

Milwaukee County Transit System

**Independent Public Accountants' Report
On Applying Agreed-Upon Procedures
Specified by Federal Transit Administration**

Year ended December 31, 2017



**Independent Public Accountants' Report
On Applying Agreed-Upon Procedures**

To the Board of Supervisors
of the County of Milwaukee
and the Federal Transit Administration:

The Federal Transit Administration has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics form (Total Operating Expense data on F-30, line 15, column e, Form S-10, lines 12, 15, 18, 20, column d, Total Actual Vehicle Revenue Mile, Total Actual Vehicle Revenue Hour, Total Unlinked Passenger Trip data and Passenger Mile Traveled data and Fixed Guideway when applicable) of the transit agency's annual National Transit Database (NTD) report:

1. A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
2. A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
3. Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of 3 years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
4. A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
5. The data collection methods are those suggested by FTA or otherwise meet FTA requirements.
6. The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles data, appear to be accurate.
7. Data are consistent with prior reporting periods and other facts known about transit Agency operations.

We have applied the procedures to the data contained in the accompanying FFA-10 form for the fiscal year ending December 31, 2017. Such procedures, which were agreed to and specified by the FTA in the Declarations section of the 2017 Policy Manual and were agreed to by the Milwaukee County Transit System (the Agency), were applied to assist you in evaluating whether the Agency complied with the standards described in the first paragraph of this part and that the information included in the NTD report Federal Funding Allocation Statistics form for the fiscal year ended December 31, 2017 is presented in conformity with the requirements of the Uniform System of

Accounts (USOA) and Records and Reporting System; Final Rule, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the 2017 Policy Manual.

The procedures were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles, fixed guideway directional route miles, passenger miles, and operating expenses of Milwaukee County Transit System (the Agency) for the fiscal year-ending December 31, 2017, for each of the following modes:

- Motor Bus - directly operated
- Vans, private carrier providing transit service under contract, and

The procedures that we performed are summarized as follows:

- A. We read the Federal Transit Administration Reporting Manual (Reporting Manual) for the 2017 National Transit Database (NTD) Report Year, in particular, "Federal Funding Allocation Data Review Procedures "a" through "aa" discussed in that publication (Federal Funding Allocation Test).
- B. We developed specified procedures tailored to the Agency, as enumerated below, based on FTA's Federal Funding Allocation Data review requirements as set forth in the Reporting Manual.
- C. We reviewed with Mr. Dan Pryba, Accounting Supervisor, the Agency's procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630. According to Ms. Tracy Harrington, Director of Paratransit Services, the Agency has its own written procedures related to the system for reporting and maintaining Transit Plus data as documented in the 2017 Policy Manual. (Reporting Manual Federal Funding Allocation Data review procedure "a").
- D. We discussed with Mr. Dan Pryba procedures referenced in procedure (C), above. We inquired whether the Agency followed such procedures on a continuous basis and whether the procedures resulted in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630. We were informed by Mr. Pryba that, to the best of his knowledge, the Agency has followed such procedures on a continuous basis and that the Agency's accumulation and reporting of data is consistent with the NTD definitions and requirements as set forth in 49 CFR Part 630. (Reporting Manual Federal Funding Allocation Data review procedure "b").
- E. We inquired of Mr. Pryba concerning the retention policy that is followed by the Agency with respect to source documents supporting the NTD data, Total Modal Operating Expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, Line 12 and 20, column d). Per Mr. Pryba, the documentation and source documents are retained by the Agency for the three years following the year in which the report is due to the FTA. (Reporting Manual Federal Funding Allocation Data review procedure "c").

- F. For the purposes of motorbus testing, we identified the source documents that are to be retained by the Agency for a minimum of three years. For each of the required documents listed below, we reviewed the source documents for the weeks identified. We located and observed the following source documents supporting NTD data reported on Forms F-30 and S-10 for the year ended December 31, 2017, and noted the documents had been properly retained:
- Schedule Miles Report (weeks 7, 37 and 47)
 - Deviation sheets (weeks 7, 37 and 47)
 - FTA on-off count sheets (weeks 7, 37 and 47)
- (Reporting Manual Federal Funding Allocation Data review procedure “d”).
- G. Per inquiry with Mr. Pryba, van testing was not conducted, because Van Pool Program remains discontinued for current year audit.
- H. We inquired of Mr. Pryba whether individuals, independent of the individuals preparing the source documents and posting the data summaries, review the source documents and data summaries for completeness, accuracy and reasonableness and how often such reviews are performed. We were informed that the source documents are independently reviewed on a weekly and monthly basis for motorbus data. According to Ms. Harrington, the source documents for Transit Plus are reviewed monthly. (Reporting Manual Federal Funding Allocation Data review procedure “e”).
- I. We selected a random sample of source documents for procedure “d”. We used the same documents to verify that supervisors’ signatures were present as required by the Agency’s internal control structure. There were no instances of noncompliance noted (Reporting Manual Federal Funding Allocation Data review procedure “f”).
- J. We obtained the worksheets utilized by the Agency to prepare the final data, which are transcribed onto the Federal Funding Allocation Statistics form. We compared the periodic data included on the worksheets to the Form F-10 and tested the arithmetical accuracy of the summarization. (Reporting Manual Federal Funding Allocation Data review procedure “g”).
- K. Per Mr. Pryba, for the purposes of motor bus passenger reporting, the Agency uses an estimate of passenger miles based on statistical sampling. Per Ms. Harrington, Transit Plus uses actual passenger miles based on data received from the contractors. All methods used in 2017 are outlined and approved by the FTA as meeting the Section 15 reporting requirements in Circular UMTA C2710.1A (Reporting Manual Federal Funding Allocation Data review procedure “h”).

- L. We discussed with Mr. Pryba the eligibility of the Agency to conduct statistical sampling for passenger mile data every third year under the guidelines promulgated in 49 CFR Part 630. Mr. Pryba informed us that the Agency is not eligible and statistical sampling must be done annually. (Reporting Manual Federal Funding Allocation Data review procedure “i”).
- M. Per discussion with Tom Winter, Manager of Schedule and Planning, the HASTUS sampling system by GIRO is used to generate the random sample selections of the trip data to be tested. These random selections are generated quarterly, listed by week, and the trip selections are assigned to the automatic passenger counter system (APC) for a specific day. The APC will record the run number, bus number, time of trip, number of passengers both boarding at stops and remaining on the bus in-between stops. This information is then processed in the Traffic Department. (Reporting Manual Federal Funding Allocation Data review procedure “j”).
- N. We selected a random sample of the source documents for accumulating Motor Bus passenger mile data and determined that they were complete, (all required data was recorded) and that the computations were accurate. We reviewed the source documents for weeks 6, 12, 17, 24, 33, 36, 38, 40, 44, 45, 50 and 52 in 2017. We noted that the passenger mile data was complete and no mathematical errors existed. (Reporting Manual Federal Funding Allocation Data review procedure “k”).
- O. For the purposes of Transit Plus reporting, we selected a random sample of the source documents for accumulating passenger mile data and determined they were complete (all the required data was recorded) and that the computations were accurate. We reviewed the source documents for the months of January, August, and December 2017. We noted the passenger and actual revenue mile data was complete and no mathematical errors existed. (Reporting Manual Federal Funding Allocation Data review procedure “k”).
- P. We discussed with Mr. Pryba, procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of motorbus vehicle revenue. In order to determine if the stated procedures were followed, we selected a random sample of the source documents used to record charter and school bus mileage and proved the arithmetical accuracy of the computations. We selected three weeks (weeks #7, 37, and 47) and reviewed the scheduled miles reports and the deviation sheets used to arrive at the actual vehicle miles for those weeks. We noted that all school bus and charter mileage was properly excluded and amounts were computed correctly. These deviation sheets also included trips that were scheduled but missed and as such were properly deducted as well from the actual vehicle miles. (Reporting Manual Federal Funding Allocation Data review procedure “l”).
- Q. Per Mr. Pryba, the vehicle revenue mile data for motor bus is calculated using schedules. The missed trips and school trips are deducted via the deviation sheets. Deadhead miles are systematically excluded from the summarization. For the purposes of Transit Plus reporting, vehicle logs are used to compute the vehicle revenue mile data. We selected a

random sample of documents and verified that deadhead miles were not included in the calculation. (Reporting Manual Federal Funding Allocation Data review procedure “m”).

R. Operating Expense Reconciliation for Motor Bus:

Operating expense per ledger	\$128,000,944
Operating Cross-charges per DPW ledger	1,392,172
Non-Operating costs included in ledger	692,381
Tire Lease	492,059
Marketing Grant	783,511
Conference Expense	-
Other Meeting Expense	791
Miscellaneous Expenses	-
Less: Contracted services	(2,298,501)
Lease	(5,897)
Overhead Adjustment to Transit Plus	(6,774)
Operating Expense per Form F-30	<u>\$129,050,686</u>

Operating Expense Reconciliation for Transit Plus:

Operating expense per ledger	\$ 15,752,472
Operating Cross-charges per DPW ledger	251,886
Supplies	-
Overhead Adjustment from Motor Bus	6,774
Less: Depreciation	(450,724)
Contracted Services	(1,380,993)
Capital Leasing	(4,278)
Operating Expense per Form F-30	<u>\$ 14,175,137</u>

(Reporting Manual Federal Funding Allocation Data review procedure “u”).

S. We inquired of Ms. Herrington the Agency contracts for transportation service. We were informed that the Agency contracts for transportation service and that purchased transportation fare revenues are retained by the contract service providers. We obtained documentation of the retained fare revenue amount as reported by the contract service provider and agreed this amount to retained fare revenues reported on Form B-30 by the Agency. The F-30 report shows Transit Plus reported about \$36,323 of filing separate report expenses, which is the amount for Waukesha Metro (5096).

T. We were informed, by Mr. Pryba, that the Agency contracts for transportation service with contractors that operated fewer than 100 vehicles for the Agency’s contracted service at peak. MCTS purchases transportation from two different contractors. We were provided

with 2 out of the 2 independent contractor’s auditor’s reports. Copies of the reports are attached to this report. (Reporting Manual Federal Funding Allocation Data review procedure “v”).

- U. We obtained a copy of the contracts for the purchase of transportation service and read them to determine that the contracts specify the specific mass transportation services to be provided by the contractors, specify the monetary consideration obligated by the Agency for the service, specify the period covered by the contracts, and that this period is the same as the period covered by the Agency’s NTD Report, and is signed by the representatives of both parties to the contract. We noted no exceptions. We also inquired of Mr. Pryba regarding the retention of the executed contracts, and were told that copies of the contracts are retained for a minimum of three years. (Reporting Manual Federal Funding Allocation Data review procedure “w”).

- V. We compared the motorbus data reported on the Total Modal Operating expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, lines 12 and 20, column d) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. We also compared Transit Plus data reported on the Form F-30, S-10 to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. We noted motorbus vehicle passenger miles did decrease by more than 5 % from last year. We noted Transit Plus operating expense data did increase by more than 5 % from last year.

Percentage change in the following for motorbus data:

	<u>2017</u>	<u>2016</u>	<u>Change %</u>
Vehicle revenue miles	16,297,617	16,595,750	-2%
Passenger miles	120,815,722	137,115,751	-12%
Operating expense data	129,050,686	133,636,134	-3%

Percentage change in the following for Transit Plus data:

	<u>2017</u>	<u>2016</u>	<u>Change %</u>
Vehicle revenue miles	2,655,768	2,691,642	-1%
Passenger miles	3,007,663	3,051,755	-1%
Operating expense data	14,175,137	13,383,068	6%

(Reporting Manual Federal Funding Allocation Data review procedure “z”).

As a result of performing the procedures described above we did not identified any noncompliance with FTA mandated standards.



The following Reporting Manual Federal Funding Allocation Data review procedures were not applicable to the Agency and therefore, were not performed:

Reporting Manual Federal Funding Allocation Data review procedure n, o, p, q, r, s, t, and y.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Federal Funding Allocation Statistics Form. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Also, we do not express an opinion on the transit Agency's system of internal control taken as a whole.

This report relates only to the information described above, and does not extend to the transit Agency's financial statements taken as a whole or the forms in the transit agency's NTD report other than the Federal Funding Allocation Statistics Form, for any date or period.

This report is intended solely for the information and use of the Board of Supervisors of the County of Milwaukee, the FTA, and the Agency, and is not intended to be and should not be used by anyone other than those specified parties.

Coleman & Williams, Ltd.

Milwaukee, Wisconsin
July 27, 2018

Transit Express, Inc.

(a subsidiary of National Express LLC)

Milwaukee, Wisconsin

Financial Statements and Supplementary Information

Year Ended December 31, 2017

WIPFLi^{LLP}
CPAs and Consultants

Transit Express, Inc.
Year Ended December 31, 2017

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Independent Auditor's Report

Board of Directors
Transit Express, Inc.
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Transit Express, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of operations and stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements.

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; 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 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 Transit Express, Inc., as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.



Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information appearing on pages 11 to 14, including the accompanying schedule of expenditures of federal and state awards, required by the *Department of Health Services Audit Guide, April 2018 Revision*, issued by the Wisconsin Department of Health Services, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2018, on our consideration of Transit Express, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Transit Express, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Transit Express, Inc.'s internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

Milwaukee, Wisconsin
August 24, 2018

Transit Express, Inc.

Balance Sheet

December 31, 2017

Assets	
Current assets:	
Cash	\$ 140,413
Accounts receivable - Trade	1,990,342
Prepaid expenses	20,793
Total current assets	2,151,548
Due from National Express LLC	3,215,955
TOTAL ASSETS	\$ 5,367,503
Liabilities and Stockholder's Equity	
Current liabilities:	
Accounts payable	\$ 327,246
Accrued expenses	187,434
Accrued income taxes	1,122,000
Deferred income tax liability	6,000
Total current liabilities	1,642,680
Stockholder's equity:	
Common stock, \$40 par value, 2,500 shares authorized, 500 shares issued and outstanding	20,000
Additional paid-in capital	8,403
Retained earnings	3,696,420
Total stockholder's equity	3,724,823
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 5,367,503

See accompanying notes to financial statements.

Transit Express, Inc.
Statement of Operations and Stockholder's Equity
Year Ended December 31, 2017

Revenue	\$ 10,574,152
Direct expenses	5,551,208
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Gross profit	5,022,944
General and administrative expenses	2,159,602
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Operating income	2,863,342
Other income	20,580
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Income before provision for income taxes	2,883,922
Provision for income taxes	1,128,000
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Net income	1,755,922
Stockholder's equity at beginning of year	1,968,901
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Stockholder's equity at end of year	\$ 3,724,823

See accompanying notes to financial statements.

Transit Express, Inc.

Statement of Cash Flows

Year Ended December 31, 2017

Increase (decrease) in cash:	
Cash flows from operating activities:	
Net income	\$ 1,755,922
Adjustments to reconcile net income to net cash used in operating activities:	
Provision for deferred income taxes	6,000
Change in operating assets and liabilities:	
Accounts receivable - Trade	(1,703,139)
Accounts receivable - Related party	581,096
Supplies inventory	36,422
Prepaid expenses	(3,385)
Due from National Express LLC	(2,778,686)
Accounts payable	189,408
Accrued expenses	61,625
Accrued income taxes	1,107,000
<hr/>	
Net cash used in operating activities	(747,737)
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Decrease in cash	(747,737)
Cash at beginning of year	888,150
<hr/>	
Cash at end of year	\$ 140,413
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See accompanying notes to financial statements.

Transit Express, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Activities

Transit Express, Inc. (the Company) is a provider of passenger transportation for passengers with special needs and for the general public within Milwaukee and Waukesha Counties in Wisconsin.

The Company is a subsidiary of National Express LLC ("NELLC"). NELLC is the North American subsidiary of National Express Group, PLC, a transportation firm headquartered in the United Kingdom. NELLC's corporate headquarters are located in Lisle, Illinois.

Basis of Presentation

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Accounts Receivable

Accounts receivable are generally uncollateralized customer obligations due upon receipt of services. Payments of accounts receivable are allocated to the specific invoices identified on the client's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Management performs periodic reviews of accounts receivable balances and estimates the portion, if any, of the balance that will not be collected. At December 31, 2017, accounts receivable are considered fully collectible, and accordingly, no allowance for uncollectible balances has been recorded.

Property and Equipment

The Company operates vehicles and other equipment owned by NELLC for use in its programs and has recorded vehicle usage expense based upon the depreciation of those vehicles while in use by the Company. Vehicle usage expense totaled \$203,311 for the year ended December 31, 2017.

Revenue Recognition

Fee for service contracts are recorded as exchange transactions. Exchange transactions reimburse based on a predetermined rate for services performed. The revenue is recognized in the period the service is performed.

Transit Express, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Income Taxes

Deferred income taxes are provided under the liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax basis of assets and liabilities, as measured by the enacted tax rates, which will be in effect when these differences are expected to reverse. The provision for deferred taxes is the result of changes in the deferred tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Income Taxes

NELLC is a limited liability company organized under the laws of the state of Delaware. Upon the sale of the Company's outstanding shares to National Express, LLC, the Company's Subchapter S election was terminated.

In order to account for any uncertain tax positions, the Company assesses whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. Management does not believe the Company has any significant uncertain tax positions or unrecognized tax benefits, accordingly, the Company recorded no assets or liabilities related to uncertain tax positions in 2017.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2017 totaled \$5,768.

Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure in the financial statements through August 24, 2018, which is the date the financial statements were available to be issued.

Note 2: Related Parties

NELLC purchased all outstanding shares of the Company in November 2016. The stock sale also included the shares and ownership interests of Transit Express Services, Inc., Meda-Care Vans of Waukesha, Inc., and Caravans Leasing Vehicles, LLC (companies formerly related to Transit Express, Inc. through common ownership).

Upon purchase of the Company, ownership of property and equipment with a net book value of \$424,769 was transferred to NELLC and removed from the Company's records.

Substantially all cash receipts for revenues earned by the Company and cash disbursements for expenses, are retained or disbursed by NELLC and a net due from or due to NELLC is recorded. At December 31, 2017, net amounts due from NELLC totaled \$3,215,955.

Transit Express, Inc.

Notes to Financial Statements

Note 3: Income Taxes

The income tax provision consists of the following:

Year Ended December 31, 2017

Current state and federal taxes	\$ 1,122,000
Deferred tax expense	6,000
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Total tax expense	\$ 1,128,000

The provision for income taxes differs from the amount that would be provided by applying the federal statutory income tax rate to pretax income as a result of the following:

Year Ended December 31, 2017

Income tax due at U.S. federal statutory rate	\$ 981,000
Increase (decrease) resulting from:	
State taxes, net of federal effect	144,000
Effect of new tax law	(2,000)
Other	5,000
<hr/>	
Total income tax expense	\$ 1,128,000

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Act"). The Act amends the Internal Revenue Code to reduce corporate tax rates and modify various tax policies, credits, and deductions. The Act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate, which is effective for the Corporation beginning January 1, 2018. As a result of the tax rate reduction in the Act, the Company reduced its net deferred tax liability during 2017 by \$2,000, which was recognized as a reduction in income tax expense.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major temporary difference that gives rise to the deferred tax liability is due to prepaid expenses.

Note 4: Commitments and Contingencies

Financial awards from federal, state, and local governments in the form of contracts are subject to special audit. Such audits could result in claims against the Company for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

Transit Express, Inc.

Notes to Financial Statements

Note 5: Operating Leases

The Company leases office space under the terms of an operating lease expiring October 31, 2023 with monthly rents of \$13,329 increasing annually by 3% until maturity. In addition to rent, the lease requires the Company to pay property taxes, normal maintenance, and insurance on the property. Rent expense for 2017 on the above property totaled \$159,944.

Future minimum payments, by year and in the aggregate, under the noncancelable operating leases with initial or remaining terms in excess of one year consist of the following:

<i>Years Ending December 31,</i>	
2018	\$ 164,743
2019	169,685
2020	174,776
2021	180,019
2022	185,419
Thereafter	159,152
<hr/>	
Total	\$ 1,033,794

Note 6: Concentration of Credit Risk

The Company maintains depository relationships with local financial institutions. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured.

Note 7: Retirement Plan

The Company participates in the National Express Safe Harbor 401(k) Plan covering all eligible employees. Plan participants satisfying certain requirements are eligible to receive matching contributions. Plan contribution expense was \$18,655 for the year ended December 31, 2017

Supplementary Information

Transit Express, Inc.
Allowable Profit Supplemental Schedule -
Milwaukee County Department on Aging
Year Ended December 31, 2017

1 Base calculation			
1a	Net allowable operating cost		\$ 1,299,197
	x 7 1/2%		97,440
1b	Add for average net equity	Beginning of period	End of period
	Cost of equipment	\$ 2,434,293	\$ -
	Cost of building	604,875	-
	Cost of land	-	-
	Cost of fixed equipment	-	-
	Less accumulated depreciation	(2,614,399)	-
	Less long-term liabilities	-	-
	Net equity	424,769	-
	Average net equity		212,385
	x 15%		31,858
1c	Total base calculation (Sum of amounts calculated in steps 1a and 1b)		129,297
2	Cap on allowable profit		
	Net allowable operating cost		1,299,197
	x 10%		129,920
3	Allowable profit (Lesser of amounts calculated in steps 1c and 2)		\$ 129,297

See independent auditor's report.

Transit Express, Inc.
Schedule of Revenue and Allowable Expenses by Contract -
Milwaukee County Department on Aging
Year Ended December 31, 2017

	Mealsite	Group	Individualized	Total
Revenue:				
Department on Aging contract	\$ 352,120	\$ 201,418	\$ 828,964	\$ 1,382,502
Expenses:				
Salaries	249,926	197,971	353,632	801,529
Payroll taxes	27,349	21,664	38,698	87,711
Fringe benefits	44,446	35,206	62,888	142,540
Rent	8,656	6,856	12,247	27,759
Building maintenance	7,637	6,049	10,805	24,491
Utilities	3,388	2,684	4,794	10,866
Supplies	2,920	2,313	4,132	9,365
Gasoline	25,398	20,118	35,937	81,453
Telephone	658	521	931	2,110
Radio	856	678	1,212	2,746
Vehicle usage	11,003	8,715	15,568	35,286
Insurance	26,243	20,788	37,133	84,164
Advertising	312	247	442	1,001
Miscellaneous operating	2,209	1,749	3,125	7,083
Property taxes	1,792	1,420	2,536	5,748
Vehicle repair and maintenance	922	731	1,305	2,958
Recruitment	1,237	980	1,751	3,968
Training and safety	1,888	1,495	2,671	6,054
Professional fees	4,286	3,395	6,065	13,746
Other miscellaneous	1,908	1,511	2,700	6,119
Total expenses	423,034	335,091	598,572	1,356,697
Less: Passenger service revenue	(17,929)	(14,202)	(25,369)	(57,500)
Total allowable expenses	405,105	320,889	573,203	1,299,197
Program income (loss)	(52,985)	(119,471)	255,761	83,305
Allowable profit - Combined				129,297
Excess profit - Combined			\$	-
Units of service				89,910

See independent auditor's report.

Transit Express, Inc.
Schedule of Expenditures of Federal and State Awards
 Year Ended December 31, 2017

Federal Grantor/State Grantor/Cluster Title	Identifying Number	Pass-Through Grantor	Pass-Through Grantor's Number	Expenditures
FEDERAL AWARD EXPENDITURES:				
U.S. Department of Health and Human Services:				
Temporary Assistance for Needy Families	93.558	Milwaukee County Department on Aging	415-417-13	\$ 36,848
Social Services Block Grant	93.667	Milwaukee County Department on Aging	415-417-13	69,089
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	Milwaukee County Department on Aging	415-417-13	238,228
Total federal award expenditures				\$ 344,165
STATE AWARD EXPENDITURES:				
Wisconsin Department of Health Services:				
Basic County Allocation	435.561	Milwaukee County Department on Aging	415-417-13	\$ 394,710
Wisconsin Department of Transportation - Bureau of Transit, Local Roads, Railroads and Harbors:				
Specialized Transportation Assistance Program for Counties	585.21	Milwaukee County Department on Aging	415-417-13	643,627
Total state award expenditures				\$ 1,038,337

See independent auditor's report.
 See accompanying notes to schedule of expenditures of federal and state awards.

Transit Express, Inc.

Notes to Schedule of Federal and State Awards

Note 1: General

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of Transit Express, Inc. under programs of the federal and state governments for the year ended December 31, 2017. The information in the Schedule is presented in accordance with requirements of the *Department of Health Services Audit Guide, April 2018 Revision*. Because the Schedule presents only a selected portion of the operations of Transit Express, Inc., it is not intended to and does not present the financial position, operations or cash flows of Transit Express, Inc.

Note 2: Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Department of Health Services Audit Guide, April 2018 Revision*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3: Sub-Recipients

Transit Express, Inc. does not have any sub-recipients of federal or state awards.



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* and the *Department of Health Services Audit Guide, April 2018 Revision*

Board of Directors
Transit Express, Inc.
Milwaukee, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Department of Health Services Audit Guide, April 2018 Revision*, issued by the Wisconsin Department of Health Services; the financial statements of Transit Express, Inc., which comprise the balance sheet as of December 31, 2017 and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 24, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Transit Express, Inc.'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 Transit Express, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *Department of Health Services Audit Guide, April 2018 Revision*, in considering Transit Express, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP
Milwaukee, Wisconsin

August 24, 2018

Transit Express, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

 Material weakness(es) identified? ___ yes x no

 Significant deficiency(ies) identified? ___ yes x no

 Noncompliance material to financial statements noted? ___ yes x no

Section II - Financial Statement Findings

None

Section III – Prior Year Audit Findings

None

Section IV - Other Issues

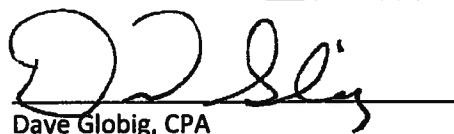
Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? ___ yes x no

Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, reportable condition, management letter comment) related to grants/contracts with funding agencies that require audits to be in accordance with the *Department of Health Services Audit Guide, April 2018 Revision*:

 Wisconsin Department of Health Services ___ yes x no

Was a management letter or other document conveying audit comments issued as a result of this audit? ___ yes x no

Name and Signature of Partner


Dave Globig, CPA

Report Date

August 24, 2018