017 fixed route passenger service of 1,574,445. Paratransit passenger service for fiscal year 2018, at 117,125 was 14.21% higher than the comparable fiscal year 2017 paratransit passenger service of 102,549.
- Total operation and maintenance expenses for fiscal year 2018, at \$17,748,860, was 15.60% higher than the comparable total operation and maintenance expenses for fiscal year 2017 of \$15,354,015.
- Total operating subsidies for fiscal year 2018, at \$15,138,779, was 8.30% higher than the comparable total operating subsidies for fiscal year 2017 of \$13,978,717.
- Total net position for fiscal year 2018 at \$10,601,292, was 44.26% lower than the comparable total net assets for fiscal year 2017 of \$19,019,453. The implantation and recording of GASB Statement No. 75, Accounting and financial reporting for postemployment benefits other than pensions requirement was the reason for the notable decrease in the comparable total net assets change between the two fiscal year reported within the statements.
- Total noncurrent assets comprised of capital assets (net of depreciation) for fiscal year 2018, at \$19,752,763, was 3.93% lower than the comparable total noncurrent assets for fiscal year 2017 of \$20,561,758.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this annual report consists of six parts: management's discussion and analysis (this section), the basic financial statements, the required supplementary information, other supplemental information, the Illinois Department of Transportation and reports on federal awards.

The financial statements provide both short-term and long-term information about RMTD's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

RMTD's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of RMTD are included in the Statements of Net Assets.

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

**FINANCIAL ANALYSIS OF THE RMTD**

**Statement of Net Position**

RMTD's total net position on June 30, 2018 totaled \$10,601,292, a 44.26% decrease from the June 30, 2017 total net position that totaled \$19,019,453. (See Table A-1.) Total assets & deferred outflow of resources decreased 2.52% to \$31,931,174 and total liabilities increased 55.26% to \$21,329,882.

**Table A-1**  
**Rockford Mass Transit's Total Net Position**  
*(in thousands of dollars)*

	2018	2017	2018-2017% %Change	2016
Current assets	\$ 9,643.4	\$ 9,136.2	5.55%	\$ 9,318.4
Non-current assets	19,752.8	20,561.8	-3.93%	21,044.7
Pension deferred outflows	2,535.0	3,059.4		2,304.1
Total Assets	<u>\$ 31,931.2</u>	<u>\$ 32,757.4</u>	<u>-2.52%</u>	<u>\$ 32,667.2</u>
Current liabilities	\$ 2,939.5	\$ 2,234.9	31.53%	\$ 3,287.5
Deferred credits	2,009.1	2,082.5	-3.52%	2,062.9
Pension liability	5,779.0	6,180.0	-6.49%	5,301.8
Post-Employment Benefits Obligations	10,602.3	3,240.5	227.18%	2,780.5
Total Liabilities	<u>21,329.9</u>	<u>13,737.9</u>	<u>55.26%</u>	<u>13,432.7</u>
Pension deferred inflows of resources	-	-		-
Net assets:				
Inv. in capital assets, net of related debt	19,752.8	20,561.8	-3.93%	21,044.7
Restricted for EBT, Pub Liab & WC	72.8	284.3	-74.39%	776.4
Unrestricted	(9,224.3)	(1,826.6)	405.00%	(2,586.6)
Total Net Position	<u>10,601.3</u>	<u>19,019.5</u>	<u>-44.26%</u>	<u>19,234.5</u>
Total Liab., Def. Inflows & Net Position	<u>\$ 31,931.2</u>	<u>\$ 32,757.4</u>	<u>-2.52%</u>	<u>\$ 32,667.2</u>

The current assets for fiscal year 2018, at \$9,643,410, increased by 5.55% in comparison to the current assets for fiscal year 2017 of \$9,136,202. The current liabilities for fiscal year 2018, of \$2,939,469, increased by 31.53% in comparison to the current liabilities for fiscal year 2017 of \$2,234,877.

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

Capital assets less accumulated depreciation and amortization for fiscal year 2018, at \$19,752,763, decreased by 3.93% in comparison to the capital assets less accumulated depreciation and amortization for fiscal year 2017 of \$20,561,758. Depreciation Expense for fiscal year 2018 amounted to \$2,269,686 and the Disposition of Assets was \$0.

In compliance with GASB 68, a net pension liability of \$5,778,998 was recognized during fiscal year 2018 compared to a net pension liability of \$6,180,038 during fiscal year 2017. In accordance with that compliance, a pension deferred outflow of \$2,535,001 and a pension deferred inflow of \$0.00 were also recognized. The annual contribution to the pension plan was \$1,400,000 for fiscal year 2018.

In fiscal year 2018, RMTD implemented GASB 75, which relates to Other Post-Employment Benefits. In compliance with GASB 75, an additional accrual was expensed for Other Post-Employment Benefits for the fiscal year end of June 30, 2018. The amount expensed for the fiscal year 2018 amounted to \$583,014. The other post-employment obligation (liability) for the fiscal year end June 30, 2018 increased by \$7,361,732, 227.18%, from \$3,240,537 to \$10,602,269. Prior to fiscal year 2018, RMTD followed guidance issued under GASB 45.

**Statement of Revenues, Expenses and Changes in Net Position**

The total net position for fiscal year 2018, was \$10,601,292 compared to a net position of \$19,019,453 at the end of fiscal year 2017. (See Table A-2.) RMTD's total operating revenues increased by 6.89% to \$1,738,362 and total operating expenses (including depreciation) increased by 15.66% to \$20,018,546.

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

**Table A-2**  
**Rockford Mass Transit's Statement of Revenues, Expenses, and Changes in Net Position**  
*(in thousands of dollars)*

	2018	2017	2018-2017 % Change	2016
<b>Operating Revenues:</b>				
Passenger fares	\$ 1,550.2	\$ 1,473.4	5.21%	\$ 1,566.9
Advertising	70.0	69.4	0.86%	136.6
Other	118.2	83.5	41.56%	106.6
<b>Total operating revenues</b>	<b>1,738.4</b>	<b>1,626.3</b>	<b>6.89%</b>	<b>1,810.1</b>
<b>Operating Expenses:</b>				
Operating expenses	17,748.9	15,354.0	15.60%	16,225.3
Provision for depreciation	2,269.7	1,953.4	16.19%	2,255.4
<b>Total operating expenses</b>	<b>20,018.6</b>	<b>17,307.4</b>	<b>15.66%</b>	<b>18,480.7</b>
<b>Operating loss</b>	<b>18,280.2</b>	<b>15,681.1</b>	<b>16.57%</b>	<b>16,670.6</b>
<b>Total operating subsidies</b>	<b>15,138.8</b>	<b>13,978.7</b>	<b>8.30%</b>	<b>14,341.3</b>
Capital contributions	1,460.7	1,470.4	-0.66%	1,118.7
Lease purchase subsidy deferral	-	-		-
Investment income & other	41.3	17.0	142.94%	9.3
<b>Total nonoperating rev. &amp; capital contr.</b>	<b>16,640.8</b>	<b>15,466.1</b>	<b>7.60%</b>	<b>15,469.3</b>
<b>Change in net position</b>	<b>(1,639.4)</b>	<b>(215.0)</b>	<b>662.51%</b>	<b>(1,201.3)</b>
Net position, beginning of the year	19,019.4	19,234.4	-1.12%	20,435.7
Cumulative effect in accounting principle	(6,778.7)	-		-
<b>Net Position - End Of Year</b>	<b>\$ 10,601.3</b>	<b>\$ 19,019.4</b>	<b>-44.26%</b>	<b>\$ 19,234.4</b>

Advertising Revenue for fiscal year 2018, at \$69,948, was 0.86% higher than the comparable advertising revenue for fiscal year 2017 of \$69,407.

Capital contribution's for fiscal year 2018, at \$1,460,691, was 0.66% lower than the comparable capital contribution for fiscal year 2017 of \$1,470,418. Investment Income for fiscal year 2018, at \$39,671, was 142.94% higher than the comparable interest income for fiscal year 2017 of \$9,297.



**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

**Operating Expenses**

Total expenses for operating subsidy before depreciation, for fiscal year 2018, at \$17,625,460, increased by 15.72% or \$2,394,326 in comparison to fiscal year 2017 of \$15,231,134. (See Table A-3 for details by operating function.)

**Table A-3**  
**Rockford Mass Transit's Operation and Maintenance Expenses**  
*(in thousands of dollars)*

	2018	2017	2018-2017 % Change	2016
Operator wages	\$ 3,828.47	\$ 3,496.91	9.48%	\$ 3,591.63
Other wages	2,683.07	2,495.58	7.51%	2,425.33
Fringe benefits	6,065.38	6,061.99	0.06%	6,006.93
Services	929.79	653.49	42.28%	723.99
Materials and supplies	1,867.92	1,631.74	14.47%	1,469.47
Utilities	216.86	223.97	-3.17%	203.46
Casualty and liability	569.80	391.83	45.42%	500.91
Taxes	5.35	6.18	-13.43%	6.63
Purchased transportation	349.08	347.41	0.48%	319.81
Advertising/promotion media	130.63	167.48	-22.00%	236.90
Miscellaneous	193.74	187.91	3.10%	216.66
Leases and rentals	78.32	13.15	495.59%	11.98
Self-insurance trust activity	707.05	(390.86)	-280.90%	511.58
Other	128.52	67.23		894.02
<b>Expenses For Operating Subsidy</b>	<b>17,753.98</b>	<b>15,354.01</b>	<b>15.63%</b>	<b>17,119.30</b>
Pension Exp Excess GASB 68	(123.40)	(122.88)		(447.01)
<b>Total Operating Cost for Op Sub.</b>	<b>\$ 17,630.58</b>	<b>\$ 15,231.13</b>		<b>\$ 16,672.29</b>

Operator wages expenses for fiscal year 2018, at \$3,828,475, were 9.48% higher than the comparable fiscal year 2017 operator wages of \$3,496,910. Paratransit passenger service for fiscal year 2018, at 117,125 was 14.21% higher than the comparable fiscal year 2017 paratransit passenger service of 102,549 accounted for the majority of this increase.

Other wages expenses for fiscal year 2018, at \$2,683,068, were 7.51% higher than the comparable fiscal year 2017 other wages of \$2,495,587 primarily due to an increase in administrative staff.

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

Fringe benefits expenses for fiscal year 2018, at \$6,065,376, were 0.06% higher than the comparable fiscal year 2017 fringe benefits of \$6,061,987.

Services expenses for fiscal year 2018, at \$929,790, were 42.28% higher than the comparable fiscal year 2017 services of \$653,489 due to website design, union negotiations, custodial and security services.

Materials and supplies expenses for fiscal year 2018, at \$1,867,916, were 14.47% higher than the comparable fiscal year 2017 material and supplies of \$631,739 primarily due to an increase in bus parts in comparison to fiscal year 2016.

Utilities expenses for fiscal year 2018, at \$216,856, were 3.18% lower than the comparable fiscal year 2017 utilities of \$223,967. As with Fiscal year 2017, included within utilities expenses for fiscal year 2018 were automated vehicle locator (AVL) expenses on all of the fixed route (FR) buses and mobile data terminal (MBT) expenses on located on all of the demand response / paratransit (DR) vehicles. The AVL for FR allows for RMTD and the public to know where the buses in service are within their scheduled route. The MBT for DR allows for instant communication of the scheduled manifest and potential changes with each driver and RMTD staff.

Casualty and liability expenses for fiscal year 2018, at \$569,804, were 45.42% higher than the comparable fiscal year 2017 casualty and liability expenses of \$391,826. While insurance premiums were comparable in cost to the previous fiscal, the number of self-insured public liability accidents increased significantly compared to fiscal year 2017.

Purchased transportation expenses of \$349,079 were operating expenses incurred during fiscal year 2018 by the Boone County Council on Aging (BCCA) for providing urbanized demand response transportation services. The expenses incurred for this service were offset by a portion of the Downstate Operating Grant (DOAP) applied for and received by RMTD along with a local match received by RMTD from their region. In Fiscal Year 2017, the purchased transportation expense incurred for BCCA was \$347,411. Utilization of this service increased due to the reduction of Fixed Route service provided within the City of Belvidere.

Advertising/Promotion media expenses for fiscal year 2018, at \$130,628 22.0% lower than the comparable fiscal year 2017 advertising/promotion media of \$167,480. The actual bus wrapping of a bus is now included within the advertising expense budget. Advertising Revenue is thus increased for the charge of the wrapping expense to the advertiser. However, there were less bus wrappings in fiscal year 2018 than there were in fiscal year 2017.

Miscellaneous expenses for fiscal year 2018, at \$193,749, were 3.1% higher than the comparable fiscal year 2017 miscellaneous expenses of \$187,915.

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

An increase in self-insurance trust activity (trust funds activity) of \$707,046 occurred during fiscal year 2018. This amount is categorized under the general administration category within the operating expenses. This category is considered an ineligible expense under the schedule of operating subsidy within the schedule for the downstate operating assistance grant. In fiscal year 2017 there was a decrease in self-insurance trust activity (trust funds activity) of \$390,857.

**CAPITAL ASSET AND CAPITAL PROJECTS**

**Capital Assets**

The total net capital assets (net of depreciation) for fiscal year 2018, at \$19,752,763, was 3.93% lower than the comparable total net capital assets (net of depreciation) for fiscal year 2017 of \$20,561,758. (See Table A-4)

**Table A-4**  
**Rockford Mass Transit's Capital Assets**  
*(in thousands of dollars)*

	2018	2017	2018-2017 % Change	2016
Land and land improvements	\$ 2,894.5	\$ 2,894.5	0.00%	\$ 2,416.9
Construction Work In Process	1,593.4	269.5	491.24%	-
Transit Plant In Service	37,706.9	37,570.1	0.36%	37,525.8
Total Gross Capital Assets	\$ 42,194.8	\$ 40,734.1	3.59%	\$ 39,942.7
Less accumulated depreciation	22,442.0	20,172.3	11.25%	18,898.0
Total Net Capital Assets	<u>\$ 19,752.8</u>	<u>\$ 20,561.8</u>	<u>-3.93%</u>	<u>\$ 21,044.7</u>

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

**Capital Projects**

The following is a current list, along with a brief description, of the major capital projects that are on RMTD's project agenda:

*Downtown Transfer Center Renovation and Expansion* – With the RMTD Downtown Transfer Center facility being built 30 years ago on a very tight budget, RMTD has sought and received funding to upgrade and enhance this facility. Even though RMTD had a signed grant to perform this work, IDOT froze those funds so that RMTD could not spend any of that grant amount. In FY2016, RMTD applied for and received grant funding to cover the cost of designing and constructing a scaled back portion of this needed upgrade which consisted primarily of renovating and expanding the transfer center building. During FY2017, RMTD issued an RFQ for Design Services, hired an architectural team, and began the design work for this project. In FY2018, the design work was completed and IDOT concurrence was sought to go out for construction bids. At about the same time, the frozen State funds were released back to RMTD for use on this project. As a result, after the construction contract was awarded for the Phase 1 work (i.e. the building), a change order to the design agreement was issued to complete the design work that would be needed for Phase 2 (i.e. the site work on the drives, sidewalks and streets associated with the Downtown Transfer Center). While guiding the early stages of the construction of Phase 1 and the design work of Phase 2, RMTD investigated how to most efficiently get this Phase 2 work constructed. The solution most widely accepted was to perform a sole source procurement for this Phase 2 work. As FY2018 ended the Phase 2 design work was nearly complete.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

For the fiscal year ending June 30, 2019, the operational budget was submitted to and approved by the Board of Trustees. The total operating expense (excluding depreciation), for the aforementioned timeframe, is projected to be \$17,962,118.

The fiscal year 2019 operational budget includes projected expenditures of \$12,966,726 for fixed route services and \$4,611,122 for paratransit services which includes providing demand response service into the Stateline Mass Transit District (SMTD) area per a contractual relationship with that district. Service to the Stateline Mass Transit District began in February of 2008 and provides demand response service to the South Beloit, Rockton and Roscoe residents with connectivity into the Rockford region. Urban transportation projected expenditures for service to Belvidere & Boone County is budgeted at \$384,270. Fixed routes services were expanded to include the City of Belvidere beginning in October of 2011.

Total operating revenues for the fiscal year ending June 30, 2019 are projected to be \$1,894,460 of which included \$82,000 projected for advertising revenue, \$10,000 for investment income and \$102,000 for non-transportation revenue. Fixed route passenger service is projected at \$1,025,000 and paratransit service revenue was projected at \$565,560. STMD farebox revenue is projected at \$27,000. BCCA farebox revenue is projected to be \$36,000. The last fare increase was implemented and became effective May 1, 2009.

**Rockford Mass Transit District (RMTD)**  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2018  
UNAUDITED

Total operating assistance, excluding capital contributions, for the fiscal year ending June 30, 2019 are projected to be \$16,067,658. The majority of the non-operating revenues are subsidies from the State of Illinois, preventive maintenance and local matching funds. The State of Illinois subsidy is budgeted to be 65% of eligible expenses.

It is RMTD's goal to maximize the services that can be provided by RMTD in the most economic and efficient manner without compromising the needs of the current RMTD clients. It is further anticipated that if service can become more efficient, then more people will begin to utilize the RMTD service, for their transportation needs. The changes within our economy and the increased interest in our services from communities to the north and east will be some of the challenges that RMTD will face during the new fiscal year. Thanks to the leadership and guidance of the Board of Trustees and management, the staff of RMTD is prepared and ready to meet these foreseeable challenges.

**CONTACTING THE RMTD'S FINANCIAL MANAGEMENT**

This financial report is designed to provide interested parties with a general overview of RMTD's finances and to demonstrate RMTD's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Rockford Mass Transit District, 520 Mulberry Street, Rockford, IL 61101.

# ROCKFORD MASS TRANSIT DISTRICT

## STATEMENTS OF NET POSITION As of June 30, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and investments	\$ 2,981,176	\$ 2,864,266
Cash and investments designated for OPEB	3,748,501	1,998,026
Cash and investments restricted for public liability, employee health insurance, and workers compensation claims	1,117,715	1,235,204
Grant Receivables		
Federal Transit Administration, operating grants	158,820	1,660
Federal Transit Administration, capital grants	331,546	220,581
State of Illinois operating assistance	108,124	1,923,663
State of Illinois capital grant	523,566	58,692
Local operating receivable	-	127,000
Other receivables	186,182	188,860
Supplies inventory	371,566	376,634
Prepaid expenses	116,214	141,616
Total Current Assets	<u>9,643,410</u>	<u>9,136,202</u>
<b>NONCURRENT ASSETS</b>		
Capital Assets		
Land	1,969,934	1,969,934
Land improvements	924,521	924,521
Transit capital assets in service	37,706,837	37,570,119
Accumulated depreciation	(22,441,975)	(20,172,290)
Construction work in process	1,593,446	269,474
Total Noncurrent Assets	<u>19,752,763</u>	<u>20,561,758</u>
 Total Assets	 <u>29,396,173</u>	 <u>29,697,960</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferred outflows of resources	<u>2,535,001</u>	<u>3,059,441</u>
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	 <u>31,931,174</u>	 <u>32,757,401</u>

<b>LIABILITIES</b>		
	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 989,165	\$ 518,986
Accrued wages, compensated absences, and benefits	905,448	765,029
Current Liabilities Payable from Restricted Assets		
Accrued expenses - self-insurance liabilities	<u>1,044,856</u>	<u>950,862</u>
Total Current Liabilities	<u>2,939,469</u>	<u>2,234,877</u>
<b>NONCURRENT LIABILITIES</b>		
Pension liability	5,778,998	6,180,038
Advance from City of Rockford	2,009,146	2,082,496
Other post-employment benefit liability	<u>10,602,269</u>	<u>3,240,537</u>
Total Noncurrent Liabilities	<u>18,390,413</u>	<u>11,503,071</u>
 Total Liabilities	 <u>21,329,882</u>	 <u>13,737,948</u>
<b>NET POSITION</b>		
<b>NET POSITION</b>		
Net investment in capital assets	19,752,763	20,561,758
Restricted for public liability, employee health insurance, and workers compensation claims	72,859	284,342
Unrestricted	<u>(9,224,330)</u>	<u>(1,826,647)</u>
 <b>TOTAL NET POSITION</b>	 <u>\$ 10,601,292</u>	 <u>\$ 19,019,453</u>

See accompanying notes to financial statements.

## ROCKFORD MASS TRANSIT DISTRICT

### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>OPERATING REVENUES</b>		
Passenger fares	\$ 1,550,241	\$ 1,473,423
Advertising	69,948	69,407
Other	118,173	83,502
Total Operating Revenues	1,738,362	1,626,332
<b>OPERATING EXPENSES</b>		
Transportation	9,873,001	9,388,985
Maintenance	3,073,260	2,719,032
General administration	4,802,599	3,245,998
Total Operation and Maintenance Expenses	17,748,860	15,354,015
Depreciation expense	2,269,686	1,953,357
Total Operating Expenses	20,018,546	17,307,372
Operating Loss	(18,280,184)	(15,681,040)
<b>NONOPERATING REVENUES</b>		
Investment income	39,671	9,297
Other	1,600	7,649
Operating Subsidies		
Federal	1,727,303	1,587,153
State of Illinois	10,523,655	9,674,374
City of Rockford	1,569,106	1,474,939
Stateline Mass Transit District	695,340	654,156
City of Loves Park	297,393	269,958
Village of Machesney Park	196,215	181,666
Boone County	104,767	111,468
City of Belvidere	25,000	25,000
Total Operating Subsidies	15,138,779	13,978,714
Total Nonoperating Revenues	15,180,050	13,995,660
Loss Before Contributions	(3,100,134)	(1,685,380)
<b>CAPITAL CONTRIBUTIONS - FEDERAL, STATE, &amp; LOCAL</b>	1,460,691	1,470,418
<b>CHANGE IN NET POSITION</b>	(1,639,443)	(214,962)
NET POSITION - Beginning of Year	19,019,453	19,234,415
Cumulative effect of a change in accounting principle	(6,778,718)	-
<b>NET POSITION - END OF YEAR</b>	\$ 10,601,292	\$ 19,019,453

See accompanying notes to financial statements.



# ROCKFORD MASS TRANSIT DISTRICT

## STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from customers	\$ 1,552,919	\$ 1,411,180
Received from other sources	189,721	160,558
Paid to suppliers for goods and services	(11,072,855)	(10,139,381)
Paid to employees for services	<u>(5,664,710)</u>	<u>(5,536,080)</u>
Cash Flows From Operating Activities	<u>(14,994,925)</u>	<u>(14,103,723)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash receipts from operating subsidies	<u>16,924,158</u>	<u>12,410,308</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Long term investments purchased	-	(1,001,684)
Long term investments sold	1,001,684	3,000,000
Investment income	<u>39,671</u>	<u>9,297</u>
Cash Flows From Investing Activities	<u>1,041,355</u>	<u>2,007,613</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(1,103,860)	(1,672,931)
Capital contributions - federal, state and local	<u>884,852</u>	<u>1,797,961</u>
Cash Flows From Capital and Related Financing Activities	<u>(219,008)</u>	<u>125,030</u>
<b>Net Change in Cash and Cash Equivalents</b>	2,751,580	439,228
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>5,095,812</u>	<u>4,656,584</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 7,847,392</u>	<u>\$ 5,095,812</u>

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (18,280,184)	\$ (15,681,040)
Adjustments to reconcile operating loss to net cash used in operating activities		
Nonoperating revenue	1,600	7,649
Noncash items included in operating loss		
Depreciation expense	2,269,686	1,953,357
Changes in assets, deferred outflows of resources, and liabilities		
Accounts receivable	2,678	(62,243)
Supplies inventory	5,068	(46,811)
Prepaid expenses	25,402	(27,010)
Accounts payable	113,348	(62,653)
Accrued expenses - self-insurance liabilities	93,994	(660,966)
Accrued expenses - other	140,419	(126,464)
Advance from City of Rockford	(73,350)	19,577
Pension liability	123,400	122,881
Other post-employment benefit liability	583,014	460,000
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ (14,994,925)</u>	<u>\$ (14,103,723)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION ACCOUNTS</b>		
Cash and investments	\$ 2,981,176	\$ 2,864,266
Cash and investments designated for OPEB	3,748,501	1,998,026
Cash and investments restricted for public liability, employee health insurance, and workers compensation claims	<u>1,117,715</u>	<u>1,235,204</u>
Total Cash and Investments	7,847,392	6,097,496
Less: Noncash equivalents	<u>-</u>	<u>(1,001,684)</u>
<b>CASH AND CASH EQUIVALENTS</b>	<u>\$ 7,847,392</u>	<u>\$ 5,095,812</u>

See accompanying notes to the financial statements.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The financial statements of Rockford Mass Transit District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the District are described below.

#### **REPORTING ENTITY**

The District was established to provide for operation of a bus transit system, including paratransit services, in the City of Rockford, Illinois and surrounding areas. The District's Trustees are appointed by the City of Rockford. The District receives operating subsidies from the City of Rockford, the City of Loves Park, the Village of Machesney Park, the City of Belvidere, the Staeline Mass Transit District, Boone County, the State of Illinois and the Federal Government. The District is a component unit of the City of Rockford, as defined GASB Statement No. 61, and accordingly, the District's financial statements are also included in the basic financial statements of the City of Rockford.

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The term measurement focus is used to denote what is being measured and reported in the District's operating statement. The District is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the District is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the District's operating statement. The District uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

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

In June 2015, the GASB issued Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This standard was implemented July 1, 2017. The cumulative effect of the change in accounting principle is shown in the current year and described in Note 11.

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

# ROCKFORD MASS TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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

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### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION***

#### ***Cash and Cash Equivalents***

For purposes of reporting cash flows, the District considers all cash and short-term investments purchased with maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents restricted for public liability, workmen's compensation and employee health insurance are funds that are restricted to pay for costs incurred in those areas.

#### ***Deposits and Investments***

State statutes restrict investment of transit funds. Investments are limited to:

1. Time deposits in any bank, savings bank, trust company, or savings and loan association which are insured.
2. Bonds or securities issued by the federal government.
3. Illinois State Treasurer's Investment Pool.
4. Money market mutual funds with portfolios of securities issued or guaranteed by the United States government.
5. Short-term commercial paper rated within the three highest classifications by at least two standard rating services.
6. Repurchase agreements with public depositories.

Pension funds may also invest in certain non-U.S. obligations, Illinois municipal corporation's tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, and the Illinois insurance company general and separate accounts, mutual funds, and equity securities.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

#### ***Cash and Investments Designated for OPEB***

The board has segregated certain funds as designated for the future liquidation of the other post-employment benefits (OPEB) obligation.

#### ***Cash and Investments Restricted in Trusts***

This represents assets restricted for public liability, employee health insurance, and workers' compensation. Current liabilities payable from these restricted assets are so classified.

#### ***Accounts Receivable/Payable***

Substantially all District receivables are due from government units and are considered to be to be fully collectible.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

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#### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION (cont.)*

##### ***Supplies Inventory***

Operating inventories consisting of repair parts, motor oil and fuel are stated at cost (first in, first out) and average cost method.

##### ***Prepaid Expenses***

This represents amounts paid for services or insurance coverage to be provided in future periods.

##### ***Capital Assets***

Capital assets are defined as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are stated at cost. Purchases of capital assets are primarily reimbursed by capital grants from federal, state, and local sources. Donated assets are recorded at acquisition value on the date donated.

Proceeds from the sale of capital assets acquired under capital grants are remitted to the original funding source unless permission is received from the funding source to retain the proceeds.

Depreciation of buildings, improvements, equipment, and vehicles is computed monthly upon capitalization using the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Building and improvements	20 - 40
Buses and service vehicles	10 - 12
Equipment and office furniture	5 - 10

##### ***Deferred Outflows of Resources***

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. Pension deferred outflows relate to the net pension liability. Details of the account are included in Note 6.

##### ***Accrued Wages, Compensated Absences, and Benefits***

Certain District employees who have completed 2 years of service are eligible to accrue sick pay benefits at the rate of one (1) eight (8) hour day per calendar month in which the employee is not absent or off work for any reason (except vacation, holidays, personal days or bereavement). Upon eligible retirement or voluntary resignation from employment (excluding permanent disability, resignation due to worker's compensation injury and like reasons), the equivalent value of fifty percent (50%) of the employee's capped accumulated sick leave shall be paid to the employee.

Employees earn varying amounts of vacation depending on the number of years of service and employment position. Vacation pay will be paid at the time vacation is taken and does not accumulate from one year to another. When an employee separates from the District, earned and unused vacation time will be computed and paid out to the employee at their regular rate of pay.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

---

#### ***ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION*** (cont.)

##### ***Accrued Wages, Compensated Absences, and Benefits*** (cont.)

The accrued payroll and benefits liability has been computed based on a rate of pay in effect at each fiscal year end, respectively.

##### ***Pension Liability***

For the purposes of measuring the net pension liability, deferred outflows of resources and pension expense, information about the plan fiduciary net position of the Rockford Mass Transit District Retirement 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, 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.

##### ***Advance from the City of Rockford***

The City of Rockford subsidizes the operating loss before depreciation of the District in excess of other subsidies received. The advance represents deferred revenue which is primarily due to the accumulation of the cash received from the City in excess of the amounts needed to subsidize operating losses.

##### ***Other Post-Employment Benefit Liability (OPEB)***

The District provides post-employment health insurance benefits to all eligible employees. During fiscal year 2018, the District implemented GASB 75 related to OPEBs. Prior to fiscal year 2018, the District measured its OPEB Liability under GASB 45. For purposes of measuring the net OPEB liability and OPEB expense, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. See note 8 for additional disclosures related to the OPEB under GASB 75 and GASB 45.

##### ***Line of Credit***

The District has a \$1,500,000 line of credit with Rockford Bank & Trust which expires March 27, 2020. Interest is payable monthly at the current prime rate. Borrowings in the form of notes payable are guaranteed by the revenues of the District. At June 30, 2018 and 2017, the District did not have a balance due on its line of credit.

# ROCKFORD MASS TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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

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### *ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND NET POSITION* (cont.)

#### ***Net Position***

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

- > *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. The District has no outstanding debt as of June 30, 2018 and 2017.
- > *Restricted* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.
- > *Unrestricted net position* – The component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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

### ***REVENUES AND EXPENSES***

#### ***Revenue Recognition***

Operating revenues of the District are passenger fare revenues received from customers. The District also recognizes as operating revenue amounts received from businesses for advertisements on District buses and other District-owned property. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### ***Ridership Fares***

Current fares were approved by the Board effective May 1, 2009.

#### ***Capital Contributions***

The District has received Federal, State and Local funding for acquisition and construction of capital assets. The value of contributions received is reported as revenue on the statements of revenues, expenses, and changes in net position.

The Federal and State grants are subject to grantor agency compliance audits. Management believes losses, if any, resulting from those compliance audits are not material to these statements.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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

#### **RECLASSIFICATIONS**

Certain reclassifications have been made to the prior year statements in order for them to be in conformity with the current year presentation.

#### **USE OF ESTIMATES**

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

#### **EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS**

GASB has approved Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

### NOTE 2 – DEPOSITS AND INVESTMENTS

	Carrying Value as of		Risks
	June 30, 2018	June 30, 2017	
Checking and savings	\$ 7,847,392	\$ 5,095,812	Custodial credit
Certificates of deposit	-	1,001,684	Custodial credit
Totals	<u>\$ 7,847,392</u>	<u>\$ 6,097,496</u>	

#### **CUSTODIAL CREDIT RISK**

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to the District. The District's investment policy requires that deposits with financial institutions in excess of FDIC to be collateralized with collateral in an amount of 100% of the uninsured deposits.

As of June 30, 2018 and 2017, none of the District's bank balances are known to be individually exposed to custodial credit risk.



# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 3 – CHANGES IN CAPITAL ASSETS

A summary of changes in the District's capital assets for 2018:

	Balance 7/1/2017	Additions	Retirements	Balance 6/30/2018
Capital assets, not being depreciated				
Land	\$ 1,969,934	\$ -	\$ -	\$ 1,969,934
Construction in progress	269,475	1,323,971	-	1,593,446
Total Capital Assets Not Being Depreciated	2,239,409	1,323,971	-	3,563,380
Capital assets, being depreciated				
Land improvements	924,521	-	-	924,521
Buildings	17,167,510	37,549	-	17,205,059
Buses and service vehicles	16,490,750	-	-	16,490,750
Equipment and office furniture	3,911,858	99,170	-	4,011,028
Total Capital Assets Being Depreciated	38,494,639	136,719	-	38,631,358
Total Capital Assets	40,734,048	1,460,690	-	42,194,738
Less: Accumulated depreciation	(20,172,290)	(2,269,685)	-	(22,441,975)
Total Net Capital Assets	\$ 20,561,758	\$ (808,995)	\$ -	\$ 19,752,763

A summary of changes in the District's capital assets for 2017:

	Balance 7/1/2016	Additions	Retirements	Balance 6/30/2017
Capital assets, not being depreciated				
Land	\$ 1,969,934	\$ -	\$ -	\$ 1,969,934
Construction in progress	-	269,475	-	269,475
Total Capital Assets Not Being Depreciated	1,969,934	269,475	-	2,239,409
Capital assets, being depreciated				
Land improvements	446,993	477,528	-	924,521
Buildings	17,129,991	31,492	6,027	17,167,510
Buses and service vehicles	16,621,039	541,238	(671,527)	16,490,750
Equipment and office furniture	3,774,803	150,685	(13,630)	3,911,858
Total Capital Assets Being Depreciated	37,972,826	1,200,943	(679,130)	38,494,639
Total Capital Assets	39,942,760	1,470,418	(679,130)	40,734,048
Less: Accumulated depreciation	(18,898,063)	(1,953,357)	679,130	(20,172,290)
Total Net Capital Assets	\$ 21,044,697	\$ (482,939)	\$ -	\$ 20,561,758

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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### NOTE 4 – OPERATING SUBSIDIES

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The District is economically dependent upon operating subsidies and grants provided by Federal, State, and Local governments. Without these subsidies and grants, operations could not continue at current levels unless alternative methods of funding were obtained. Operating subsidies and grants utilized to finance current operations are recorded when earned.

The following are the operating subsidies for fiscal 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Federal	\$ 1,727,303	\$ 1,587,153
State of Illinois	10,523,655	9,681,689
City of Rockford	1,569,106	1,474,939
Stateline Mass Transit District	695,340	654,156
City of Loves Park	297,393	269,958
Village of Machesney Park	196,215	181,666
Boone County	104,767	111,468
City of Belvidere	25,000	25,000

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### NOTE 5 – RISK MANAGEMENT

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The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; health care of its employees; and natural disasters.

All risks with the exception of workers compensation, prior to October 1, 2015, health insurance and public liability related to scheduled vehicles are covered by commercial insurance. Settled claims have not exceeded commercial insurance in any past three fiscal years. The insurance coverage is consistent with the prior year.

As of October 1, 2015, the District is fully insured for workers compensation. Prior to October 1, 2015, the District was partially self-insured for workers compensation and maintained commercial insurance for claims in excess of the self-insured portion. For workers compensation claims prior to October 1, 2015, reserves are held in the District's restricted cash balance. This commercial insurance is limited to a \$1,000,000 annual aggregate liability by the insurance excess carrier over the self-insured portion. The commercial insurance carries a \$500,000 per accident deductible.

The District's employee health benefits program provides basic medical, vision, major medical and short-term disability weekly income benefits to eligible employees. Commercial insurance is not maintained on short-term disability or on the first \$75,000 per person, up to \$1,000,000 in annual aggregate medical claims. The District maintains commercial insurance that covers a layer of claims over the self-insured portion. This commercial insurance is limited to a \$1,000,000 annual aggregate liability by the insurance excess carrier over the self-insured portion of medical claims. The commercial insurance is also limited to a \$1,000,000 per person lifetime amount.

The public liability program provides for defense costs and claims administration through a combination of self insurance and policies issued by licensed insurance carriers. Commercial insurance is not maintained for the first \$100,000 per occurrence and subject to a limit of \$50,000 in loss adjustment expenses per claim. The District does, however, maintain coverage for \$9,900,000 over the \$100,000 of self-insured public liability claims.

## ROCKFORD MASS TRANSIT DISTRICT

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

#### **NOTE 5 – RISK MANAGEMENT (cont.)**

An analysis of the activity for workers compensation, employee health benefits, and public liability self-insurance liabilities is presented as follows:

	<u>Employee Benefit Fund</u>	<u>Public Liability Fund</u>	<u>Workers Compensation Fund</u>
Liability 7/1/2017	\$ 139,051	\$ 656,067	\$ 155,744
Add: Claims incurred and adjustments	2,630,128	259,711	317,362
Less: Claims paid	<u>(2,587,506)</u>	<u>(315,580)</u>	<u>(210,121)</u>
Liability 6/30/2018	<u>\$ 181,673</u>	<u>\$ 600,198</u>	<u>\$ 262,985</u>
	<u>Employee Benefit Fund</u>	<u>Public Liability Fund</u>	<u>Workers Compensation Fund</u>
Liability 7/1/2016	\$ 157,911	\$ 1,075,748	\$ 378,169
Add: Claims incurred and adjustments	2,111,276	(287,114)	(156,433)
Less: Claims paid	<u>(2,130,136)</u>	<u>(132,567)</u>	<u>(65,992)</u>
Liability 6/30/2017	<u>\$ 139,051</u>	<u>\$ 656,067</u>	<u>\$ 155,744</u>

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example, from salvage or subrogation, are another component of the claims liability estimate.

The District is involved in several personal injury claim litigations. Management of the District responds by vigorous defense and believes any unfavorable outcome of the claims will be immaterial. The District attorney believes all of these cases will likely be covered for loss by insurance.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 6 – DEFINED BENEFIT RETIREMENT PLAN

#### *ROCKFORD MASS TRANSIT DISTRICT EMPLOYEES’ RETIREMENT SYSTEM*

**Plan description** – The Rockford Mass Transit District Retirement Plan (the Plan) is a single employer, non-contributory, defined benefit plan. The District established the Plan to provide retirement benefits for eligible employees of the District. The Plan is governed by the Rockford Mass Transit District (“the District”) Board of Trustees together with the employees covered under collective bargaining agreements. The Plan consists of three employee representation units within the District. They include; International Brotherhood of Electrical Workers (IBEW), Amalgamated Transit Union (ATU) and the Administrative Employees (Admin). These plans are combined to represent the Plan which is discussed below. The Plan issues a stand-alone financial report which may be obtained by contacting the District.

On April 26, 2017 the District’s Board of Trustees approved a resolution to close the ATU and Admin employee representation units to new entrants effective November 1, 2016. No employees hired from November 1, 2016 until June 30, 2017 were eligible for participation in the plan.

On March 28, 2018, the District’s Board of Trustees approved a resolution to close the IBEW employee representation unit to new entrants effective for employees hired on or after March 12, 2018.

**Vesting** – Under the provision of the Plan, pension benefits vest after five years of full-time employment and exclude employee disability. Upon retiring at the normal retirement age of sixty-five prescribed in the Plan, an employee is entitled to receive a monthly benefit payment in the form of a life annuity. Benefits under the Plan are accumulated during each year of service and determined based on compensation level. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**Benefits provided** – Under the provision of the Plan, pension benefits vest after five years of full-time employment and exclude employee disability. Upon retiring at the normal retirement age of sixty-five prescribed in the Plan, an employee is entitled to receive a monthly benefit payment in the form of a life annuity. Benefits under the Plan are accumulated during each year of service and determined based on compensation level. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The following table presents information about Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate, as of the measurement dates, the net pension liability for the fiscal years ended June 30, 2018 and 2017.

	2018				2017			
	Admin	ATU	IBEW	Total	Admin	ATU	IBEW	Total
Active participants	29	83	21	133	29	82	22	133
Retired participants and beneficiaries	17	64	10	91	16	58	9	83
Terminated vested participants	<u>10</u>	<u>29</u>	<u>8</u>	<u>47</u>	<u>10</u>	<u>28</u>	<u>8</u>	<u>46</u>
Total Plan Participants	<u>56</u>	<u>176</u>	<u>39</u>	<u>271</u>	<u>55</u>	<u>168</u>	<u>39</u>	<u>262</u>

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 6 – DEFINED BENEFIT RETIREMENT PLAN (cont.)

#### *ROCKFORD MASS TRANSIT DISTRICT EMPLOYEES’ RETIREMENT SYSTEM* (cont.)

**Benefits provided** – (cont.) Participation for each employee representation is as follows:

IBEW and Administrative employees become eligible to participate on the January 1<sup>st</sup> or July 1<sup>st</sup> following a year of service where 1,000 hours has been worked. In addition to the requirements followed by IBEW and Administrative employees, ATU employees must also attain the age of 21 to become eligible. Eligible compensation excludes overtime pay, bonuses, or other compensation.

**Contributions** – The current policy of the District is to use each actuarial valuation as the basis for determining employer contributions to the Plan during the fiscal year beginning in the year of the valuation year. The July 1, 2017 valuation is the basis for contributions in fiscal 2018. The plan does not permit employees to make contributions.

The Plan’s actuarial contribution rate is determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods are approved by the District.

Employer contributions to the Plan are recognized on the accrual basis and are actuarially determined each year. For Plan fiscal years 2017 and 2016, the required contributions were \$1,307,119 and \$1,323,509, respectively, or 23.19% and 27.06%, respectively, of the covered payroll per year. The District’s actual Plan contributions for Plan fiscal years 2017 and 2016 were \$1,404,877 and \$1,606,608, respectively. The District’s total payroll for the Plan fiscal years ended June 30, 2017 and 2016 was approximately \$6,058,636 and \$5,937,417, respectively.

At June 30, 2018 and 2017, the District reported a net pension liability of \$5,778,998 and \$6,180,038, respectively. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

For the year ended June 30, 2018 and 2017, the District recognized pension expense of \$1,523,400 and \$1,522,880, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources related to pensions from the following sources:

	2018	2017
	Deferred Outflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 660,287	\$ 505,549
Net difference between projected and actual earnings on pension plan investments	474,714	1,153,892
District contributions subsequent to the measurement date	1,400,000	1,400,000
Totals	\$ 2,535,001	\$ 3,059,441

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 6 – DEFINED BENEFIT RETIREMENT PLAN (cont.)

#### *ROCKFORD MASS TRANSIT DISTRICT EMPLOYEES’ RETIREMENT SYSTEM* (cont.)

The amounts of \$1,400,000 and \$1,400,000 were reported as deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the subsequent year.

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>
2019	\$ 277,481
2020	459,494
2021	303,570
2022	(13,280)
2023	64,608
Thereafter	<u>43,128</u>
Total	<u>\$ 1,135,001</u>

**Actuarial assumptions** – The total pension liability was determined using the following actuarial assumptions, applied to periods included in the measurement:

- > Inflation (effective June 30, 2014): 3% per annum.
- > Salary Increase (effective June 30, 2014): 3% per year, compounded annually.
- > Long-term investment rate of return (effective June 30, 1996): 7.0%, compounded annually, net of investment expense, including inflation.
- > The actuarial assumptions were based on the results of actuarial experience studies previously completed and are consistent with prior valuations.
- > Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.
- > 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 (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 assumptions noted above were consistently applied in the June 30, 2017 and 2016 valuation, except as noted, if applicable.

## ROCKFORD MASS TRANSIT DISTRICT

### NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

#### NOTE 6 – DEFINED BENEFIT RETIREMENT PLAN (cont.)

##### *ROCKFORD MASS TRANSIT DISTRICT EMPLOYEES' RETIREMENT SYSTEM* (cont.)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity investments	48.2%	
Domestic Stocks		6.4 – 7.4%
International Stocks		7.1%
Fixed income investments	51.8%	
Cash, CDs and Money Funds		2%
Other fixed income investments		3.3 – 7.4%
Total	<u>100.0%</u>	

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity investments	46.4%	
Domestic Stocks		7.3 – 8.7%
International Stocks		7.9%
Fixed income investments	53.6%	
Cash, CDs and Money Funds		2.3%
Other fixed income investments		3.8 – 7.3%
Total	<u>100.0%</u>	

**Discount rate**— The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

## ROCKFORD MASS TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

### NOTE 6 – DEFINED BENEFIT RETIREMENT PLAN (cont.)

#### *ROCKFORD MASS TRANSIT DISTRICT EMPLOYEES' RETIREMENT SYSTEM (cont.)*

**Sensitivity of the District's net pension liability to changes in the discount rate** – The following presents the District's net pension liability calculated using the discount rate of 7.0 percent, as well as what the District's net pension liability 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.

<u>Net Pension Liability</u>	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
June 30, 2017	\$ 8,719,156	\$ 5,778,998	\$ 3,281,122
June 30, 2016	\$ 8,958,881	\$ 6,180,038	\$ 3,820,273

The following tables present the changes in the Net Pension Liability:

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
<b>Balances at June 30, 2016</b>	<u>\$ 23,050,630</u>	<u>\$ 16,870,592</u>	<u>\$ 6,180,038</u>
Changes for the year:			
Service cost	787,653	-	787,653
Interest	1,581,675	-	1,581,675
Differences between expected and actual experience	306,477	-	306,477
Employer contributions	-	1,404,877	(1,404,877)
Capital appreciation	-	1,420,686	(1,420,686)
Net investment income	-	328,264	(328,264)
Benefit payments	(779,427)	(779,427)	-
Administrative expenses	-	(76,982)	76,982
Receivables	-	-	-
Net Changes	<u>1,896,378</u>	<u>2,297,418</u>	<u>(401,040)</u>
<b>Balances at June 30, 2017</b>	<u>\$ 24,947,008</u>	<u>\$ 19,168,010</u>	<u>\$ 5,778,998</u>



## ROCKFORD MASS TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

### NOTE 6 – DEFINED BENEFIT RETIREMENT PLAN (cont.)

#### *ROCKFORD MASS TRANSIT DISTRICT EMPLOYEES' RETIREMENT SYSTEM* (cont.)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Balances at June 30, 2015</b>	\$ 21,438,362	\$ 16,136,528	\$ 5,301,834
Changes for the year:			
Service cost	787,517	-	787,517
Interest	1,473,546	-	1,473,546
Differences between expected and actual experience	(13,037)	-	(13,037)
Employer contributions	-	1,606,608	(1,606,608)
Capital appreciation	-	(483,836)	483,836
Net investment income	-	316,672	(316,672)
Benefit payments	(635,758)	(635,758)	-
Administrative expenses	-	(69,622)	69,622
Receivables	-	-	-
Net Changes	<u>1,612,268</u>	<u>734,064</u>	<u>878,204</u>
<b>Balances at June 30, 2016</b>	<u>\$ 23,050,630</u>	<u>\$ 16,870,592</u>	<u>\$ 6,180,038</u>

***Plan Fiduciary Net Position*** – Detailed information about the Plan’s fiduciary net position is available in the separately issued Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position for 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. Investments are stated at fair market value. Benefit Payments are recognized when due and payable in accordance with the terms of the plan.

### NOTE 7 – DEFINED CONTRIBUTION PLAN AND VOLUNTARY SUPPLEMENTAL RETIREMENT

***Defined Contribution Retirement*** - All eligible employees hired after November 1, 2016, are entered into the defined contribution plan created in accordance with Internal Revenue Code (IRC) Section 457 and administered by the District. Employee and employer contributions are deposited into the employee’s individual account and invested under their direction. Participants of the plan can make payments into the plan as desired. The District contributes 50% of the employee’s contribution up to 3% of their eligible wages of the participant’s wages starting November 2016. The District made no contributions to the plan in 2018 or 2017 as no employees currently participate in the plan.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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### NOTE 7 – DEFERRED COMPENSATION AGREEMENT (cont.)

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**Voluntary Supplemental Retirement** – In addition, the District offers its employees a deferred compensation plan which was created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until retirement, death, or unforeseeable emergency. The plan is fully vested as the deferred compensation is deemed earned by the employees.

The Plan assets are held in a trust for the exclusive benefit of the plan participants. Since the District does not act as trustee nor does it have fiduciary accountability for the plan assets, the plan assets are not included in these financial statements.

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### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLAN

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#### *GENERAL INFORMATION ABOUT THE OPEB PLAN*

**Plan description.** The District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides health insurance contributions for eligible retirees and their spouse through the District’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements and state that select eligible retirees (hired before 1993) and their spouses receive lifetime healthcare insurance at established contribution rates. Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the District and the bargaining unit. The plan is closed to new entrants. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**Benefits provided.** The District provides healthcare insurance benefits for select eligible retirees and their spouse. The benefit terms provide for coverage for the retiree and their spouse until the retiree’s death. The District makes the same monthly health insurance contribution on behalf of select retirees as it makes on behalf of all other active employees during the year. The District contributes 100% of the current year premiums for a family and a single plan, respectively, for select eligible retired plan members and their spouses.

**Employees covered by benefit terms.** At June 30, 2018, the following employees were covered by the benefit terms:

Active employees fully eligible to receive plan benefits	7
Active employees not fully eligible	1
Retired plan members	<u>23</u>
Total plan members	<u>31</u>

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### **NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLAN (cont.)**

#### ***TOTAL OPEB LIABILITY***

The District's total OPEB liability of \$10,602,269 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

***Actuarial assumptions and other inputs.*** The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.0 percent, average
Healthcare cost trend rates	6.5 percent for 2018, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent for 2021 and later years
Retirees' share of benefit-related costs	All retirees must contribute their share of the monthly premium equal to that required stated in the applicable bargaining unit contract

The discount rate was based on S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates were based on the RP-2000 combined Healthy Mortality Table projected to 2017 using Scale AA.

The actuarial assumptions used in the June 30, 2018 valuation were based on anticipated future experience under the plan, including consideration for the current demographics of the covered population where applicable, or anticipated future experience under the Retirement Plan sponsored by the District.

#### ***CHANGES IN THE TOTAL OPEB LIABILITY***

	<b>Total OPEB Liability (a)</b>
<b>Balances at 6/30/2017</b>	<b>\$ 10,332,597</b>
<b>Changes for the year:</b>	
Service cost	55,880
Interest	320,293
Changes in assumptions or other inputs	206,841
Benefit payments	(313,342)
<b>Net changes</b>	<b>269,672</b>
<b>Balances at 6/30/2018</b>	<b>\$ 10,602,269</b>

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLAN (cont.)

#### *CHANGES IN THE TOTAL OPEB LIABILITY (cont.)*

Changes of assumptions and other inputs reflect a change in the discount rate from 3.13 percent in 2017 to 2.98 percent in 2018.

***Sensitivity of the total OPEB liability to changes in the discount rate.*** The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.98 percent) or 1-percentage-point higher (3.98 percent) than the current discount rate:

	<b>1% Decrease (1.98%)</b>	<b>Discount Rate (2.98%)</b>	<b>1% Increase (3.98%)</b>
Total OPEB liability	\$ 12,201,084	\$ 10,602,269	\$ 9,286,510

***Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.*** The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	<b>1% Decrease (5.5% Decreasing to 4.0%)</b>	<b>Healthcare Cost Trend Rates (6.5% Decreasing to 5.0%)</b>	<b>1% Increase (7.5% Decreasing to 6.0%)</b>
Total OPEB liability	\$ 9,307,785	\$ 10,602,269	\$ 12,156,157

#### ***OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB***

For the year ended June 30, 2018, the District recognized OPEB expense of \$583,014. At June 30, 2018, the District did not report deferred outflows of resources and deferred inflows of resources due to the year of implementation.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLAN (cont.)

#### *PRIOR YEAR DISCLOSURES REQUIRED UNDER GASB STATEMENT NO. 45*

The District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides health insurance contributions for eligible retirees and their spouse through the District’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements and state that select eligible retirees (hired before 1993) and their spouses receive lifetime healthcare insurance at established contribution rates.

Contribution requirements are established through collective bargaining agreements and may be amended only through negotiations between the District and the union. The District makes the same monthly health insurance contribution on behalf of the select retirees as it makes on behalf of all other active employees during that year. The District contributes 100% of the current year premiums for a family and a single plan, respectively, for select eligible retired plan members and their spouses. For fiscal years 2017 and 2016, the District contributed \$98,342 and \$46,839, respectively. Remaining plan members receiving benefits contribute 100% of their premium costs for a family plan and a single plan, at the blended rates. Actual contributions are made on a pay-as-you-go basis. Administrative costs of the plan are financed through investment earnings.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30 is as follows:

	2017	2016
Annual required contribution	\$ 556,807	\$ 556,807
Interest on net OPEB obligation	139,027	114,670
Adjustment to annual required contribution	(137,493)	(137,493)
Annual OPEB cost	558,341	533,984
Contributions made	98,342	46,839
Increase in Net OPEB Obligation	460,000	487,145
Net OPEB Obligation – Beginning of Year	2,780,537	2,293,392
Net OPEB Obligation – End of Year	\$ 3,240,537	\$ 2,780,537

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	\$ 533,984	8.8%	\$ 2,780,537
June 30, 2017	\$ 558,341	17.6%	\$ 3,240,537

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

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### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLAN (cont.)

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#### *PRIOR YEAR DISCLOSURES REQUIRED UNDER GASB STATEMENT NO. 45* (cont.)

The funded status of the District's plan as of July 1, 2016, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$	8,568,248
Actuarial value of plan assets		<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$	<u>8,568,248</u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	5,474,705
UAAL as a percentage of covered payroll		156.51%

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the District's actuarial valuation, the unit credit actuarial cost method was used and market rates were used for the asset valuation method. The actuarial assumptions include a 5 percent investment rate of return and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent. Both rates include a 2 percent inflation assumption. The plan's unfunded actuarial accrued liability is being amortized over 30 years as a level dollar of projected payroll on an open basis.

While the Board has designated certain cash and investments for the payment of future OPEB costs, because these resources are not part of a segregated OPEB trust they cannot be treated as plan assets for actuarial purposes.

# ROCKFORD MASS TRANSIT DISTRICT

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2018 and 2017

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## NOTE 9 – RELATED PARTIES

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The District is a component unit of the City of Rockford, Illinois, and, as a consequence, received subsidies of \$1,524,000 for the years ended June 30, 2018 and 2017. Subsidies received in excess of the amounts expended relative to the City of Rockford agreement are reflected as advances from the City of Rockford.

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## NOTE 10 – COMMITMENT AND CONTINGENCIES

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The District has signed construction and equipment purchase contracts for approximately \$3,108,000 including three paratransit vans, a new bus surveillance system and phase 2 of the downtown transfer center remodel and expansion project. The value of service provided and the corresponding liability as of June 30, 2018 has been accrued in these financial statements.

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## NOTE 11 – CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

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The District adopted GASB Statement No. 75 effective July 1, 2017. The cumulative effect of implementation is reflected as a change in net position as follows:

GASB No. 45 OPEB liability	\$ 3,240,537
July 1, 2017 GASB No. 75 total OPEB liability	(10,332,597)
District contributions to OPEB made after the measurement date	<u>313,342</u>
Cumulative Effect of a Change in Accounting	<u>\$ (6,778,718)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**



## ROCKFORD MASS TRANSIT DISTRICT

### DEFINED BENEFIT PENSION PLAN - REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF THE CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Plan Year Ended June 30,	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 787,653	\$ 787,517	\$ 714,070	\$ 683,501
Interest on the total pension liability	1,581,675	1,473,546	1,355,470	1,227,471
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience of the total pension liability	306,477	(13,037)	269,658	540,902
Changes of assumptions	-	-	-	-
Benefit payments, including refunds of employee contributions	<u>(779,427)</u>	<u>(635,758)</u>	<u>(618,141)</u>	<u>(530,754)</u>
<b>Net Change in Total Pension Liability</b>	1,896,378	1,612,268	1,721,057	1,921,120
<b>Total Pension Liability - Beginning</b>	<u>23,050,630</u>	<u>21,438,362</u>	<u>19,717,305</u>	<u>17,796,185</u>
<b>Total Pension Liability - Ending (A)</b>	<u>24,947,008</u>	<u>23,050,630</u>	<u>21,438,362</u>	<u>19,717,305</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 1,404,877	\$ 1,606,608	\$ 1,500,609	\$ 1,200,000
Capital appreciation	1,420,686	(483,836)	9,223	1,581,196
Net investment income	328,264	316,672	278,042	227,764
Benefit payments, including refunds of employee contributions	(779,427)	(635,758)	(618,141)	(530,754)
Other (net transfer)	<u>(76,982)</u>	<u>(69,622)</u>	<u>(67,336)</u>	<u>(59,467)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	2,297,418	734,064	1,102,397	2,418,739
<b>Plan Fiduciary Net Position - Beginning</b>	<u>16,870,592</u>	<u>16,136,528</u>	<u>15,034,131</u>	<u>12,615,392</u>
<b>Plan Fiduciary Net Position - Ending (B)</b>	<u>19,168,010</u>	<u>16,870,592</u>	<u>16,136,528</u>	<u>15,034,131</u>
<b>Net Pension Liability - Ending (A) - (B)</b>	<u>\$ 5,778,998</u>	<u>\$ 6,180,038</u>	<u>\$ 5,301,834</u>	<u>\$ 4,683,174</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	76.83%	73.19%	75.27%	76.25%
<b>Covered Valuation Payroll</b>	\$ 6,058,636	\$ 5,937,417	\$ 6,026,395	\$ 5,792,859
<b>Net Pension Liability as a Percentage of Covered Valuation Payroll</b>	95.38%	104.09%	87.98%	80.84%

**Notes to Schedule:**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

## ROCKFORD MASS TRANSIT DISTRICT

### DEFINED BENEFIT PENSION PLAN - REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year ended June 30,	2018	2017	2016	2015	2014
Actuarially determined contributions	\$ 1,398,617	\$ 1,307,119	\$ 1,323,509	\$ 1,234,978	\$ 1,107,998
Contributions in relation to the actuarially determined contribution	<u>1,400,000</u>	<u>1,404,877</u>	<u>1,606,608</u>	<u>1,500,609</u>	<u>1,200,000</u>
Contribution deficiency (excess)	<u>\$ (1,383)</u>	<u>\$ (97,758)</u>	<u>\$ (283,099)</u>	<u>\$ (265,631)</u>	<u>\$ (92,002)</u>
Covered-employee payroll	\$ 6,511,543	\$ 6,058,636	\$ 5,937,417	\$ 6,026,395	\$ 5,474,705
Contributions as a percentage of covered-employee payroll	21.50%	23.19%	27.06%	24.90%	21.92%

**Notes to Schedule:**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal method
Amortization method	Average remaining years of employment of all participants (actively employed and inactive members)
Asset valuation method	Market value
Investment rate of return	7.0%
Salary increases	3.0% per year, compounded annually
Mortality	RP - 2000 projected to the valuation date for males and females

## ROCKFORD MASS TRNASIT DISTRICT

### OTHER POST-EMPLOYMENT BENEFITS PLAN - REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

As of June 30, 2018

---

	2018
<b>Total OPEB Liability</b>	
Service cost	\$ 55,880
Interest	320,293
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	206,841
Benefit payments	(313,342)
<b>Net Change in Total OPEB Liability</b>	269,672
<b>Total OPEB Liability - Beginning</b>	10,332,597
<b>Total OPEB Liability - Ending</b>	\$ 10,602,269
<b>Covered-employee payroll</b>	\$ 639,990
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	1656.63%

**Notes to Schedule:**

*Benefit changes.* There were no changes in benefit terms.

*Changes of assumptions.* There were no changes in assumptions.

The District implemented GASB Statement No. 75 in fiscal year 2018. Information prior to fiscal year 2018 is not available.

*Note: This schedule is to show information for 10 years.*

*However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.*

**ROCKFORD MASS TRANSIT DISTRICT**

OTHER POST-EMPLOYMENT BENEFITS PLAN - REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS  
 As of June 30, 2018

	2018
Contractually determined contribution	\$ 313,342
Contributions in relation to the contractually determined contribution	313,342
Contribution deficiency (excess)	\$ -
 Covered-employee payroll	 \$ 639,990
Contributions as a percentage of covered-employee payroll	48.96%

**Notes to Schedule**

**Valuation date:**

Actuarially determined contribution rates are calculated as of June 30 of the current fiscal year.

Methods and assumptions used:

Actuarial cost method	Entry age
Healthcare cost trend rates	6.5 percent initial, decreasing to an ultimate rate of 5.0 percent
Salary increases	3.0 percent, average, including inflation
Retirement age	100% of participants are assumed to retire at age 65
Mortality	RP - 2000 projected to the valuation date for males and females

**Other information:**

The District implemented GASB Statement No. 75 in fiscal year 2018. Information prior to fiscal year 2018 is not available.

*Note: This schedule is to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.*

## ROCKFORD MASS TRANSIT DISTRICT

### OTHER POST-EMPLOYMENT BENEFIT PLAN UNDER GASB 45 REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b- a)/(c)]
6/30/2009	\$ -	\$ 7,612,828	\$ 7,612,828	0.00%	\$ 4,840,617	157.3%
7/1/2010	\$ -	\$ 10,315,033	\$ 10,315,033	0.00%	\$ 5,004,232	206.1%
7/1/2011	-	10,563,211	10,563,211	0.00%	4,864,080	217.2%
7/1/2014	-	8,568,248	8,568,248	0.00%	5,474,705	156.5%

While the Board has designated certain cash and investments for the payment of future OPEB costs, because these resources are not part of a segregated OPEB trust they cannot be treated as plan assets for actuarial purposes.

Schedule of Contributions:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution	% of APC Contributed	Net OPEB Obligation
6/30/2009	\$ 413,321	\$ 166,299	40.2%	\$ 247,022
6/30/2010	401,330	154,308	38.5%	494,044
6/30/2011	\$ 651,385	\$ 250,757	38.5%	\$ 894,672
6/30/2012	\$ 748,632	\$ 296,013	39.5%	\$ 1,347,291
6/30/2014	\$ 754,037	\$ 360,437	47.8%	\$ 2,165,796
6/30/2015	\$ 527,604	\$ 400,008	75.8%	\$ 2,293,392
6/30/2016	533,984	46,839	8.8%	2,780,537
6/30/2017	558,341	98,341	17.6%	3,240,537

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

## ROCKFORD MASS TRANSIT DISTRICT

### OPERATING EXPENSES, EXCLUDING DEPRECIATION For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>TRANSPORTATION</b>		
Salaries and wages	\$ 4,470,829	\$ 4,089,909
Fringe benefits, including payroll taxes	4,137,651	4,213,297
Fuel and lubricants	874,083	813,650
Tires and tubes	82,776	76,138
Materials and supplies	55,277	45,257
Insurance	74,789	12,700
Security	172,251	133,184
Taxes and other miscellaneous	5,345	4,850
Total Transportation Expense	9,873,001	9,388,985
<b>MAINTENANCE</b>		
Salaries and wages	1,015,954	989,208
Fringe benefits, including payroll taxes	827,575	858,873
Contract maintenance services	240,516	131,991
Insurance	186,657	180,998
Materials and supplies	272,368	128,292
Bus parts	513,999	422,397
Other miscellaneous	16,191	7,273
Total Maintenance Expense	3,073,260	2,719,032
<b>GENERAL ADMINISTRATION</b>		
Salaries and wages	1,024,760	913,380
Fringe benefits, including payroll taxes	1,223,550	1,112,698
Advertising	226,573	192,845
Professional and management fees	309,728	260,292
Contract maintenance services	25,084	31,011
Custodial services	84,204	71,205
Materials and supplies	33,030	35,414
Utilities	212,495	223,967
Insurance	331,875	221,869
Dues and subscriptions	34,653	38,030
Travel and meeting	49,715	50,896
Lease and rentals	78,327	12,963
Rail/transportation	349,079	345,591
Other (including alternative analysis)	112,480	126,694
Self-insurance trust activity	707,046	(390,857)
Total General Administration Expense	4,802,599	3,245,998
Total Operating Expenses, Excluding Depreciation	17,748,860	15,354,015
Actual pension contributions in excess (deficient) of GASB 68 pension expense	(123,400)	(122,881)
<b>TOTAL OPERATING EXPENSES FOR SCHEDULE OF OPERATING SUBSIDY</b>	<b>\$ 17,625,460</b>	<b>\$ 15,231,134</b>

**ILLINOIS DEPARTMENT OF TRANSPORTATION**



REPORT ON COMPLIANCE WITH LAWS  
AND REGULATIONS APPLICABLE TO THE FINANCIAL ASSISTANCE  
RECEIVED FROM THE ILLINOIS DEPARTMENT OF TRANSPORTATION

To the Board of Trustees  
Rockford Mass Transit District  
Rockford, Illinois

***Report on Compliance***

We have audited the compliance of the Rockford Mass Transit District (District) with the applicable provisions of the Downstate Public Transportation Act (as amended) 30 ILCS 740/2, the Civil Administrative Code of Illinois, 20 ILCS 2705/49.19, and the rules and regulations of the Illinois Department of Transportation that are applicable to the financial assistance for the year ended June 30, 2018. The District's state financial assistance is identified in the Schedule of Operating Subsidy under Downstate Operating Assistance Grant. We also tested the calculation of the State's participation in the District's operating deficit and that State assistance claimed and paid are recorded and reported in accordance with the contract with the State of Illinois.

***Management's Responsibility***

Management is responsible for compliance with the laws and regulations applicable to the financial assistance received from the Illinois Department of Transportation.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the compliance for the District's state financial assistance compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the "Downstate Operating Assistance Grant Program Agreement" with the Department of Transportation, State of Illinois. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on financial assistance occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with laws and regulations applicable to the financial assistance received from the Illinois Department of Transportation. Our audit does not provide a legal determination of the District's compliance.

***Opinion on Compliance***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to state financial assistance received for the year ended June 30, 2018.

***Purpose of this Report***

This report is intended solely for the information and use of the Rockford Mass Transit District's Board of Trustees, management, and the Illinois Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
December 4, 2018

**ROCKFORD MASS TRANSIT DISTRICT**

SCHEDULE OF OPERATING SUBSIDY  
Under Downstate Operating Assistance Grant  
For the Years Ended June 30, 2018

	2018
<b>Operating Revenues and Income</b>	
401 Passenger fares for transit services	\$ 1,550,241
406 Auxiliary revenue	69,948
407 Non-transportation revenue	118,173
414 Federal funds applied to operating expense	1,727,303
Total Operating Revenues and Income	\$ 3,465,665
<b>Operating Expenses</b>	
501 Labor	\$ 6,511,543
502 Fringe Benefits ***	6,065,376
503 Professional services	929,790
504 Material and supplies consumed	1,867,916
505 Utilities	216,856
506 Casualty and liability	569,804
507 Taxes	5,346
508 Net purchased transportation	349,079
509 Miscellaneous expense	324,378
512 Leases, rentals, and purchase-lease payments	78,326
Self-insurance trust activity	707,046
Total Operating Expenses	\$ 17,625,460
Less ineligible expenses:	
APTA and IPTA dues	\$ 5,205
Single Audit	3,000
Self-insurance trust activity	707,046
Stateline Mass Transit District settlement	639,010
Lobbying and other costs	80,768
Total Eligible Operating Expenses	\$ 16,190,431
Total operating revenue and income	\$ 3,465,665
Deficit	12,724,766
Percentage of eligible expense*	10,523,780
Maximum contract amount	21,046,190
Eligible downstate operating assistance (Deficit, percentage of eligible expense*, or maximum contract amount, whichever is less)	10,523,780
Downstate operating assistance received	10,130,948
Downstate operating assistance receivable	\$ 392,832
Downstate operating assistance overpayment received **	\$ (284,708)

\* For fiscal 2018 65%.

\*\* The Downstate Operating Assistance reported as overpaid relates to 2011 - 2017 net overpayments.

\*\*\* Within 502 - fringe benefits management has excluded \$123,400 of GASB 68 pension expense in excess of cash contributions.

**REPORT ON FEDERAL AWARDS**

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR' REPORT

Board of Trustees  
Rockford Mass Transit District  
Rockford, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rockford Mass Transit District (the District), which comprise the statements of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 4, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District'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*.

### ***The Rockford Mass Transit District's Response to Finding***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
December 4, 2018

REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR' REPORT

To the Board of Trustees  
Rockford Mass Transit District  
Rockford, Illinois

***Report on Compliance for Major Federal Program***

We have audited the Rockford Mass Transit District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

### ***Report on Internal Control Over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

### ***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



***Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the financial statements of the District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise District's basic financial statements. We issued our report thereon dated December 4, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
December 4, 2018

**ROCKFORD MASS TRANSIT DISTRICT**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2018

<u>Federal Agency/ Program or Cluster Title</u>	<u>Pass- Through Agency</u>	<u>Federal CFDA Number</u>	<u>Local Agency Contract Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Transportation</b>				
Federal Transit Cluster				
Federal Transit Capital Investment Grants		20.500	IL-04-0014	\$ 539,724
Bus and Bus Facilities Formula Program		20.526	IL-34-0014	76,140
Federal Transit Formula Grants		20.507	IL-90-X755	57,347
Federal Transit Formula Grants		20.507	IL-90-X755	<u>1,727,303</u>
Total Federal Transit Formula Grants				<u>1,784,650</u>
Total Federal Transit Cluster				<u>2,400,514</u>
Transit Services Programs				
New Freedom Program		20.521	IL-57-X007	<u>29,696</u>
Total Transit Services Program				<u>29,696</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b><u>\$ 2,430,210</u></b>

See accompanying notes to schedule of expenditures of federal awards.

# ROCKFORD MASS TRANSIT DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS As of and for the Year Ended June 30, 2018

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### NOTE 1 – REPORTING ENTITY

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This report on Federal Awards includes the federal awards of the Rockford Mass Transit District. The reporting entity for the Rockford Mass Transit District is based upon criteria established by the Governmental Accounting Standards Board.

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### NOTE 2 – BASIS OF PRESENTATION

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The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of the Rockford Mass Transit District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Rockford Mass Transit District, it is not intended to and does not present the financial position, changes in net position or cash flows of the Rockford Mass Transit District.

The accounting records of the District's grant programs are maintained on the accrual basis of accounting. Expenditures are recorded when the liability is incurred and revenues are recorded as earned. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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### NOTE 3 – DESCRIPTION OF THE MAJOR PROGRAM

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There was one major program for the year ended June 30, 2018 which included the Federal Transit Cluster. The Federal Transit Cluster includes the Federal Transit Capital Investment Grants (CFDA #20.500), the Federal Transit Formula Grants (CFDA #20.507), and the Bus and Bus Facilities Formula Program (CFDA #20.526), awarded by the Federal Transit Administration – U.S. Department of Transportation to the Rockford Mass Transit District for the purpose of financing capital projects and supporting public transportation services in urbanized areas.

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### NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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Federal financial capital and operating assistance is reported in the Rockford Mass Transit District's basic financial statements as follows:

Federal Operating Subsidy	\$	1,727,303
Federal Capital Contributions		<u>702,907</u>
Total Federal Schedule of Expenditures of Federal Awards	\$	<u>2,430,210</u>
Federal Capital Grant Contributions above State and Local Capital Grant Contributions	\$	<u>702,907</u> <u>757,784</u>
Total Capital Contributions per the Basic Financial Statements	\$	<u>1,460,691</u>

## **ROCKFORD MASS TRANSIT DISTRICT**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2018

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### **NOTE 5 – INDIRECT COST RATE**

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Rockford Mass Transit District has elected not to use the 10% de minimis cost rate.

# ROCKFORD MASS TRANSIT DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2018

### SECTION I – SUMMARY OF AUDITORS’ RESULTS

#### **FINANCIAL STATEMENTS**

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- > Material weakness(es) identified?                      X   yes                           No
- > Significant deficiency(ies) identified?                       yes                      X   none reported

Noncompliance material to financial statements noted?                           yes                      X   no

#### **FEDERAL AWARDS**

Internal control over major programs:

- > Material weakness(es) identified?                           yes                      X   no
- > Significant deficiency(ies) identified?                       yes                      X   none reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 516(a) of the Uniform Guidance?                           yes                      X   no

Auditee qualified as low-risk auditee?                           yes                      X   no

Identification of major federal program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.500, 20.526 & 20.507	Federal Transit Cluster
	<u>      Federal      </u>

Dollar threshold used to distinguish between type A and type B programs:                          \$ 750,000

# ROCKFORD MASS TRANSIT DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2018

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### SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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#### ***FINDING 2018-001: FINANCIAL REPORTING***

**Criteria:** AU Section 325, *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to report a weakness if the District is not able to prepare its year-end financial statements, including the statement of cash flows and all footnote disclosures; prepare the schedule of expenditures of federal awards; or has material journal entries.

**Condition:** We, as your auditors, prepared the financial statements. In addition, for fiscal year 2018 we prepared material journal entries related to complex areas including other post-employment benefits and self insurance activity. This is a continued finding from the prior year and was number 2017-001.

**Cause:** The accounting department has a limited number of staff and employees do not have the time available or certain specialized expertise required to prepare GAAP financial statements or certain unique year end adjustments.

**Effect:** Without adequate internal control over financial reporting, the financial statements may not contain all of the required disclosures and account balances if prepared by Rockford Mass Transit District. As a result, the annual financial statements as included in this report are not available to the District until they are completed by the auditors.

**Recommendation:** We recommend that the District continue to review its resources and processes and evaluate the potential benefits associated with increased financial reporting capabilities and reviews. We note the number of year end adjustments has decreased in recent years and management has increased their involvement in the reporting process.

**Management's Response:** Management is aware of the situation and will continue to review the current process to identify areas to improve controls over financial reporting

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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None noted.

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### SECTION IV – PRIOR YEAR FINDINGS

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Finding 2017-001      Repeated as 2018-001