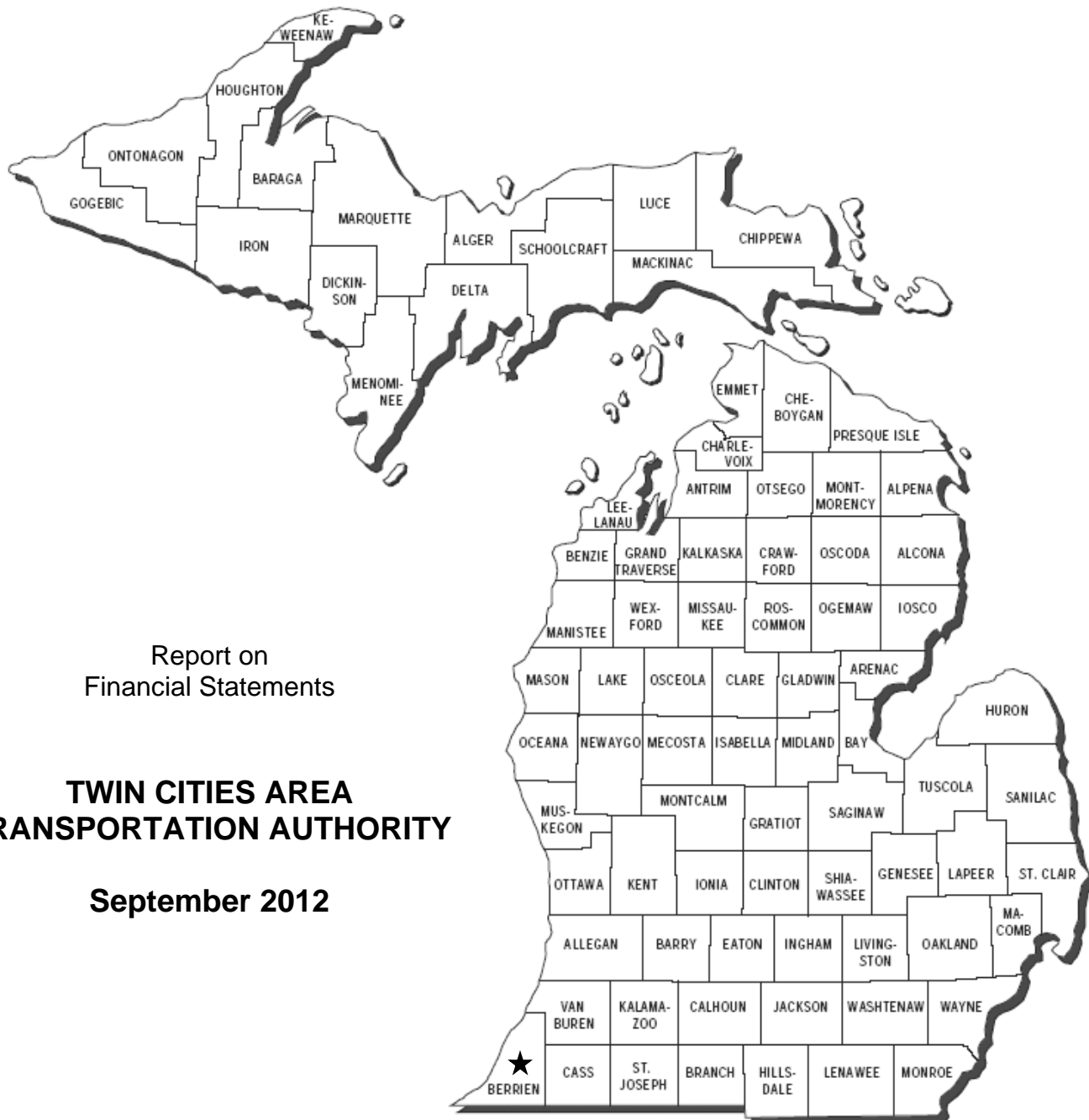


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Andy Dillon, State Treasurer



Report on
Financial Statements

TWIN CITIES AREA TRANSPORTATION AUTHORITY

September 2012

TWIN CITIES AREA TRANSPORTATION AUTHORITY

BOARD OF TRUSTEES

Joseph Harris
Chairman

Herbert Singleton
Secretary

Joanne Johnson
Trustee

Ralph Pringle
Trustee

Richard Martin
Trustee

Debbie Popp
Trustee

Bill Purvis
Executive Director

CITY OF BENTON HARBOR POPULATION--2010
10,038

STATE EQUALIZED VALUATION--2011
162,198,510

TAXABLE VALUATION--2010
\$128,079,898



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

March 27, 2013

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Unqualified Opinion on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Dear Board Members:

We have audited the accompanying financial statements of the business-type activities of the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, as of and for the fiscal year ended September 30, 2012, which collectively comprise the Twin Cities Area Transportation Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Twin Cities Area Transportation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Twin Cities Area Transportation Authority, as of September 30, 2012, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2013 on our consideration of the Twin Cities Area Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Twin Cities Area Transportation Authority's basic financial statements. The accompanying supplementary information in Schedules 1, 3, 4R, 4E, 4N, 5S, and 5F is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Schedule 2) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. With the exception of Schedule 4N marked "unaudited," the information on Schedules 1, 2, 3, 4R, 4E, 5S, and 5F; and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

TWIN CITIES AREA TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Statement of Net Assets	6
EXHIBIT B--Statement of Revenues, Expenses and Changes in Net Assets	7
EXHIBIT C--Statement of Cash Flows	8
NOTES TO FINANCIAL STATEMENTS.....	9
<u>SUPPLEMENTARY INFORMATION AND SCHEDULES</u>	
SCHEDULE 1--Local Revenues	19
SCHEDULE 2-- Expenditures of Federal and State Awards	20
Notes to Schedule of Expenditures of Federal and State Awards	21
SCHEDULE 3--Operating and Contract Expenses	22
SCHEDULE 4R--Operating Assistance Report--Revenues--Regular Service.....	23
SCHEDULE 4E--Operating Assistance Report--Expenses--Regular Service	24
SCHEDULE 4N--Operating Assistance Report--Regular Service Nonfinancial Data--Unaudited.....	26
SCHEDULE 5S--Operating Assistance Calculation--State.....	27
SCHEDULE 5F--Operating Assistance Calculation--Federal.....	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	29
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	31
Report to Those Charged With Governance.....	33
SCHEDULE 6--Schedule of Findings and Questioned Costs	37

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2012

Our discussion and analysis of the Twin Cities Area Transportation Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2012.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Assets and the Statement of Activities on Exhibit A and B provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. The remaining statement is a statement of cash flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Authority as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by the most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets — the difference between assets and liabilities—as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City of Benton Harbor's property tax base and the condition of Authority's capital assets, to assess the overall health of the Authority.

Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements.

Other Supplementary Information

Other supplementary information includes Schedules 1-5S that are required to be included by the Michigan Department of Transportation.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2012

The Authority as a Whole

The Authority's net assets slightly decreased from \$1,658,389 to \$1,446,667 for the year ended September 30, 2012. This is similar to the previous year when the net assets decreased \$168,307. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Authority's business-type activities.

Table 1
Net Assets of Governmental Activities

	09/30/11 Business-Type Activities	09/30/12 Business-Type Activities	Variance
Current and Other Assets	\$ 710,842	\$ 768,458	\$ 57,616
Net Capital Assets	<u>1,024,016</u>	<u>840,541</u>	<u>(183,475)</u>
Total Assets	<u>1,734,858</u>	<u>1,608,999</u>	<u>(125,859)</u>
Current Liabilities	<u>76,469</u>	<u>162,332</u>	<u>85,863</u>
Total Liabilities	<u>76,469</u>	<u>162,332</u>	<u>85,863</u>
Net Assets			
Invested in Capital Assets	1,024,016	840,541	(183,475)
Restricted	<u>634,373</u>	<u>606,126</u>	<u>(28,247)</u>
Total Net Assets	<u>\$ 1,658,389</u>	<u>\$ 1,446,667</u>	<u>\$ (211,722)</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2012

Changes in Net Assets

Changes in net assets for the fiscal year ended September 30, 2012, compared to the prior fiscal year, are as follows:

Table 2
Changes in Net Assets of Business-Type Activities

	2011	2012	Variance
Operating Revenue			
Passenger Fares	\$ 292,439	\$ 292,101	\$ (338)
Special Transit Fares	52,472	49,890	(2,582)
Auxiliary Transportation Revenues	6,130	2,358	(3,772)
Nonoperating Revenue			
Local Contributions			
Tax Levy	136,210	148,986	12,776
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	666,851	667,652	801
Job Access Reverse Commute	179,037	177,312	(1,725)
Federal Operating Grants			
USDOT Operating Grant (Section 5307)	704,000	680,000	(24,000)
Job Access Reverse Commute	179,037	177,313	(1,724)
New Freedom Program--Mobility Management	75,000	64,090	(10,910)
State and Federal Grants--Prior Year Adjustments	16,078	23,915	7,837
Interest Earned	977	355	(622)
Other	486	5,683	5,197
Sale of Fixed Assets	14,277	-	(14,277)
 Total Revenue	 2,322,994	 2,289,655	 (33,339)
 Operating Expense			
Salaries and Wages	1,450,430	1,504,358	53,928
Depreciation	263,355	201,785	(61,570)
Other	816,286	813,096	(3,190)
 Total Operating Expense	 2,530,071	 2,519,239	 (10,832)
 Income (Loss) Before Capital Contributions and Operating Transfers	 (207,077)	 (229,584)	 (22,507)
 Capital Contributions			
Federal Capital Grants			
Capital Grant (Section 5307)	20,020	17,862	(2,158)
Transfers In--Primary Government	18,750	-	(18,750)
 Increase (Decrease) in Net Assets	 (168,307)	 (211,722)	 (43,415)
 Ending Net Assets	 \$ 1,658,389	 \$ 1,446,667	 \$ (211,722)

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2012

Business-Type Activities

The Authority's business-type activities operating and nonoperating revenues decreased by 1.44% (\$33,339) and capital contribution and transfer revenues decreased by 25.8% (43,415), while expenses decreased .43% (\$10,832) as compared with the prior fiscal year. This decrease in revenues was due to the reduction of operating assistance provided by the Federal and state government used to fund daily activities. Also, due to the City of Benton Harbor's financial condition, the City is no longer providing any additional assistance. The expenses decreased overall as the increase in health insurance costs was offset by the reduced depreciation as more of Authority's assets continue to become fully depreciated.

Budgetary Highlights

We were able to keep our expense close to the same level as the previous year. My censors for the next fiscal year are the increase cost of fuel and health insurance. We will have a larger payroll and use more fuel in the 2013 fiscal year because we are adding vehicle hours to cover the increase in ridership.

We were able to have a slight increase in revenue in the 2012 fiscal year. I'm expecting an increase in millage money in 2013 due to the completion of the second building on the Whirlpool administration office in the city. We are also getting additional funding from the Federal Transit Administration because of increased allocations they're giving to systems that meet a certain criteria. I believe the criteria are based on ridership and low income passengers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2012, the Transit had \$840,541 invested in a broad range of capital assets, including land, buildings, buses and other vehicles, and equipment. This amount represents a net decrease (including additions and deductions) of \$183,475.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012**

**Table 3
Capital Assets at Year-End**

	<u>09/30/11</u>	<u>09/30/12</u>
Capital Assets Not Being Depreciated		
Land	<u>\$ 62,700</u>	<u>\$ 62,700</u>
Subtotal	<u>62,700</u>	<u>62,700</u>
Capital Assets Being Depreciated		
Buildings	1,631,341	1,631,341
Buses	1,374,631	1,374,631
Other Vehicles	123,987	123,987
Equipment	<u>417,661</u>	<u>435,971</u>
Subtotal	<u>3,547,620</u>	<u>3,565,930</u>
Total Capital Assets	3,610,320	3,628,630
Total Accumulated Depreciation	<u>(2,586,304)</u>	<u>(2,788,089)</u>
Total Net Capital Assets	<u>\$ 1,024,016</u>	<u>\$ 840,541</u>

The only capital purchase this year was \$18,310 for bus shelters.

Debt

The Authority has no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2012/2013 eligible expense is projected to be \$1,850,000, which is higher than the 2011/2012 audited amount. The projected 2012/2013 eligible expense is based on gas prices increasing.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority's office at: 275 East Wall Street, PO Box 837, Benton Harbor, Michigan 49023-0837.

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
September 30, 2012**

EXHIBIT A

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 349,445
Accounts Receivable	23,344
Due From State Government	129,079
Due From Federal Government	193,180
Inventory	22,337
Prepaid Expenses	51,073
	<hr/>
Total Current Assets	768,458
	<hr/>
Noncurrent Assets	
Capital Assets (Net of Accumulated Depreciation)	840,541
	<hr/>
Total Noncurrent Assets	840,541
	<hr/>
Total Assets	1,608,999
	<hr/>

LIABILITIES

Current Liabilities	
Accounts Payable	61,610
Accrued Wages and Fringe Benefits	100,722
	<hr/>
Total Current Liabilities	162,332
	<hr/>

NET ASSETS

Invested in Capital Assets	840,541
Unrestricted	606,126
	<hr/>
Total Net Assets	\$ 1,446,667
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Fiscal Year Ended September 30, 2012

EXHIBIT B

Operating Revenue	
Passenger Fares	\$ 292,101
Special Transit Fares	49,890
Auxiliary Transportation Revenues	<u>2,358</u>
Total Operating Revenue	<u>344,349</u>
Operating Expense	<u>2,519,239</u>
Total Operating Expense	<u>2,519,239</u>
Operating Income (Loss)	<u>(2,174,890)</u>
Nonoperating Revenue	
Local Contributions	
Tax Levy	148,986
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	667,652
Job Access Reverse Commute	177,312
Federal Operating Grants	
USDOT Operating Grant (Section 5307)	680,000
Job Access Reverse Commute	177,313
New Freedom Program--Mobility Management	64,090
State and Federal Grants--Prior Year Adjustments	23,915
Interest Earned	355
Other Non-Transit Revenues	<u>5,683</u>
Total Nonoperating Revenue	<u>1,945,306</u>
Income (Loss) Before Capital Contributions and Operating Transfers	(229,584)
Capital Contributions	
Federal Capital Grants	
Capital Grant (Section 5307)	<u>17,862</u>
Change in Net Assets	(211,722)
Total Net Assets--October 1, 2011	<u>1,658,389</u>
Total Net Assets--September 30, 2012	<u><u>\$ 1,446,667</u></u>

The Notes to Financial Statements are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended September 30, 2012

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 340,417
Cash Payments to Employees for Services and Benefits	(1,448,196)
Cash Payments to Suppliers for Goods and Services	<u>(786,927)</u>
Net Cash Provided by Operating Activities	<u>(1,894,706)</u>
Cash Flows From Noncapital Financing Activities	
State Grants	836,044
Federal Grants	848,433
State and Federal Grants--Prior Year Adjustments	23,915
Property Tax	155,236
Other Revenue	<u>5,683</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,869,311</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(18,310)
Capital Assets Purchased With State and Federal Grants	<u>37,093</u>
Net Cash Provided From Capital and Related Financing Activities	18,783
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>355</u>
Net Cash Provided by Investing Activities	355
Net Decrease in Cash and Cash Equivalents	(6,257)
Cash and Cash Equivalents at Beginning of the Year	<u>355,702</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 349,445</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (2,174,890)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)	
Depreciation Expense	201,785
(Increase) Decrease in Accounts Receivable	(3,932)
(Increase) Decrease in Inventory	(1,765)
(Increase) Decrease in Prepaid Expenses	(1,767)
Increase (Decrease) in Accounts Payable	29,701
Increase (Decrease) in Other Accrued Liabilities	<u>56,162</u>
Net Cash Provided by Operating Activities	<u>\$ (1,894,706)</u>

The Notes to Financial Statements are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Twin Cities Area Transportation Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority was incorporated in the State of Michigan on July 1, 1974 under Public Act 55 of 1963. The purpose of the Authority is to acquire, own, operate and manage a public transportation system within the boundaries of its participating municipalities. Currently, the City of Benton Harbor is the only participating municipality. The City has significant influence over the operation of the Authority and appoints the six-member Board of Trustees.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data was not included. Based on the above criteria, these financial statements present the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor; and for financial purposes within generally accepted accounting principles, an enterprise fund of the City of Benton Harbor.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets) report information of the activities of the Authority. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Authority's assets and liabilities with the difference being reported as either invested in capital assets or unrestricted net assets.

The Statement of Revenues, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment is offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as non-operating revenue.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial activities of the Authority are recorded in an enterprise fund. This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

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

Inventories

Inventories of gas and parts are stated at the lower of cost (first-in, first-out) or market.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

The Authority's capital assets are recorded at cost. Costs relating to maintenance and repairs are charged to expense; whereas those for renewals and betterments, when material in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of equipment is computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	2 to 20 years
Vehicles	3 to 7 years
Shop Equipment	3 to 10 years
Office Equipment	6 to 10 years

Property Taxes

Property taxes are levied each December 1 on the taxable valuation of properties located in the City of Benton Harbor as of the preceding December 31. The City of Benton Harbor's 2010 ad valorem tax was levied and collectible on December 1, 2011. It is the policy of the Authority to recognize revenue from the current tax levy in the 2011/2012 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

The 2011 real and personal taxable valuation of Benton Harbor property, excluding \$18,117,954 Renaissance Zone, amounted to \$108,699,405. Ad valorem taxes of 1.2311 mills were levied for Authority operating purposes and the total amount collected and recognized as revenue was \$148,986.

Cash and Investments

For the purpose of the statement of cash flows, demand deposits and short-term investments with a maturity date of three (3) months or less when acquired are considered to be cash equivalents. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost which approximates fair value.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Fiscal Year

The Authority operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the June 30 fiscal year of the City of Benton Harbor.

NOTE B--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91 authorizes the county treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Deposits are carried at cost. The Authority has designated one bank for the deposit of the Authority's funds. The investment policy adopted by the Board is in accordance with Public Act 20 of 1943, as amended, and has authorized investment in the instruments described in the preceding paragraph. The Authority's deposits and investment policy are in accordance with statutory authority.

The risk disclosures for the Authority's deposits, as required by GASB Statement No. 40, are as follows:

	<u>Business-Type Activities</u>
Cash	\$ 349,215
Petty Cash	<u>230</u>
Total Deposits	<u>\$ 349,445</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority does not have a deposit policy for custodial credit risk. The bank balance of the Authority's deposits is \$349,125, of which \$250,000 is covered by Federal depository insurance. The remaining \$99,125 is uncollateralized and uninsured.

Investments Authorized by the Authority's Investment Policy

The Authority's investment policy authorizes investment in all those that are authorized by law. The Authority did not have any investments in the fiscal year ended September 30, 2012.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

NOTE C--DUE FROM FEDERAL GOVERNMENT

The following amount was due at September 30, 2012:

Federal Operating Assistance for Fiscal Year 2011/12	\$ 193,180
Total Due From Federal Government	<u>\$ 193,180</u>

NOTE D--DUE FROM STATE GOVERNMENT

The following amount was due at September 30, 2012:

State Operating Assistance for Fiscal Year 2011/12	\$ 19,750
New Freedom Program (MI-57-X010-02)	15,098
Job Access Reverse Commute (MI-37-X037-02)	<u>94,231</u>
Total Due From State	<u>\$ 129,079</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE E--CAPITAL ASSETS

Capital asset activity of the Authority for the current fiscal year was as follows:

<u>Business-Type Activities</u>	Beginning Balance 10/01/11	Increases	Decreases	Ending Balance 09/30/12
Capital Assets Not Being Depreciated				
Land	\$ 62,700	\$ -	\$ -	\$ 62,700
Subtotal	62,700	-	-	62,700
Capital Assets Being Depreciated				
Building	1,631,341	-	-	1,631,341
Buses	1,374,631	-	-	1,374,631
Other Vehicles	123,987	-	-	123,987
Equipment	417,661	18,310	-	435,971
Subtotal	3,547,620	18,310	-	3,565,930
Less Accumulated Depreciation for				
Building	1,475,272	14,448	-	1,489,720
Buses	771,853	154,961	-	926,814
Other Vehicles	104,117	9,168	-	113,285
Equipment	235,062	23,208	-	258,270
Subtotal	2,586,304	201,785	-	2,788,089
Net Capital Assets Being Depreciated	961,316	(183,475)	-	777,841
Governmental Activities Capital Total Capital Assets--Net of Depreciation	\$ 1,024,016	\$ 1,050,569	\$ 313,941	\$ 840,541

The depreciation expense reported in Exhibits 4E and 5 equals the ineligible depreciation reported. Therefore, the depreciation assurance regarding approval of useful life is not required.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE F--ACCRUED EMPLOYEE BENEFITS

Accrued employee benefits for vacation and sick leave are as follows:

Vacation Leave

Employees with five years or less of continuous, full-time employment earn up to 80 hours of vacation leave time each year.

Employees with more than five years but less than eight years of continuous, full time employment earn up to 100 hours of vacation leave each year.

Employees with more than eight years of continuous, full-time employment earn up to 120 hours of vacation leave each year.

Up to one hundred twenty (120) hours of vacation may be accumulated. When this maximum is reached, the Employer, at its option, may require the employee to use additional accrued vacation or may pay the employee for additional vacation accrued.

Any accrued vacation shall be paid upon separation for any employee who has completed one (1) or more full years of continuous, full time employment.

Sick Leave

Sick leave is earned at 20 hours per quarter with no maximum accumulation and is not payable at separation. Employees may use up to two days of accumulated sick leave per year as personal leave days with the approval of the director or his designated assistant.

The Authority does not record accrued liabilities for vacation, sick and personal leave in its financial statements.

NOTE G--POST-EMPLOYMENT BENEFITS

The Authority does not offer any pension or other post-employment benefits. Therefore, no expenses are recorded.

NOTE H--RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE H--RISK MANAGEMENT (Continued)

Authority participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of Public Act 35 of 1951 and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101 et seq., as the Michigan Transit Pool, Inc. The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Michigan Transit Insurance Pool is a separate legal and administrative entity. Settled claims for the Pool have not exceeded the amount of insurance coverage in any of the past three years.

NOTE I--CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

NOTE J--EXPLANATION OF INELIGIBLE EXPENSES ACCORDING TO MDOT'S BUREAU OF PASSENGER TRANSPORTATION REVENUE & EXPENSE MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). All Auxiliary Transportation Revenue and Non-Transportation Revenue have been subtracted out as ineligible expenses. There was no capital money used to pay for operating expenses and, therefore, are not included in total expenses to be reimbursed with State Formula Funds. Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. The Authority did not incur expenses associated with revenue account number 40615 Advertising and, therefore, no expenses are subtracted out as ineligible on the OAR Schedule 4E or on Schedule 5.

NOTE K--COST ALLOCATION PLAN

The Authority has one cost allocation plan where the methodology has been approved by the Bureau of Passenger Transportation (BPT) and MDOT. The cost allocation is for the line haul route for the Job Access Reverse Commute program. The total charges of \$442,716 related to line haul routes funded by other Federal grants and the related grant revenue was included as an ineligible expense in Schedule 4E and Schedule 5.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2012

NOTE L--NONFINANCIAL DATA

The methodology used for compiling mileage on Operating Assistance Schedule 4N is based on the Authority's daily procedures and recorded in accordance with Michigan Department of Transportation's Local Public Transit Revenue and Expense Manual. We did not review the methodology for the Authority's process. Schedule 4N is presented as an "unaudited" schedule and, accordingly, we do not express an opinion on the information.

NOTE M--CAPITAL USED TO PAY FOR OPERATING

No operating expenses are subtracted out as ineligible expenses because no capital money was used to pay for operating expenses.

NOTE N--EXPENSES ASSOCIATED WITH 406 & 407

All expenses associated with 40610 – Concessions, 40615 – Advertising, and 40699 – Other Auxiliary Transportation Revenues are subtracted out as ineligible. There are no expenses related to the 407, and therefore, no expenses need to be subtracted out as ineligible.

NOTE O--UPCOMING REPORTING CHANGE

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the Authority's 2012-2013 fiscal year-end.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the Authority's 2012-2013 fiscal year.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2012

NOTE O--UPCOMING REPORTING CHANGE

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Authority will need to implement the standard beginning with fiscal year ending September 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Authority as of fiscal year 2013-2014.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
LOCAL REVENUES
For the Fiscal Year Ended September 30, 2012

SCHEDULE 1

LOCAL REVENUES

Farebox	\$ 292,101
Contract Fares	49,890
Concessions	2,358
Other Non-Transit Revenues	5,683
Taxes Levied Directly for/by Transit Agency	148,986
Interest Income	<u>355</u>
Total Local Revenues	<u><u>\$ 499,373</u></u>

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (1, 2)
For the Fiscal Year Ended September 30, 2012**

SCHEDULE 2

	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
				Total	Federal	State		
US Department of Transportation Direct Pass Through US Department of Transportation								
Operating Assistance--Section 5307	20.507	MI-90-X761-01	\$ 680,000	\$ 680,000	(3) \$ 680,000	\$ -	\$ -	\$ -
America Recovery and Reinvestment Act	20.507	MI-96-X017	780,000	17,862	17,862	-	-	762,138
Total Operating Assistance			1,460,000	697,862	697,862	-	-	762,138
US Department of Transportation Passed through Michigan Department of Transportation								
Job Access Reverse Commute	20.516	MI-37-X037-02/P1	388,644	354,625	177,313	177,312	-	34,019
New Freedom Program--Section 5317	20.521	MI-57-X001/P2	10,000	10,000	10,000	-	-	-
New Freedom Program--Section 5317	20.521	MI-57-X010-02/P2	65,000	54,090	54,090	-	-	10,910
Total Capital Assistance			463,644	418,715	241,403	177,312	-	44,929
Michigan Department of Transportation Operating Assistance--Act 51	N/A	N/A	667,652	667,652	(4) -	667,652	-	-
Total Department of Transportation			\$ 2,591,296	\$ 1,784,229	\$ 939,265	\$ 844,964	\$ -	\$ 762,138
								\$ 44,929

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended September 30, 2012

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Authority. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting which is described in Note A of the Authority's basic financial statements.
3. Maximum Section 5307 operating assistance revenue can be 50% of Net Eligible Expenses as presented in Schedule 5F, not to exceed the local match or contract limit. The Federal Section 5307 operating assistance of \$680,000 was recognized based on the contract limit.
4. State operating assistance of \$667,652 was recognized based on the net eligible cost computation presented as Schedule 5S. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of state-wide available funding. It could be as low as \$288,947, which is the 1997 floor; or as high as \$1,105,536, which is the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the State operating assistance percentage in Schedule 5S based on state-wide eligible expenses after the year is closed out.

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING AND CONTRACT EXPENSES
 For the Fiscal Year Ended September 30, 2012**

SCHEDULE 3

<u>Expenses</u>	<u>Nonurban State Operating FY 2012*</u>	<u>Nonurban Operating JARC</u>	<u>Total</u>
Labor	\$ 827,311	\$ 160,038	\$ 987,349
Fringe Benefits	433,472	83,537	517,009
Services	272,331	52,157	324,488
Materials and Supplies	284,110	57,787	341,897
Utilities	43,453	9,083	52,536
Casualty and Liability Costs	57,077	11,673	68,750
Taxes and Fees	111	23	134
Miscellaneous	15,008	3,085	18,093
Leases and Rentals	5,955	1,243	7,198
Depreciation	201,785	-	201,785
Total Expenses	<u>\$ 2,140,613</u>	<u>\$ 378,626</u>	<u>\$ 2,519,239</u>

*The expenses incurred for the State operating assistance are the same as the expenses incurred for the Section 5307 Federal operating assistance.

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE REPORT--REVENUES--REGULAR SERVICE
 For the Fiscal Year Ended September 30, 2012**

SCHEDULE 4R

REVENUE SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>LINE HAUL</u>	<u>DEMAND RESPONSE</u>	<u>TOTAL</u>
401:	Farebox Revenue			
40100	Passenger Fares	\$ 18,979	\$ 273,122	\$ 292,101
40200	Contract Fares	-	49,890	49,890
406:	Auxiliary Trans Revenues			
40610	Concessions	-	2,358	2,358
407:	NonTrans Revenues			
40710	Other Non-Transit Revenue (Refunds)	-	5,683	5,683
408:	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	106,361	42,625	148,986
411:	State Formula and Contracts			
41101	State Operating Assistance	76,173	591,479	667,652
41110	Line-Item Municipal Credit (Prior Year Adjustments)	-	23,915	23,915
41119	Other MDOT Contracts--New Freedom Program/Mobility Management	-	64,090	64,090
41199	Other MDOT Contracts--Job Access Reverse Commute	-	177,312	177,312
413:	Federal Contracts			
41302	Federal Section 5307	3,695	676,305	680,000
41399	Other MDOT Contracts--Job Access Reverse Commute	-	177,313	177,313
414:	Other Revenue			
41400	Interest Income	-	355	355
TOTAL REVENUES		<u>\$ 205,208</u>	<u>\$2,084,447</u>	<u>\$ 2,289,655</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE REPORT--EXPENSES--REGULAR SERVICE
 For the Fiscal Year Ended September 30, 2012

SCHEDULE 4E

EXPENSE SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>OPERATIONS LINE HAUL</u>	<u>OPERATIONS DEMAND RESPONSE</u>	<u>MAINTENANCE LINE HAUL</u>	<u>MAINTENANCE DEMAND RESPONSE</u>	<u>ADMINISTRATION LINE HAUL</u>	<u>ADMINISTRATION DEMAND RESPONSE</u>	<u>TOTAL</u>
501:	Labor							
50101	Operators' Salaries and Wages	\$ 51,017	\$ 555,161	\$ -	\$ -	\$ -	\$ -	\$ 606,178
50102	Other Salaries and Wages	2,789	28,179	8,352	70,744	15,559	103,728	229,351
50103	Dispatchers' Salaries and Wages	-	151,820	-	-	-	-	151,820
502:	Fringe Benefits							
50200	Other Salaries and Wages	37,421	371,672	5,611	47,527	7,145	47,633	517,009
503:	Services							
50302	Advertising Fees	-	-	-	-	603	4,020	4,623
50305	Audit Cost	-	-	-	-	918	4,956	5,874
50399	Other Services	657	6,528	22,842	201,714	81,599	651	313,991
504:	Materials and Supplies							
50401	Fuel and Lubricants	28,869	260,704	-	2,249	-	3,208	295,030
50402	Tires and Tubes	2,035	20,225	-	-	-	-	22,260
50499	Other Materials and Supplies	-	6,050	630	6,716	1,640	9,571	24,607
505:	Utilities							
50500	Utilities	2,452	27,432	2,049	17,356	822	2,425	52,536
506:	Insurance							
50603	Liability Insurance	5,567	55,343	-	-	-	-	60,910
50699	Other Insurance	-	-	-	-	1,023	6,817	7,840
507:	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	17	117	134
509:	Miscellaneous Expenses							
50902	Travel, Meetings and Training	214	1,501	88	749	917	7,069	10,538
50903	Association Dues and Subscriptions	69	547	-	-	481	3,341	4,438
50999	Other Miscellaneous Expenses	103	1,024	-	-	260	1,730	3,117

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE REPORT--EXPENSES--REGULAR SERVICE
 For the Fiscal Year Ended September 30, 2012

SCHEDULE 4E
 (CONTINUED)

EXPENSE SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>OPERATIONS LINE HAUL</u>	<u>OPERATIONS DEMAND RESPONSE</u>	<u>MAINTENANCE LINE HAUL</u>	<u>MAINTENANCE DEMAND RESPONSE</u>	<u>ADMINISTRATION LINE HAUL</u>	<u>ADMINISTRATION DEMAND RESPONSE</u>	<u>TOTAL</u>
512:	Operating Leases and Rentals							
51200	Operating Leases and Rentals	518	4,572	132	1,866	37	73	7,198
513:	Depreciation							
51300	Depreciation	-	185,465	-	2,940	-	13,380	201,785
TOTAL EXPENSES		<u>131,711</u>	<u>1,676,223</u>	<u>39,704</u>	<u>351,861</u>	<u>111,021</u>	<u>208,719</u>	<u>2,519,239</u>
550:	Ineligible Expenses							
55007	Ineligible Depreciation	-	185,465	-	2,940	-	13,380	201,785
55008	Other Ineligible Expenses--Refunds and Farebox Job Access Reverse Commute	-	-	-	-	7,368	22,313	29,681
55009	Ineligible Percent of Association Dues	-	-	-	-	-	507	507
55010	Other Ineligible Expense--Vending Expense	-	-	-	-	260	1,730	1,990
570:	Ineligible Expenses							
57099	Other Ineligible FSL (New Freedom Program/Mobility Management)	-	-	-	-	64,090	-	64,090
57099	Other Ineligible FSL (Job Access Reverse Commute)	119,751	146,470	28,649	36,212	22,267	25,277	378,626
TOTAL INELIGIBLE EXPENSES		<u>119,751</u>	<u>331,935</u>	<u>28,649</u>	<u>39,152</u>	<u>93,985</u>	<u>63,207</u>	<u>676,679</u>
TOTAL ELIGIBLE EXPENSES		<u>\$ 11,960</u>	<u>\$ 1,344,288</u>	<u>\$ 11,055</u>	<u>\$ 312,709</u>	<u>\$ 17,036</u>	<u>\$ 145,512</u>	<u>\$ 1,842,560</u>

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE REPORT--REGULAR SERVICE
 NONFINANCIAL DATA--UNAUDITED
 For the Fiscal Year Ended September 30, 2012**

SCHEDULE 4N

NONFINANCIAL SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>Weekday Line Haul</u>	<u>Weekday Demand Response</u>	<u>Saturday Line Haul</u>	<u>Saturday Demand Response</u>	<u>TOTAL</u>
<u>Public Service</u>						
610	Vehicle Hours	3,984	32,784	432	3,010	40,210
611	Vehicle Miles*	55,752	354,482	5,962	10,804	427,000
615	Passengers--Regular	12,820	75,544	1,790	8,151	98,305
616	Passengers--Elderly	5,145	18,606	634	2,338	26,723
617	Passengers--Persons w/Disabilities	6,630	39,075	903	4,037	50,645
621	Total Line-Haul Passengers	24,595	-	3,327	-	27,922
622	Total Demand-Response Passengers	-	133,225	-	14,526	147,751
625	Days Operated	254	254	52	52	612

Vehicle Information

	<u>Quantity</u>	
653	Total Line-Haul Vehicles	2
654	Line-Haul Vehicles w/Lifts	2
655	Total Demand-Response Vehicles	19
656	Demand-Response Vehicles	16
658	Total Transit Vehicles	21

Miscellaneous Information

	<u>Quantity LH</u>	<u>Quantity DR</u>
601	Number of Routes (Line Haul Only)	-
602	Total Route Miles (Line Haul Only)	-
660	Diesel/Gasoline Gallons Consumed	57,829
661	Total Transit Agency Employees	40
662	Total Revenue Vehicle Operators	17
665	Injuries	3

*Mileage is computed from daily logs maintained by the Authority and then entered into the Operating Assistance Report using the codes above as required by the Local Public Transit Revenue and Expense Manual issued by the Michigan Department of Transportation.

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE CALCULATION--STATE
 For the Fiscal Year Ended September 30, 2012**

SCHEDULE 5S

	<u>Nonurban</u>
Total Operating Expenses	<u>\$2,519,239</u>
Less: Ineligible Expenses	
Depreciation	201,785
Other Revenue	29,681
Dues and Subscriptions	507
Vending Machines	1,990
Line Haul Funded by Other Federal Grants	<u>442,716</u>
Total Ineligible Expenses Per R&E Manual	<u>\$ 676,679</u>
Total State Eligible Expenses	<u><u>\$1,842,560</u></u>
<hr/>	
Eligible Expenses for State Reimbursement	\$1,842,560
Reimbursement Percentage	<u>36.2350%</u>
State Operating Assistance	<u><u>\$ 667,652</u></u>

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE CALCULATION--FEDERAL
 For the Fiscal Year Ended September 30, 2012**

SCHEDULE 5F

	<u>Urban</u>
Total Operating Expenses	<u>\$2,519,239</u>
Less: Ineligible Expenses	
Depreciation	\$ 201,785
Other Revenue	29,681
Dues and Subscriptions	507
Vending Machines	1,990
Line Haul Funded by Other Federal Grants	<u>442,716</u>
Total Ineligible Expenses According to R&E Manual	<u>676,679</u>
Total Federal Eligible Expenses	<u>1,842,560</u>
Less Farebox and Other Revenues	
Farebox	<u>(341,991)</u>
Total Farebox and Other Revenues	<u>(341,991)</u>
Net Project Cost	<u>1,500,569</u>
Maximum Amount of Reimbursement (Net Project Cost x 50%)	<u>750,285</u>
FTA Fund Available	<u>680,000</u>
FTA Funds Requested	<u>\$ 680,000</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

March 27, 2013

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements Performed
in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of the business-type activities of the Twin City Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, as of and for the year ended September 30, 2012, which collectively comprise the Twin City Area Transportation Authority's basic financial statements and have issued our report thereon dated March 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Twin Cities Area Transportation Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Twin Cities Area Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Twin Cities Area Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Twin Cities Area Transportation Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Twin Cities Area Transportation Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did not identify any deficiencies in internal control over financial reporting that would be considered to be material weaknesses, as defined previously. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Twin City Area Transportation Authority's financial statements are free of 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.

This report is intended solely for the information of the Twin City Area Transportation Authority Board of Trustees, management and others within the Twin City Area Transportation Authority, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

March 27, 2013

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Board Members:

Compliance

We have audited the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Twin City Area Transportation Authority's major Federal programs for the year ended September 30, 2012. The Twin Cities Area Transportation Authority's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Twin Cities Area Transportation Authority's management. Our responsibility is to express an opinion on the Twin Cities Area Transportation Authority's compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Twin Cities Area Transportation Authority'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. Our audit does not provide a legal determination on the Twin Cities Area Transportation Authority's compliance with those requirements.

In our opinion, the Twin Cities Area Transportation Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended September 30, 2012.

Internal Control Over Compliance

Management of the Twin Cities Area Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Twin Cities Area Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Twin Cities Area Transportation Authority'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 type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Twin Cities Area Transportation Authority's Board of Trustees, management and others within the Twin Cities Area Transportation Authority, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

March 27, 2013

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Report to Those Charged With Governance

Dear Board Members:

We have audited the financial statements of the business-type activities of the Twin City Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, as of and for the fiscal year ended September 30, 2012, which collectively comprise the Twin City Area Transportation Authority's basic financial statements and have issued our report thereon dated March 27, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated May 4, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Twin City Area Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement.

As part of obtaining reasonable assurance about whether the Twin City Area Transportation Authority's financial statements are free of material misstatement, we performed tests of its

compliance with certain provisions of laws, regulations, contracts and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Twin City Area Transportation Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 applicable to each of its major Federal programs for the purpose of expressing an opinion on the Twin City Area Transportation Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Twin City Area Transportation Authority's compliance with those requirements.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Twin City Area Transportation Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Twin City Area Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 11, 2013.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Twin City Area Transportation Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending September 30, 2012. We noted no transactions entered into by the Twin City Area Transportation Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because

of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of depreciation is based on the straight-line method in accordance with Generally Accepted Accounting Principles. We evaluated the key factors and assumptions used to develop the estimated depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 27, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Twin City Area Transportation Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Twin City Area Transportation Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Twin City Area Transportation Authority's Board Members and management of the Twin City Area Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

TWIN CITIES AREA TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control Over Financial Reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X No
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control Over Major Programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X No

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of Major Programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.507	Federal Transit: Urbanized Area Formula Program--Capital and Operating Assistance

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

TWIN CITIES AREA TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012**

Section II--Financial Statement Findings

No matters were reported.

Section III--Federal Award Findings and Questioned Costs

No matters were reported.