Financial Statements
September 30, 2017

Valley Regional Transit

EideBailly

Independent Auditor's Report

To The Board of Directors
Valley Regional Transit
Meridian, Idaho

Report on the Financial Statements
We have audited the accompanying financial statements of Valley Regional Transit (VRT) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise VRT'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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 VRT as of September 30, 2017, the change in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of employer's share of net pension liability and employer contributions (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 or 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise VRT's financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is not a required part of the financial statements.

The schedule of expenditures of federal awards 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. Such 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 schedule of expenditures of federal awards 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 also issued our report dated January 26, 2018 on our consideration of VRT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 VRT'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 VRT's internal control over financial reporting and compliance.

Eide Bailly LLP

Boise, Idaho
January 26, 2018

The following provides the readers of Valley Regional Transit's (VRT) financial statements with a narrative overview and analysis of the financial activities of VRT for the fiscal year ended September 30, 2017 (Fiscal Year 2017).

Financial Highlights

- The assets and deferred outflows of financial resources of VRT exceeded its liabilities and deferred inflows of financial resources at September 30, 2017, by $33,722,519.

- Total net position of VRT increased by $546,338. The investment in capital assets portion of net position increased by $359,461 and unrestricted net position increased by $186,877 between the two fiscal years.

Overview of the Financial Statements

The discussion and analysis related to the overview of the financial statements is intended to serve as an introduction to Valley Regional Transit's basic financial statements and is designed to provide readers with a broad overview of VRT's finances in a manner similar to a private-sector business. The following describes each of the statements and their use.

- *Statement of Net Position* presents information on the assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the resultant net difference being reported as net position. Analyzing increases and decreases in net position is one way to measure VRT's overall financial position and may serve as an indicator of whether the financial position of the organization is improving or deteriorating.

- *Statement of Revenues, Expenses, and Change in Net Position* shows how VRT's net position changed during the year. Valley Regional Transit is structured as a single enterprise fund established to operate in a manner similar to private business enterprises where our intent is to provide services to our ridership on a continuing basis in part through user fees. VRT's accounting system functions and reports on an accrual basis of accounting. Accrual accounting dictates that revenues are recognized when earned, not when received and expenses are recognized when incurred, not when paid. Additionally, all changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows.

The Notes to the financial statements provide additional information that is helpful when analyzing the data provided in the basic financial statements.

Financial Analysis

Statement of Net Position

As previously noted, net position may serve over time as a useful indicator of an entity's financial position. As of September 30, 2017, the net position of Valley Regional Transit was $33,722,519.

	2017	2016
Assets		
Current assets	$ 1,780,085	$ 2,616,456
Capital assets	34,315,262	33,955,801
Total assets	36,095,347	36,572,257
Deferred outflow of resources	194,024	359,284
Total assets and deferred outflow of resources	$ 36,289,371	$ 36,931,541
Liabilities		
Current liabilities	$ 1,762,069	$ 2,767,131
Long-term liabilities	699,808	898,682
Total liabilities	2,461,877	3,665,813
Deferred inflow of resources	104,975	89,547
Total liabilites and deferred inflow of resources	2,566,852	3,755,360
Net position		
Investment in capital assets	34,315,262	33,955,801
Unrestricted	(592,743)	(779,620)
Total net position	33,722,519	33,176,181
	$ 36,289,371	$ 36,931,541

Current asset balances were $836,371 lower in FY 2017 as compared to the prior fiscal year. Cash and cash equivalents decreased by $617,968 between the two years. During September of FY 2017, VRT processed large amounts of accounts payable transactions, which reduced available cash at fiscal year-end. Federal, dues, and other receivables decreased by $134,244 due to more timely collections of those types of receivables. Other asset and inventory balances decreased and increased by $100,176 and $16,017, respectively. Other assets decreased due to paying a full year's worth of insurance at the end of FY 2016; whereas in FY 2017 VRT only prepaid approximately half of a year's worth of insurance premiums. Inventory balances were virtually unchanged between the two fiscal years.

The balance of current liabilities was $1,005,062 lower in FY 2017 as compared to the prior fiscal year. As stated previously, at fiscal year-end VRT attempted to extinguish as many outstanding payables as possible prior to September 30th. Total working capital (current assets less current liabilities) increased $168,691 between the two fiscal years. VRT working capital was in a slight positive position at $18,016 at the end of FY 2017 whereas working capital was in a deficit position of $150,675 at the end of FY 2016.

By far the largest portion of VRT's net position reflects the regional transportation authority's investment in capital assets. All capital assets are used by VRT in the provision of regional public transportation services and are utilized in the capacity as intended and therefore are not available for future spending. As of September 30, 2017, VRT has not issued debt associated with the purchase of capital assets. VRT's net capital assets are further restricted. Any liquidation occurring prior to the end of the asset's useful life must have the corresponding Federal assistance repaid to the Federal Transit Administration (FTA).

Additions to the capital asset base increased net by $359,461 after taking into consideration increases in depreciation and certain vehicle, software and building component disposals at September 30, 2017. At the start of the fiscal year, the Multi-Modal Center at 9th & Main (Main Street Station) was opened. Consequently, the costs associated with this facility were transferred out of Construction In Progress into Buildings and Improvements during the fiscal year. VRT also engaged in several other projects that resulted in an increase in net investment in capital assets. Major projects included:

- Happy Day Transit Center – Parking Lot & Interior Remodel	$1,446,282
- Rolling Stock & Support Vehicle Acquisitions	$1,186,098
- Land	$210,000
- CNG/HVAC System Rehab. (Const. In Progress)	$52,083
- PEM (Ticketing) Machine/Servers	$45,891

VRT's depreciation schedule is compliant with FTA regulations and is an unfunded expense.

Unrestricted net position, which represents assets that may be used to meet ongoing obligations to VRT's ridership and creditors, was in a deficiency position of $592,743 at the end of the fiscal year. Unrestricted net position increased by $186,877 as compared to the prior fiscal year.

Statement of Revenues, Expenses, and Change in Net Position

Operating as a single enterprise fund, Valley Regional Transit's financial structure is similar to a private business enterprise with the exception of unique revenue and expense reporting categories which are dictated by the FTA. All recipients of Federal assistance are required to conform to standardized revenue and expense classifications for the purpose of reporting on specific Federal grant assistance programs.

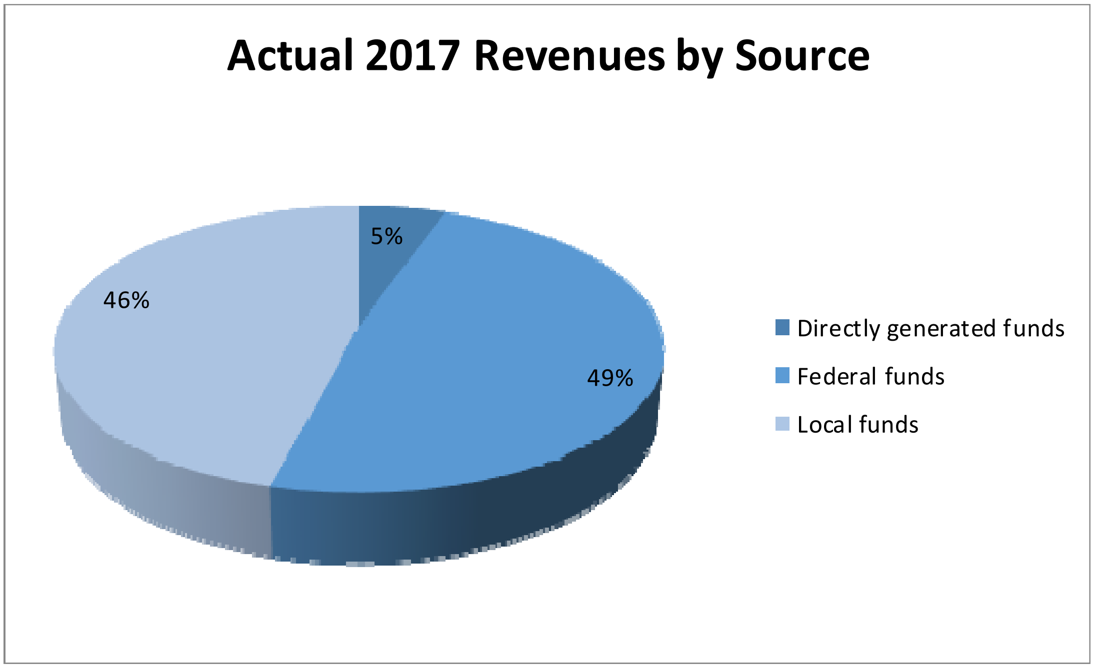
Valley Regional Transit receives Federal operating and capital assistance through the FTA Section 5307 Urbanized Area Formula Program and the FTA Section 5339 Capital Program for both the Boise Transportation Management Area (TMA) and the Nampa Urbanized Area (UZA). VRT also receives funding from Federal Section 5310 (Enhanced Mobility for Seniors and Individuals with Disabilities) Program. While Valley Regional Transit is the designated recipient of Federal funds for both the Boise TMA and Nampa UZA, each area is operated and funded independently.

Local revenues are contributions made by each of the members of VRT's supporting regional management as well as service contributions which are intended to fund the operating expenses of the various VRT programs; depending upon the services a member receives.

	2017	2016
Revenues		
Directly generated funds	$ 1,027,500	$ 1,155,042
Auxiliary transportation funds	107,175	75,523
Non transportation funds	166,177	45,211
Federal funds	9,171,491	10,665,211
Local funds	8,683,586	8,533,219
Total revenues	19,155,929	20,474,206
Expenses		
Salaries and fringe benefits	9,214,356	8,872,032
Professional services	1,636,890	1,632,646
Materials and supplies	1,370,380	1,240,299
Utilities	269,570	225,670
Casualty and liability insurance	540,301	663,321
Miscellaneous	554,651	383,926
Interest expense	-	367
Lease and rental	127,958	99,888
Non-capital expenditures	1,162,157	1,167,144
Purchased transportation	897,665	552,188
Depreciation	2,835,663	2,530,624
Total expenses	18,609,591	17,368,105
Change in Net Position	546,338	3,106,101
Beginning Balance Net Position	33,176,181	30,070,080
Ending Balance Net Position	$ 33,722,519	$ 33,176,181

Analysis of Revenues

Total revenues were $19,155,929 and $20,474,206 for FY 2017 and FY 2016, respectively. Total revenues decreased $1,318,277 on a net basis or 6.44%, in comparison to the prior fiscal year. In FY 2017, Federal funds decreased $1,493,720, whereas directly generated funds decreased by $127,542. These decreases were partially offset by increases in local funds of $150,367, non transportation funds of $120,966 and auxiliary transportation funds (advertising) of $31,652. The change in revenues was largely due to the following events: 1) The Federal revenues decrease was due to lower FTA and Idaho Transportation Department (ITD) grant drawdown activity; 2) Directly generated funds decreased from having the Compressed Natural Gas Rebate being accounted for as an operating revenue in FY2016; whereas that same revenue source was accounted for more appropriately as a capital revenue in FY2017 due to management's decision to reclassify the revenue source. Directly generated funds earned in the Canyon County System were lower in FY 2017 than the prior year, contributing to the unfavorable variance. Local funds increased due to an annual funding percentage increase from contributing members. Non transportation and auxiliary transportation funds increased due to higher overall CNG Rebates and greater advertising revenue earned during FY2017 as compared to the prior fiscal year.



Analysis of Expenses

Total expenses for FY 2017 were $18,609,591 and $17,368,105 for FY 2017 and FY 2016, respectively. Expenses increased $1,241,486 or 7.15% in comparison to the prior fiscal year largely due to the following events:

- Salaries increased $342,324 or 3.86% between the two fiscal years. This variance was principally due to increased salaries for Ada County Fixed Line operators and maintenance personnel and supervisors. Total wage and fringe percentage increases were approximately 6.5% in the two Transit Systems. Regional wages and fringes decreased 3.2% between the two fiscal years principally due to the greater utilization of temporary contract labor.

- The increase in purchased transportation of $345,477 is attributable to increased utilization of service providers in the Community Transportation Programs to deliver service.

- The depreciation increase of $305,039 was principally due to starting to depreciate two new transit facilities that started operations at the beginning of the fiscal year – Main Street Station and Happy Day Transit Center in Division 10 (VRT Administrative) within Valley Regional Transit.

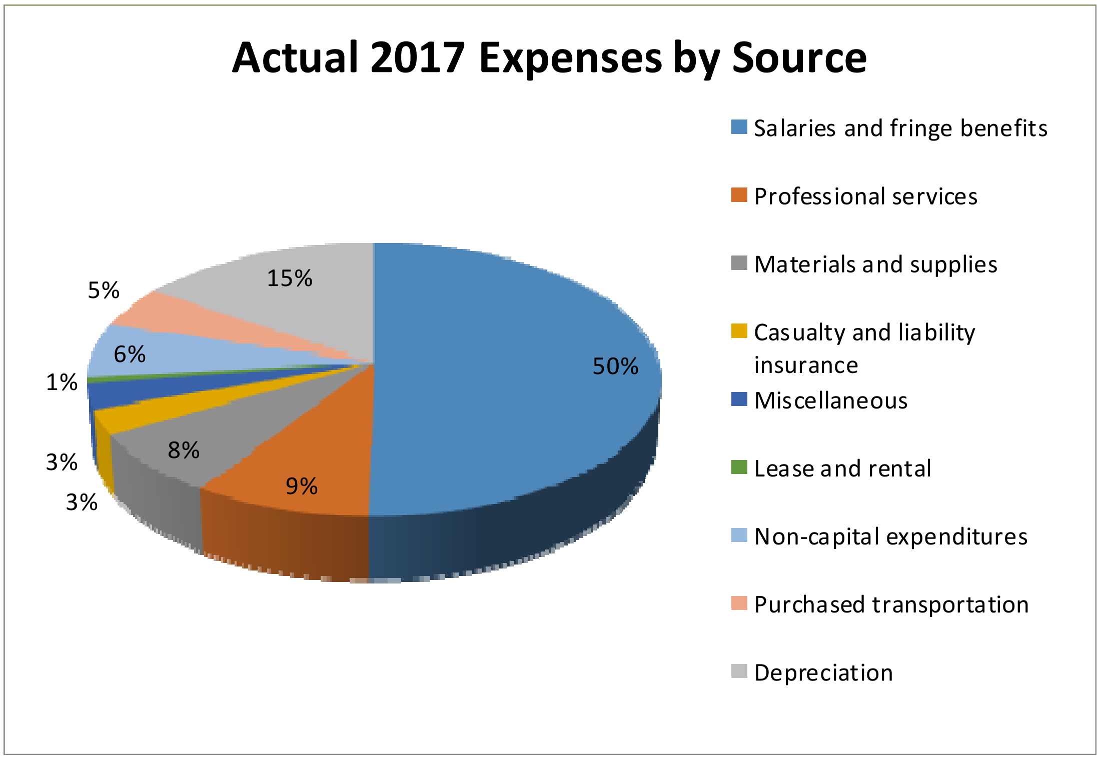
- Material and supplies increased $130,081 due to increases in the Ada and Canyon County Operations and for building and maintenance repairs to the Happy Day Transit Center in Canyon County. VRT utilized more materials and supplies in FY 2017 to operate the Boise GreenBike and Community Transportation Programs.

- Miscellaneous expense increased in FY 2017 in comparison to the prior fiscal year due to greater Mobile Data Plan and Tele/Communications, Gas and Electric expenses in the Ada and Canyon County Transit Systems.

- Lease and rental expenses increased due to a scheduled increase in the Orchard Facility Land Lease payment to the Boise Airport.

- Casualty and liability expenses decreased due to somewhat lower accident frequency resulting in lower deductible expenses and lower insurance premiums in comparison to the prior fiscal year.

The chart below shows expenses by source for FY 2017.



Capital Asset and Debt Administration

Valley Regional Transit's net investment in capital assets as of September 30, 2017 was $34,315,262 (net of accumulated depreciation). This investment in capital assets includes office equipment, building and improvements, vehicles, machinery and equipment, software, land and construction in process. Additional information can be found in Note 3 of the financial statements.

The increase in Valley Regional Transit's investment in capital assets for the current fiscal year was $359,461 or 1.06%. This increase was the result of additional vehicles, a land parcel acquisition and buildings & grounds improvements to the Happy Day Transit Center and the Orchard Street facility.

Capital Assets Net of Accumulated Depreciation

	2017	2016
Office Equipment	$ 722,856	$ 625,648
Land	1,210,000	470,000
Building and Improvements	26,755,819	12,363,364
Vehicles	21,082,203	20,816,326
Machinery and Equipment	724,423	724,423
Software	1,961,251	1,869,492
Work in Progress	56,657	13,480,437
Total Capital Assets	52,513,209	50,349,690
Accumulated Depreciation	(18,197,947)	(16,393,889)
Net Capital Assets	$ 34,315,262	$ 33,955,801

As of September 30, 2017, Valley Regional Transit had no debt obligations outstanding.

Economic Factors and Next Year's Budgets

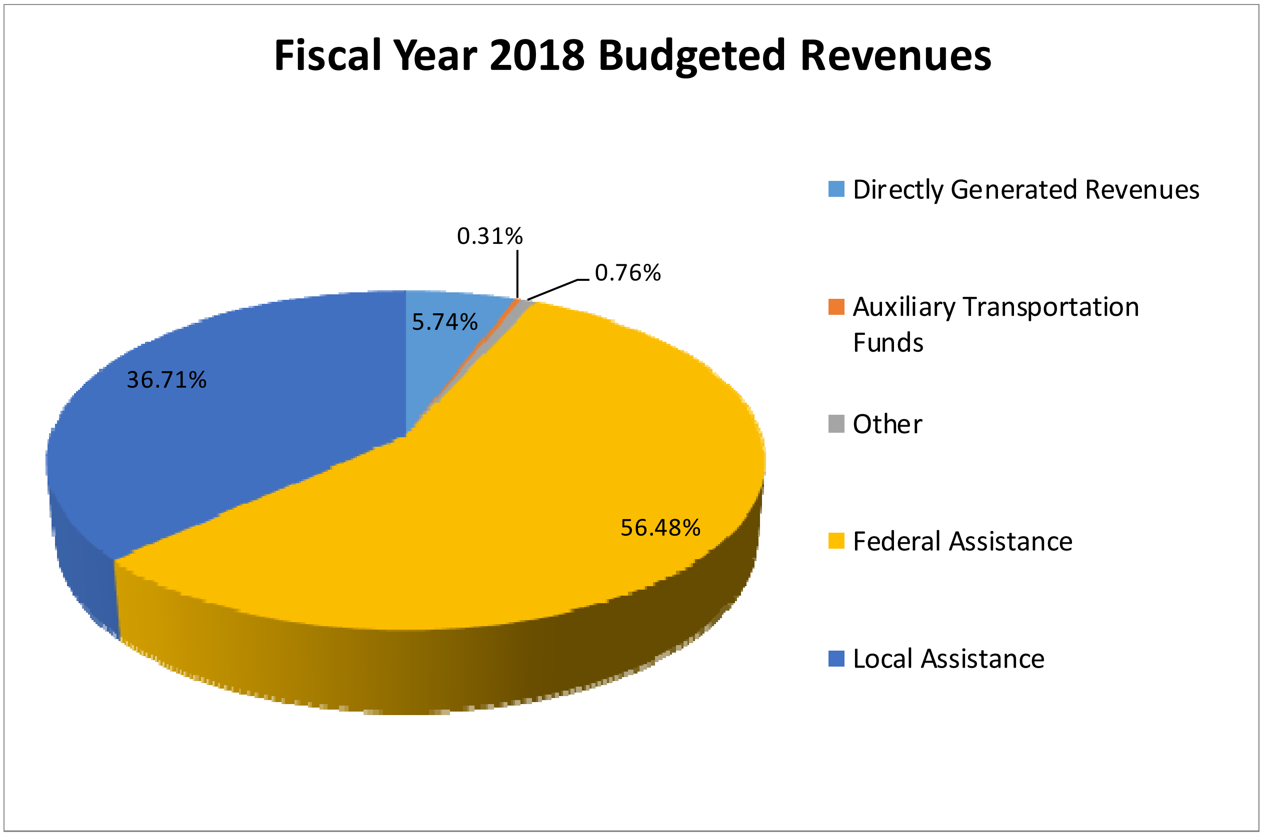
As a component of the annual budget process, Valley Regional Transit prepares a six-year operating budget and a ten-year capital budget. These budget projections assist with the current year budget development by establishing base fundamental assumptions with regard to capital replacement requirements, maintenance demands, changes to wage overhead rates, operating expenses, funding projections, and fare returns.

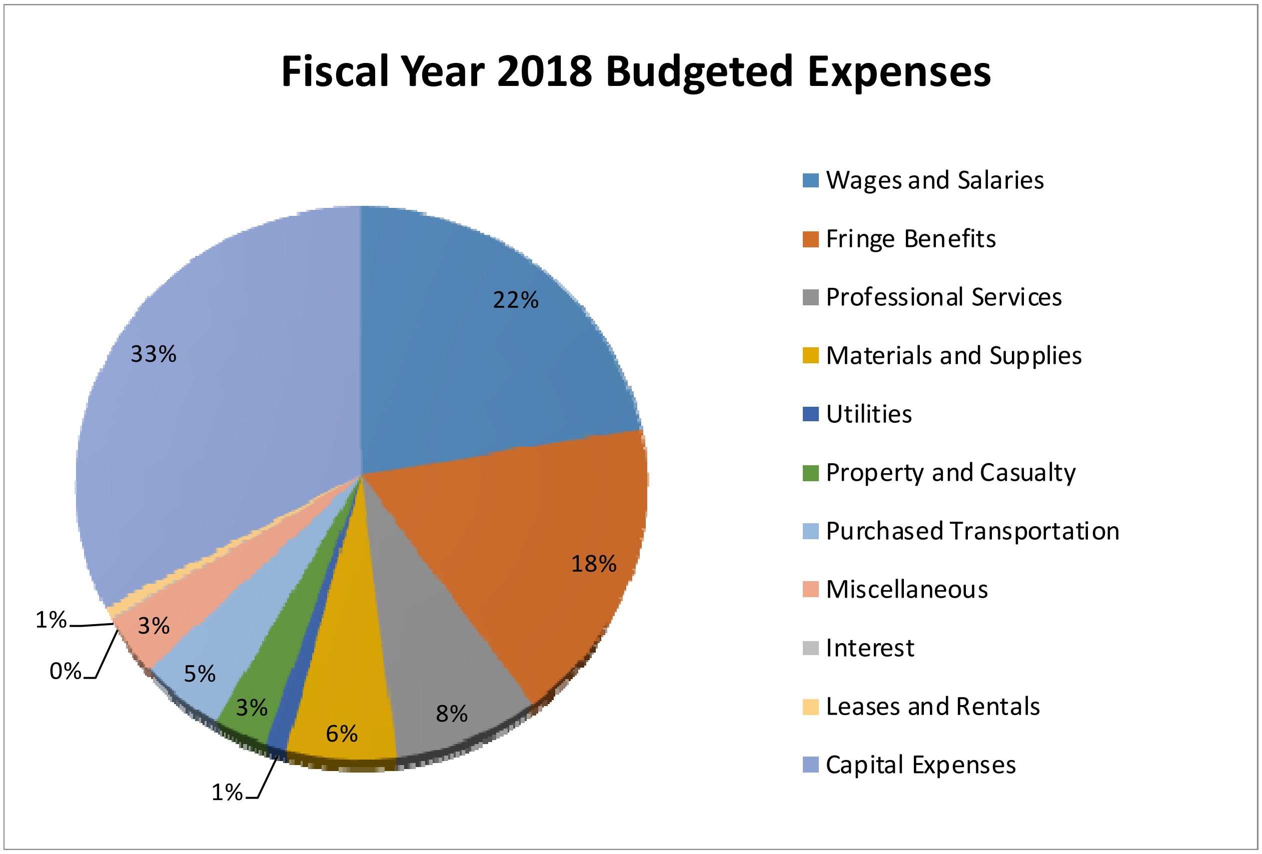
Valley Regional Transit's FY 2018 operating budget increased by only $139,360 or 0.86% over the FY 2017 amount. The Capital Budget for FY 2018 decreased by $2,866,354 or 26.49% under the FY 2017 amount.

Increased operating budget amounts are due to the following: 1) Increases in operator and maintenance wages in the Ada and Canyon County Systems; 2) A 2.5% increase in Regional Operations employee wages; 3) Fringe benefit costs that were budgeted lower due to utilizing a more temporary labor in Regional; 4) Certain transportation services that were accounted for as professional services in FY 2017 that are now accounted for in the purchased transportation expense category in Community Transportation (Division 41) for FY 2018; 5) Lower materials and supplies costs in the Mobility Programs as a direct result of using purchased transportation supplied by outside providers; and finally 6) An increase in the ground lease payment at the Orchard Street Facility.

Decreases in capital budget amounts are due to the following: 1) Lower Fixed Line and Demand Response Vehicle acquisitions; 2) Completion of major legacy construction projects as evidenced in FY 2017 with the movement out of Construction I Progress for the Main Street Station Multimodal Complex and the Happy Day Transit center parking lot improvements; and 3) Lower overall VRT and subrecipient capital carryforwards brought forward into FY 2018 as compared to the balances that were brought forward into FY 2017.

The final Fiscal Year 2018 operating budget is $16,262,154; whereas the capital budget is $7,954,025. The following charts show the composition of anticipated revenues and expenses within the 2018 budget.





Fiscal Year 2018 budget issues include:

- Continued definition and implementation of alternative transportation programs in the Community Transportation Program. These programs have been moving out of the pilot phase as ongoing funding sources are identified. They are becoming included in the permanent VRT divisional budgets.
- A dedicated VRT funding source has not yet been established. Therefore, the Fiscal Year 2018 budget was built upon member contributions, directly generated funds, auxiliary funds, and Federal assistance.
- The establishment of a separate Division within VRT (Division 19 – Community Programs Support) to account for the operational and financial impacts of coordinated marketing and van pool programs.

Assets	
Cash and cash equivalents	$ 22,731
Accounts receivable	
Federal receivable	904,397
Dues and capital commitments receivable	18,871
Other receivable	268,612
Other assets	119,480
Inventories	445,994
Capital assets	
Construction in process	56,657
Land	1,210,000
Office equipment	722,856
Software	1,961,251
Machinery and equipment	724,423
Vehicles	21,082,203
Buildings and improvements	26,755,819
Accumulated depreciation	(18,197,947)
Total assets	36,095,347
Deferred Outflows of Resources	
Deferred net pension	194,024
Liabilities	
Accounts payable and other accrued expenses	974,460
Accrued payroll and benefits	595,384
Unearned revenue	192,225
Net pension liability	699,808
Total liabilities	2,461,877
Deferred Inflows of Resources	
Deferred net pension	104,975
Net Position	
Investment in capital assets	34,315,262
Unrestricted	(592,743)
Total net position	$ 33,722,519

Operating Revenues	
Directly generated funds	$ 1,027,500
Auxiliary transportation funds	107,175
Federal funds	4,955,188
Local funds	7,676,994
Total operating revenues	13,766,857
Operating Expenses	
Salaries and fringe benefits	9,214,356
Professional services	1,636,890
Materials and supplies	1,370,380
Utilities	269,570
Casualty and liability insurance	540,301
Miscellaneous	554,651
Lease and rental	127,958
Non-capital expenditures	1,162,157
Purchased transportation	897,665
Depreciation	2,835,663
Total operating expenses	18,609,591
Operating Loss	(4,842,734)
Nonoperating Revenue	
Federal capital grants	4,216,303
Local capital grants	1,006,592
Other income	166,177
Total nonoperating revenue, net	5,389,072
Change in Net Position	546,338
Net Position, Beginning of Year	33,176,181
Net Position, End of Year	$ 33,722,519

Operating Activities	
Receipts from customers and users	$ 981,933
Receipts from federal government	5,118,475
Receipts from local government	7,862,418
Payments to suppliers	(7,561,492)
Payments to employees	(9,213,250)
Net Cash used for Operating Activities	(2,811,916)
Capital and Related Financing Activities	
Receipts of capital grants	5,012,895
Purchase of capital assets	(3,012,782)
Proceeds from sale of capital assets	27,658
Net Cash from Capital and Related Financing Activities	2,027,771
Investing Activities	
Interest received on cash and cash equivalents	166,177
Net Cash from Investing Activities	166,177
Net Change in Cash and Cash Equivalents	(617,968)
Cash and Cash Equivalents, Beginning of Year	640,699
Cash and Cash Equivalents, End of Year	$ 22,731
Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating loss	$ (4,842,734)
Adjustment to reconcile operating loss to net cash used for operating activities	
Depreciation	2,835,663
GASB 68 actuarial pension expense	(18,186)
Changes in assets and liabilities	
Accounts receivable	134,244
Inventories	(16,017)
Prepaid expenses	100,176
Accounts payable	(1,086,079)
Accrued expenses	19,292
Unearned revenue	61,725
Net Cash used for Operating Activities	$ (2,811,916)
Supplemental Disclosure of Noncash Capital Financing Activity	
Noncash land donation from local government	$ 210,000
GASB 68 actuarial pension expense	18,186

Note 1 - Summary of Significant Accounting Policies

The financial statements of Valley Regional Transit (VRT) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting and reporting policies and practices used by VRT are described below.

Reporting Entity

VRT is an enterprise fund created by a vote of Ada and Canyon County voters. VRT is the regional public transportation authority responsible for the short and long-term planning and operations of the regional transit system. The VRT Board of Directors consists of 24 appointed representatives from incorporated cities, counties and highway districts in Ada and Canyon Counties, plus one representative from Capital City Development Corporation, one representative from Meridian Development Corporation, one representative from Idaho Department of Transportation and one representative from Boise State University.

VRT entered into a contract with PTM Boise, LLC (PTM), a wholly-owned subsidiary of PTM Corporation, for operation of the Boise transit system. Under this business model, PTM is responsible for all operational and personnel decisions for the Boise operations. PTM performs all payroll and human resource functions, issues standard purchase orders, approves accounts payable, manages inventory and maintains separate bank accounts for the Boise operations. PTM enters all approved purchase orders and accounts payable into the Fleetnet system which is the overall financial information system for VRT. VRT generates all accounts payable checks which are approved by the Board of Directors and signed by authorized signatories within VRT. VRT transfers funds to the PTM payroll account on a bi-weekly basis to cover incurred personnel expenses. The results of all financial and personnel transactions are reflected in VRT's financial statements. PTM is responsible for remittance and reporting of all employer related payroll expenses.

VRT entered into a contract with MV Transit to manage the Nampa system under the same business model as has been employed in the Boise system.

In accordance with GASB Statement No. 61, *The Financial Reporting Entity:* Omnibus an amendment of GASB Statement No. 14 and No. 34, the financial statements for VRT include all organizations for which VRT is financially accountable, and other organizations for which the nature and significance of their relationships with VRT are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There were no such organizations included in the current year.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

VRT is accounted for and reported as a proprietary-type enterprise fund, using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows. The statement of net position and the statement of revenues, expenses, and change in net position display information about VRT. These statements include the financial activity of the overall reporting entity. These statements report all activities of VRT as a business type activity. Operations are financed from Federal grant monies, local contributions, advertising and fares.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of VRT are user charges to customers, local contributions, dues, and operating grants. Operating expenses for VRT include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, VRT considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Receivables are due from city and federal governments for capital commitment contributions, fuel rebates, and federal grants. Based on experience, no allowance for uncollectible accounts has been established as of September 30, 2017. It is reasonably possible that this estimate will change in the near future of the date of the financial statements.

Inventories

Inventories are stated at average cost (first-in, first-out). Inventories consist of spare parts and equipment held for consumption. The cost is recorded as an expense at the time individual inventory items are used.

Capital Assets

The policy of VRT is to capitalize all property, such as land, buildings, and equipment with a cost equal to or greater than $5,000, and a useful life of one or more years. All capital assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend an asset's life is not capitalized.

Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results of operations in the period of disposal.

The estimated useful lives of fixed assets are as follows:

Office equipment	3-15 years
Software	3 years
Machinery and equipment	5-15 years
Vehicles	3-15 years
Buildings and improvements	10-45 years

Deferred Outflows/Inflows of Resources

The statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. VRT has one item that qualifies for reporting in this category: the deferred outflows related to the net pension liability reported on the statement of net position. The deferred net pension results from changes in assumptions or other inputs, changes in VRT's proportion and VRT's contributions and proportionate share of contributions, and the net difference between projected and actual earnings on pension plan investments in the actuarial calculation of VRT's net pension liability.

The statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. VRT has one item that qualifies for reporting in this category: the deferred inflows related to the net pension liability. The deferred net pension results from the differences between the expected and actual experience and the net difference between projected and actual earnings on pension plan investments derived from the actuarial calculation of VRT's net pension liability.

Accrued Compensated Absences

Accumulated unpaid vacation and compensatory time amounts are accrued and charged to expenses when earned. Sick pay amounts are charged to expenses when used. Terminated employees are not paid for unused sick time unless they have 15 years of service or are over 60 years of age at the date of termination, in which case they are eligible to receive 50% of their sick pay balance.

Net Position

VRT classifies net position, revenues and other support based on the existence or absence of grantor-imposed restrictions. Accordingly, net position of VRT and changes therein are classified and reported as follows:

Investment in Capital Assets – This represents VRT's total investment in capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

Unrestricted Net Position – Net position not subject to grantor-imposed stipulations or received with restrictions that were satisfied in the same period.

Risk Management

VRT is exposed to various risks of loss related to theft of, damage to, or destruction of assets. VRT participates in a public entity risk pool, Idaho Counties Risk Management Pool (ICRMP), for liability insurance. VRT's exposure to loss from its participation in ICRMP is limited only to the extent of their deductible.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net position and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base 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.

Note 2 - Cash and Cash Equivalents

Financial instruments which potentially subject VRT to concentration of credit risk consist principally of cash and sweep accounts. VRT maintains its cash and sweep accounts in one commercial bank.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, VRT will not be able to recover the value of it investments or collateral securities that are in the possession of an outside party. All deposits greater than the FDIC insurance coverage were subject to custodial credit risk. VRT has a written policy limiting custodial credit risk through preauthorization of financial institutions. Accounts at the commercial bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank.

A summary of the total insured and uninsured bank balances follows:

Total cash in bank	$ 362,522
Portion insured by	
FDIC	(11,746)
Collateralized held by Wells Fargo, pledged to VRT	(350,776)
Uninsured and uncollateralized cash	$ -

Note 3 - Capital Assets

The following presents capital asset activity for the year ended September 30, 2017.

	Balance October 1, 2016	Additions	Deletions	Transfers	Balance September 30, 2017
Non-depreciable					
Construction in process	$ 13,480,437	$ 52,083	$ -	$ (13,475,863)	$ 56,657
Land	470,000	210,000	-	530,000	1,210,000
Depreciable					
Office equipment	625,648	45,891	(9,000)	60,317	722,856
Software	1,869,492	69,124	(43,082)	65,717	1,961,251
Machinery and equipment	724,423	-	-	-	724,423
Vehicles	20,816,326	1,186,098	(920,221)	-	21,082,203
Building and improvements	12,363,364	1,659,586	(86,960)	12,819,829	26,755,819
Total capital assets	50,349,690	3,222,782	(1,059,263)	-	52,513,209
Accumulated depreciation	(16,393,889)	(2,835,663)	1,031,605	-	(18,197,947)
Net capital assets	$ 33,955,801	$ 387,119	$ (27,658)	$ -	$ 34,315,262

Note 4 - Other Short-Term Debt

VRT uses a revolving line-of-credit to assist with the daily operating cash flow requirements of the Nampa Urbanized Area. The line of $320,000 carries an interest rate of 5%, matured October 28, 2017, and had not been renewed as of the date which the financial statements were available to be issued. The revolving line of credit is uncollateralized. The balance outstanding at September 30, 2017, was $0.

Note 5 - Defined Contribution Pension Plan

PTM provides for a non-discretionary 457(b) contribution of 7.5% of eligible compensation to PTM eligible employees. To participate, the PTM employee must have completed six months of continuous service. The 457(b) plan allows employee deferred contributions. The maximum contribution amount to the plan is 100% of compensation less any mandatory before-tax contributions to a governmental pension plan per year or the IRS prescribed amount, whichever is less. During the year ended September 30, 2017, VRT reimbursed PTM for contributions of $280,618 to the 457(b) plan that is managed by Empower Retirement.

Note 6 - Defined Benefit Pension Plan

Plan Description

Valley Regional Transit contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by stature at 60% of the employer rate for general employees. As of June 30, 2017 it was 6.79% for general employees and 8.36% for police and firefighters. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32% for general employees and 11.66% for police and firefighters. VRT's contributions were $150,283 for the year ended September 30, 2017.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, VRT reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. VRT's proportion of the net pension liability was based on VRT's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2017, VRT's proportion was .000445219 percent.

For the year ended September 30, 2017, VRT recognized pension expense of $132,098. At September 30, 2017, VRT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 96,946	$ 63,047
Changes in assumptions or other inputs	12,941	-
Net difference between projected and actual earnings on pension plan investments	-	41,928
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	48,966	-
Valley Regional Transit's contributions subsequent to the measurement date	35,171	-
Total	$ 194,024	$ 104,975

The $35,171 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2018.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2016, the beginning of the measurement period ended June 30, 2017, is 4.9 years and 5.5 years for the measurement period June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year ended September 30:	
2018	$ (19,009)
2019	84,782
2020	28,971
2021	(40,866)

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions	
Inflation	3.25%
Salary increases	4.25-10.00%
Salary inflation	3.75%
Investment rate of return	7.10%, net of investment expenses
Cost-of-living adjustments	1.00%

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back three years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2007 through June 30, 2013 which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2017 is based on the results of an actuarial valuation date of July 1, 2017.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of the System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2017.

Capital Market Assumptions

Asset Class	Expected Return*	Expected Risk	Strategic Normal	Strategic Ranges
Equities			70%	66% - 77%
Broad Domestic Equity	9.15%	19.00%	55%	50% - 65%
International	9.25%	20.20%	15%	10% - 20%
Fixed Income	3.05%	3.75%	30%	23% - 33%
Cash	2.25%	0.90%	0%	0% - 5%

Total Fund	Expected Return*	Expected Inflation	Expected Real Return	Expected Risk
Actuary	7.00%	3.25%	3.75%	N/A
Portfolio	6.58%	2.25%	4.33%	12.67%

*Expected arithmetic return net of fees and expenses

Actuarial Assumptions	
Assumed Inflation - Mean	3.25%
Assumed Inflation - Standard Deviation	2.00%
Portfolio Arithmetic Mean Return	8.42%
Portfolio Long-Term Expected Geometric Rate of Return	7.50%
Assumed Investment Expenses	0.40%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	7.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Employer's proportionate share of the net pension liability (asset)	$ 1,626,497	$ 699,808	$ (70,296)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the Pension Plan

At September 30, 2017, VRT had reported payables to the defined benefit pension plan of $5,834 for legally required employer contributions and $3,499 for legally required employee contributions of which had been withheld from employee wages but not yet remitted to PERSI.

Note 7 - Lease Commitments

Under the transfer agreement with the City of Boise, VRT assumed lease payments for the vehicle maintenance facility renewed effective October 1, 2015 and expires September 30, 2045. Monthly lease payments are $6,373 beginning October 1, 2016 and $11,805 beginning October 1, 2017. Subsequent to October 1, 2017, base rent payments increase annually based on the Consumer Price Index.

VRT entered a lease agreement effective September 1, 2016, for the use of a facility in the operations of the Boise Bike Share Program. The lease is a two-year lease, with monthly payments of $2,425 beginning September 1, 2016 and $2,499 beginning September 1, 2017.

VRT is also in a lease agreement for two copiers for 63 months starting in July of 2013. The monthly payments are $706.

Minimum lease payments are as follows:

2018	$ 133,588
2019	101,064
2020	103,126
2021	105,231
2022	107,379
Thereafter	3,175,739
	$ 3,726,127

Total rent expense was $114,117 for the year ended September 30, 2017.

Note 8 - Concentrations

Concentration by revenue source:

Approximately 48% of VRT's total revenue for the year ended September 30, 2017, was derived from contracts with the Federal government, and 76% of the local revenue came from the City of Boise.

Note 9 - Self-Insurance

VRT established a partially self-funded health plan for its employees. The employees are responsible for the first $250 of their deductible. VRT is responsible for the remainder of the deductible up to the $2,000 out-of-pocket limit. The employee is responsible for all further claims not covered by the insurance. The health care plan is administered by Blue Cross of Idaho and they are responsible for the approval, processing and payment of claims.

At September 30, 2017, VRT has reported a liability of $95,907, which represents amounts payable by VRT towards the employee's deductible for claims incurred as of the end of the year but not paid by VRT as of that date.

Note 10 - Related Party

The Board of VRT is made up of representatives from member organizations that pay dues to VRT as a part of the local match requirement on federal grants.

Note 11 - Subsequent Event

On November 1, 2017, VRT had a change in contractors that operate the Boise and Nampa transit systems. First Transit, Inc. now manages the operations of both systems. Prior to this date, PTM and MV Transit managed the transit operations for the Boise and Nampa transit systems, respectively.

Required Supplementary Information
September 30, 2017

Valley Regional Transit

Schedule of Employer's Share of Net Pension Liability
PERSI - Base Plan
Last 10 - Fiscal Years*

	2015	2016	2017
Employer’s portion of the net pension liability	0.000439740	0.000443322	0.000445219
Employer’s proportionate share of the net pension liability	$ 579,066	$ 898,682	$ 699,808
Employer’s covered-employee payroll	$ 1,231,700	$ 1,296,576	$ 1,425,209
Employer’s proportional share of the net pension liability as a percentage of its covered-employee payroll	47.01%	69.31%	49.10%
Plan fiduciary net position as a percentage of the total pension liability	91.38%	87.26%	90.68%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Valley Regional Transit will present information for those years for which information is available.

Data reported is measured at the measurement date which is as of June 30 of each year.

Schedule of Employer Contributions
PERSI - Base Plan
Last 10 - Fiscal Years*

	2015	2016	2017
Statutorily required contribution	$ 138,531	$ 152,675	$ 150,283
Contributions in relation to the statutorily required contribution	$ (140,279)	$ (150,744)	$ (145,075)
Contribution (deficiency) excess	$ 1,748	$ (1,931)	$ (5,208)
Employer’s covered-employee payroll	$ 1,223,775	$ 1,348,714	$ 1,350,824
Contributions as a percentage of covered-employee payroll	11.46%	11.18%	10.74%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, Valley Regional Transit will present information for those years for which information is available.

Data reported is measured as of September 30 of each year.

Federal Awards Reports in Accordance with the Uniform Guidance
September 30, 2017

Valley Regional Transit

Federal/Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Expenditures	Amounts Passed Through to Subrecipients
Direct from U.S. Department of Transportation				
Formula Grants	20.507	N/A	$ 6,670,734	$ 1,047,786
Bus and Bus Facilities Formula Program	20.526	N/A	549,620	-
Capital Improvement Grants	20.500	N/A	237,952	-
Total Federal Transit Cluster			7,458,306	1,047,786
New Freedom Grant	20.513	N/A	327,255	-
Pass through from Idaho Department of Transportation				
Formula Grants for Rural Areas	20.509	ID18042	713,399	172,528
Total U.S. Department of Transportation			$ 8,498,960	$ 1,220,314

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Valley Regional Transit (VRT) under programs of the federal government for the year ended September 30, 2017. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. VRT received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient. Because the Schedule presents only a selected portion of the operations of VRT, it is not intended to and does not present the financial position, changes in net position, or cash flows of VRT.

Note 2 - Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. VRT’s summary of significant accounting policies is presented in Note 1 in VRT’s basic financial statements.

VRT has not elected to use the 10% de minimis cost rate.

Independent Auditor's 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*

The Board of Directors
Valley Regional Transit
Meridian, Idaho

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 Valley Regional Transit (VRT), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise VRT's basic financial statements, and have issued our report thereon dated January 26, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered VRT'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VRT's internal control. Accordingly, we do not express an opinion on the effectiveness of VRT'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 VRT'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether VRT's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Eide Bailly LLP

Boise, Idaho
January 26, 2018

Independent Auditor's Report on Compliance for the Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Valley Regional Transit
Meridian, Idaho

Report on Compliance for the Major Federal Program
We have audited Valley Regional Transit's (VRT) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on VRT's major federal program for the year ended September 30, 2017. VRT's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for VRT'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 the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about VRT'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 VRT's compliance.

Opinion on the Major Federal Program
In our opinion, VRT 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 September 30, 2017.

Report on Internal Control over Compliance
Management of VRT is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered VRT's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 VRT'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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement 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 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items that we consider to be significant deficiencies. See finding 2017-001.

VRT's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. VRT's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Eide Bailly LLP

Boise, Idaho
January 26, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
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 Uniform Guidance 2 CFR 200.516?	Yes

Identification of major programs:

Name of Federal Program	CFDA Number
Federal Transit Cluster	
Dept. of Transportation – Capital Improvement Grants	20.500
Dept. of Transportation – Formula Grants	20.507
Dept. of Transportation – Bus and Bus Facilities Formula Program	20.526

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

2017-001
Direct Programs – Department of Transportation
CFDA #20.500, 20.507, 20.526
Federal Transit Cluster
Special Tests and Provisions: Wage Rate Requirements
Significant Deficiency in Internal Control

Criteria:
For each construction contract and subcontract greater than $2,000 covered by the Wage Rate Requirements, the contractors or subcontractors are required to submit the required certified payroll reports for each week in which work was performed.

Condition:
During our testing of the Wage Rate Requirement, one contractor out of five did not submit weekly certified payroll reports to Valley Regional Transit.

Cause:
Valley Regional Transit did not have a control in place to ensure that all required weekly certified payroll reports were received.

Effect:
Valley Regional Transit is out of compliance with the Wage Rate Requirement.

Questioned Costs:
None Reported

Context/Sampling:
A nonstatistical sample of projects from 5 vendors out of 31 vendors were selected for special tests and provisions testing.

Repeat Finding from Prior Year:
No

Recommendation:
Management should implement a control process to ensure that all weekly wage reports are submitted for each contractor or subcontractor.

Views of Responsible Officials:
Management agrees with the finding and is implementing a control process in place to ensure that all weekly reports are submitted.