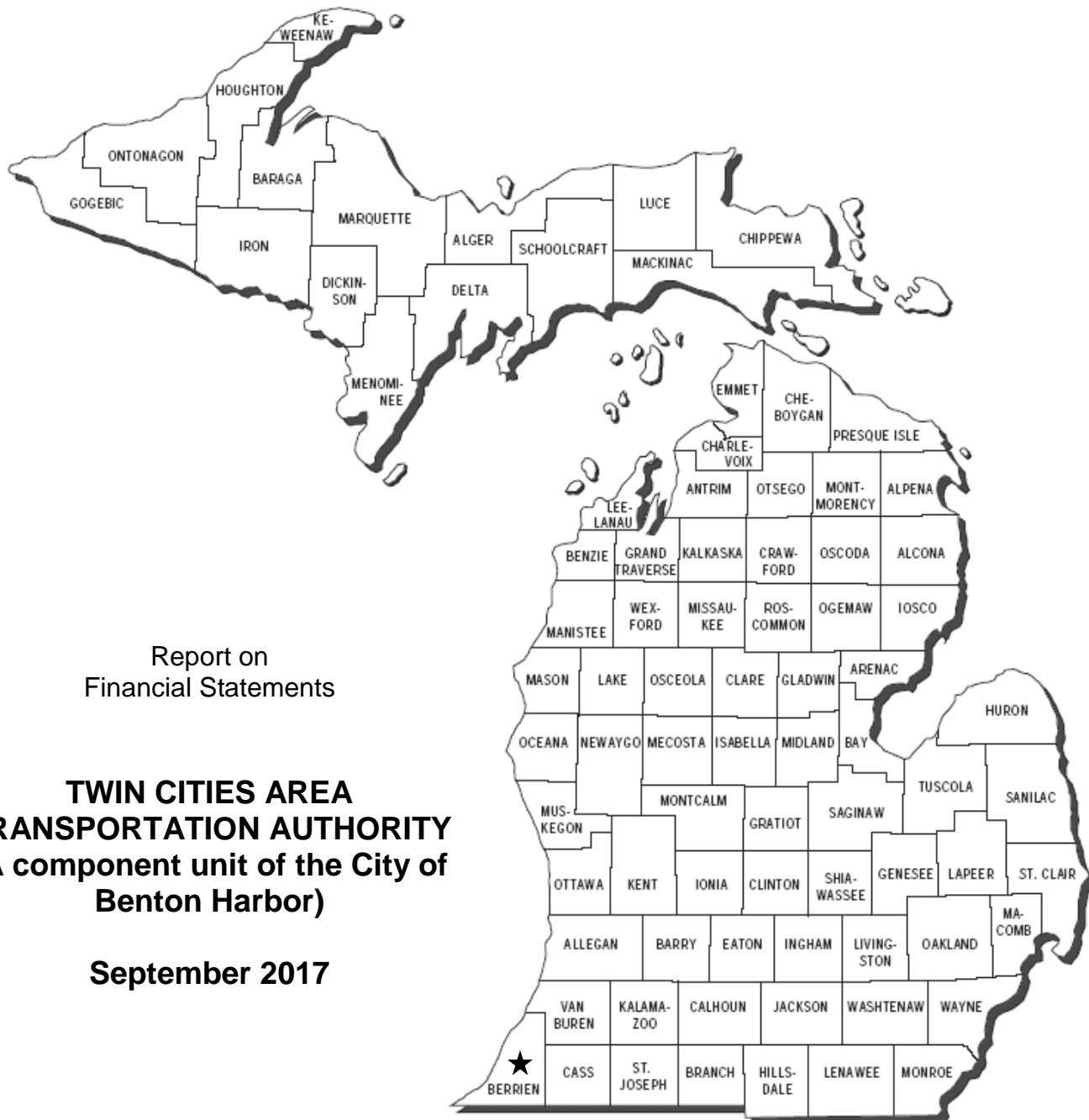


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

Nick A. Khouri, State Treasurer



Report on
Financial Statements

**TWIN CITIES AREA
TRANSPORTATION AUTHORITY
(A component unit of the City of
Benton Harbor)**

September 2017

TWIN CITIES AREA TRANSPORTATION AUTHORITY

BOARD OF TRUSTEES

(June 14, 2018)

Juanita Henry
Chairman

Emma Kinnard
Secretary

Anthony Andrews
Trustee

Lisa Varrie
Trustee

James Child
Trustee

Alex Little
Executive Director

CITY OF BENTON HARBOR POPULATION--2010
10,038

TAXABLE VALUATION--2016
\$125,353,169



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

June 14, 2018

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

Independent Auditor's Report

Dear Board Members:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of the Twin Cities Area Transportation Authority (Authority), a component unit of the City of Benton Harbor, Michigan, as of and for the fiscal year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, as of September 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

June 14, 2018

With the exception of Schedule 4N-Regular and 4N-JARC marked "unaudited," the information on Schedules 1 through 5 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The information presented Schedules 1 through 5 and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information presented in Schedules 1 through Schedule 5 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2018, on our consideration of the 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* in considering Authority's internal control over financial reporting and compliance.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division

TWIN CITIES AREA TRANSPORTATION AUTHORITY

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TWIN CITIES AREA TRANSPORTATION AUTHORITY

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TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2017

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, 2017.

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 Position 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 Position and the Statement of Activities

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position (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 position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial 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.

The Authority as a Whole

The Authority's net position decreased from \$1,742,717 to \$1,501,947 for the year ended September 30, 2017. This is a contrast to the previous year when the net position increased \$142,361. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Authority's business-type activities.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

Table 1
Net Position of Business-Type Activities

	09/30/16	09/30/17	
	Business-Type	Business-Type	
	Activities	Activities	Variance
Current and Other Assets	\$ 781,866	\$ 729,838	\$ (52,028)
Net Capital Assets	<u>1,053,898</u>	<u>962,349</u>	<u>(91,549)</u>
Total Assets	<u>1,835,764</u>	<u>1,692,187</u>	<u>(143,577)</u>
Current Liabilities	<u>93,047</u>	<u>190,240</u>	<u>97,193</u>
Total Liabilities	<u>93,047</u>	<u>190,240</u>	<u>97,193</u>
Net Position			
Net Investment in Capital Assets	1,053,898	962,349	(91,549)
Unrestricted	<u>688,819</u>	<u>539,598</u>	<u>(149,221)</u>
Total Net Position	<u>\$ 1,742,717</u>	<u>\$ 1,501,947</u>	<u>\$ (240,770)</u>

The Authority's business-type activities total net position decreased by 13.8% or \$240,770. Total net investment in capital assets decreased \$91,549 primarily due to the continued depreciation of the Authority's capital assets. The decrease in the unrestricted net position of \$149,221 was due to an increase in fuel costs, maintenance and repair costs, and bus insurance costs.

While costs were and are increasing, revenue was somewhat constrained by the reduction in local match which limits the Authority to take full advantage of the possible 50% Federal operating funding available. The net position decrease of \$240,770 is in large part due to an audit adjustment that was necessary because of an unexplained issue with the prior audit. As a result of this adjustment having been made by the current Auditor from Treasury, the Authority will have a clean starting point for the upcoming Fiscal Year 2018.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

Table 2
Changes in Net Position of Business-Type Activities

	2016	2017	Variance
Operating Revenue			
Passenger Fares	\$ 268,642	\$ 244,094	\$ (24,548)
Special Transit Fares	-	5,962	5,962
Auxiliary Transportation Revenues	3,805	5,797	1,992
Non-operating Revenue			
Local Contributions			
Tax Levy	128,242	109,129	(19,113)
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	610,946	755,364	144,418
Job Access Reverse Commute	367,711	389,353	21,642
New Freedom Program--Mobility Management	15,000	15,000	-
Federal Operating Grants			
USDOT Operating Grant (Section 5307)	734,796	777,380	42,584
New Freedom Program--Mobility Management	60,000	60,000	-
State and Federal Grants--Prior Year Adjustments	138,717	(78,857)	(217,574)
Interest Earned	127	163	36
Other Non-Transit Revenues	76,636	13,586	(63,050)
Total Revenue	<u>2,404,622</u>	<u>2,296,971</u>	<u>(107,651)</u>
Operating Expense			
Salaries and Wages	1,561,519	1,656,055	94,536
Depreciation	249,237	216,708	(32,529)
Other	673,275	770,246	96,971
Total Operating Expense	<u>2,484,031</u>	<u>2,643,009</u>	<u>158,978</u>
Income (Loss) Before Capital Contributions and Operating Transfers	(79,409)	(346,038)	(266,629)
Capital Contributions			
Federal and State Capital Grants	221,770	105,268	(116,502)
Increase (Decrease) in Net Position	<u>142,361</u>	<u>(240,770)</u>	<u>(383,131)</u>
Ending Net Position	<u>\$ 1,742,717</u>	<u>\$ 1,501,947</u>	<u>\$ (240,770)</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2017

Business-Type Activities

The Authority's business-type activities operating and non-operating revenues decreased by \$107,651 or 4.5% and capital contribution revenues decreased by \$116,502. Expenses increased \$158,978 or 6.4% as compared with the prior fiscal year. This decrease in revenues was due to the prior year adjustments despite the increase in the state and federal operating assistance. The increase in expenses is again due to the increase in fuel costs, maintenance and repair costs, and bus insurance costs.

Budgetary Highlights

TCATA's budgets are being squeezed by a reduction in local match as a result of \$20,000 to \$30,000 of the tax millage money for Transportation being siphoned off by the Brownfield Authority(s) and possibly other government and quasi-governmental processes. Because the match money is highly leveraged with the FTA and State contributions, small reductions in local match can jeopardize our ability to achieve the full 50% match in federal funding for operating cost and 80% for capital.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2017, the Transit had \$962,349 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 \$91,549.

Table 3
Capital Assets at Year-End

	<u>9/30/16</u>	<u>9/30/17</u>
Capital Assets Not Being Depreciated		
Land	\$ 62,700	\$ 80,715
Subtotal	<u>62,700</u>	<u>80,715</u>
Capital Assets being Depreciated		
Buildings	1,692,800	1,716,493
Buses	1,840,696	1,924,146
Other Vehicles	126,561	126,561
Equipment	<u>407,379</u>	<u>407,379</u>
Subtotal	4,067,436	4,174,579
Total Capital Assets	4,130,136	4,255,294
Total Accumulated Depreciation	<u>(3,076,238)</u>	<u>(3,292,945)</u>
Total Net Capital Assets	<u>\$ 1,053,898</u>	<u>\$ 962,349</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2017

During the year, the Authority purchased land for \$18,015, performed building upgrades for \$23,693, and purchased one new bus for \$83,450. More detailed information about the Authority's capital assets is presented in Note E to the financial statements.

As the Authority has nine (9) fully depreciated old buses scheduled for replacement with new ones in Fiscal Year 18 and several other capital items, the capital asset picture for this upcoming fiscal year will be considerably improved over FY 17.

Debt

The Authority has no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered in preparing the Authority's budget for the 2016-2017 fiscal year:

- Federal operating assistance is anticipated to be 42% of eligible operating expenses for 2017.
- State operating assistance continues to be uncertain, with stagnant revenues coming into the comprehensive transportation fund.
- Operating expenses continue to grow, but the comprehensive transportation fund does not. This in turn reduces the percentage of reimbursement that the Authority receives from the Michigan Department of Transportation. The Authority is anticipating 38.31% of eligible expenses to be reimbursed by the Michigan Department of Transportation for the fiscal year ending 2017.
- The Authority will attempt to try and increase the amount qualifying as local match through several limited options including requesting a direct amount from the City of Benton Harbor.

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 POSITION
 September 30, 2017

EXHIBIT A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 201,158
Accounts Receivable	2,964
Due From State Government	183,011
Due From Federal Government	273,953
Inventory	8,862
Prepaid Expenses	59,890

Total Current Assets	<u>729,838</u>
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Non-current Assets

Capital Assets--Non-depreciating	80,715
Capital Assets--Depreciating	<u>881,634</u>

Total Non-current Assets	<u>962,349</u>
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Total Assets	<u>1,692,187</u>
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LIABILITIES

Current Liabilities

Accounts Payable	166,578
Accrued Wages and Fringe Benefits	<u>23,662</u>

Total Current Liabilities	<u>190,240</u>
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NET POSITION

Net Investment in Capital Assets	962,349
Unrestricted	<u>539,598</u>

Total Net Position	<u><u>\$ 1,501,947</u></u>
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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 POSITION
For the Fiscal Year Ended September 30, 2017

EXHIBIT B

Operating Revenue	
Passenger Fares	\$ 244,094
Special Transit Fares	5,962
Auxiliary Transportation Revenues	5,797
	<hr/>
Total Operating Revenue	255,853
	<hr/>
Operating Expense	2,643,009
	<hr/>
Total Operating Expense	2,643,009
	<hr/>
Operating Income (Loss)	(2,387,156)
	<hr/>
Non-operating Revenue	
Local Contributions	
Tax Levy	109,129
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	755,364
Job Access Reverse Commute	389,353
New Freedom Program--Mobility Management	15,000
Federal Operating Grants	
USDOT Operating Grant (Section 5307)	777,380
New Freedom Program--Mobility Management	60,000
State and Federal Grants--Prior Year Adjustments	(78,857)
Interest Earned	163
Other Non-Transit Revenues	13,586
	<hr/>
Total Non-operating Revenue	2,041,118
	<hr/>
Income (Loss) Before Capital Contributions	(346,038)
Capital Contributions	
State Capital Grants	21,054
Federal Capital Grants (Section 5307)	84,214
	<hr/>
Change in Net Position	(240,770)
Total Net Position--October 1, 2016	1,742,717
	<hr/>
Total Net Position--September 30, 2017	\$ 1,501,947
	<hr/> <hr/>

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, 2017

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 260,286
Cash Payments to Employees for Services and Benefits	(1,652,103)
Cash Payments to Suppliers for Goods and Services	<u>(661,500)</u>
Net Cash Provided by Operating Activities	<u>(2,053,317)</u>
Cash Flows From Non-capital Financing Activities	
State Grants	1,109,796
Federal Grants	1,109,999
State and Federal Grants--Prior Year Adjustments	(78,857)
Property Tax	109,129
Other Revenue	<u>13,586</u>
Net Cash Provided by Non-capital Financing Activities	<u>2,263,653</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(125,158)
Capital Assets Purchased With State and Federal Grants	<u>16,758</u>
Net Cash Provided From Capital and Related Financing Activities	(108,400)
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>163</u>
Net Cash Provided by Investing Activities	163
Net Increase in Cash and Cash Equivalents	102,099
Cash and Cash Equivalents at Beginning of the Year	<u>99,059</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 201,158</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (2,387,156)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Non-cash Items)	
Depreciation Expense	216,708
(Increase) Decrease in Accounts Receivable	4,433
(Increase) Decrease in Inventory	(6,355)
(Increase) Decrease in Prepaid Expenses	(9,834)
Increase (Decrease) in Accounts Payable	124,934
Increase (Decrease) in Other Accrued Liabilities	<u>3,953</u>
Net Cash Provided by Operating Activities	<u><u>\$ (2,053,317)</u></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, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Twin Cities Area Transportation Authority (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. 61, "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 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 Position and the Statement of Revenues, Expenses and Changes in Net Position) report information of the activities of the Authority. There is only one fund reported in the government-wide financial statements.

The Statement of Net Position 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 Position 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, 2017

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.

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.

Cash and Cash Equivalents

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.

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, 2017

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 2016 ad valorem tax was levied and collectible on December 1, 2016. It is the policy of the Authority to recognize revenue from the current tax levy in the 2016/2017 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

The 2016 real and personal taxable valuation of Benton Harbor property, excluding \$1,070,078 Renaissance Zone, amounted to \$125,353,169. Ad valorem taxes of 1.1867 mills were levied for Authority operating purposes and the total amount collected and recognized as revenue was \$109,129.

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.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE B--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91 authorizes the Authority 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	\$ 200,928
Petty Cash	<u>230</u>
Total Deposits	<u>\$ 201,158</u>

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 \$262,820, of which \$250,000 is covered by Federal depository insurance. The remaining \$12,820 is uncollateralized and uninsured.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE C--DUE FROM FEDERAL GOVERNMENT

The following amount was due at September 30, 2017:

Federal Operating Assistance for Fiscal Year 2016/17	\$	207,193
Federal Capital Assistance for Fiscal Year 2016/17 (2012-0173 P21)		<u>66,760</u>
Total Due From Federal Government	\$	<u>273,953</u>

NOTE D--DUE FROM STATE GOVERNMENT

The following amount was due at September 30, 2017:

State Operating Assistance for Fiscal Year 2016/17	\$	37,019
New Freedom Program (MI-57-X010-03)		23,376
Job Access Reverse Commute (MI-37-X047)		100,866
State Capital Assistance (2012-0173 P8)		5,060
State Capital Assistance (2012-0173 P21)		<u>16,690</u>
Total Due From State	\$	<u>183,011</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE E--CAPITAL ASSETS

Beginning Net Capital Asset Restatement

The amounts posted to the capital assets did not tie to the subsidiary listing and needed to be reclassified as follows.

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Adjustment to Beginning Balance</u>	<u>Restated Beginning Balance</u>
Capital Assets Not Being Depreciated			
Land	\$ 62,700	\$ -	\$ 62,700
Subtotal	<u>62,700</u>	<u>-</u>	<u>62,700</u>
Capital Assets Being Depreciated			
Building	1,692,800	-	1,692,800
Buses	1,685,144	155,552	1,840,696
Other Vehicles	138,738	(12,177)	126,561
Equipment	<u>550,754</u>	<u>(143,375)</u>	<u>407,379</u>
Subtotal	<u>4,067,436</u>	<u>-</u>	<u>4,067,436</u>
Less Accumulated Depreciation for			
Building	1,556,150	-	1,556,150
Buses	1,037,535	155,552	1,193,087
Other Vehicles	116,953	-	116,953
Equipment	<u>365,600</u>	<u>(155,552)</u>	<u>210,048</u>
Subtotal	<u>3,076,238</u>	<u>-</u>	<u>3,076,238</u>
Net Capital Assets Being Depreciated	<u>991,198</u>	<u>-</u>	<u>991,198</u>
Governmental Activities Capital Total			
Capital Assets--Net of Depreciation	<u>\$ 1,053,898</u>	<u>\$ -</u>	<u>\$ 1,053,898</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE E--CAPITAL ASSETS (Continued)

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

<u>Business-Type Activities</u>	Restated Beginning Balance 10/01/16	Increases	Decreases	Ending Balance 09/30/17
Capital Assets Not Being Depreciated				
Land	\$ 62,700	\$ 18,015	\$ -	\$ 80,715
Subtotal	<u>62,700</u>	<u>18,015</u>	<u>-</u>	<u>80,715</u>
Capital Assets Being Depreciated				
Building	1,692,800	23,693	-	1,716,493
Buses	1,840,696	83,450	-	1,924,146
Other Vehicles	126,561	-	-	126,561
Equipment	407,379	-	-	407,379
Subtotal	<u>4,067,436</u>	<u>107,143</u>	<u>-</u>	<u>4,174,579</u>
Less Accumulated Depreciation for				
Building	1,556,150	24,425	-	1,580,575
Buses	1,193,087	148,167	-	1,341,254
Other Vehicles	116,953	5,241	-	122,194
Equipment	210,048	38,874	-	248,922
Subtotal	<u>3,076,238</u>	<u>216,707</u>	<u>-</u>	<u>3,292,945</u>
Net Capital Assets Being Depreciated	<u>991,198</u>	<u>(109,564)</u>	<u>-</u>	<u>881,634</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 1,053,898</u>	<u>\$ (91,549)</u>	<u>\$ -</u>	<u>\$ 962,349</u>

NOTE F--ACCRUED EMPLOYEE BENEFITS

Accrued employee benefits for vacation and sick leave are as follows for union employees only. Currently, no personnel policy exists for the non-union employees. The Transit believes it is released from recording a liability for compensated absences for non-union employees since there are no personnel policies requiring the payment of compensated absences.

Vacation Leave

Full-time union employees earns paid vacation for each full calendar quarter of work. The accrual rate is in accordance with the following schedule.

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

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE F--ACCRUED EMPLOYEE BENEFITS (Continued)

Employees with more than five years but less than eight years of continuous, full-time employment earn up to 100 hours per 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

Full-time union employees earn two and one half days of paid sick leave for each full calendar quarter of completed service. Sick leave may be accumulated without limitation. No payment shall be made for unused accumulated sick leave at separation from employment.

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

NOTE G--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 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.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE H--POSTEMPLOYMENT BENEFITS

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

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--TAX ABATEMENTS

The City of Benton Harbor (City) provides tax abatements under several different programs that affect the tax revenue of the Authority:

Industrial property tax abatements are granted in the State of Michigan under Public Act 198 to promote economic development, creation of jobs, and new or improved facilities. The Industrial Facilities Tax (IFT) Exemption must be approved by both the City (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for up to 12 years. A certificate may be revoked and taxes recaptured for non-compliance with the terms of the agreement. Property taxes abated by the City under this program affecting the Authority for fiscal year 2017 amounted to \$2,066.

A business or multi-family residential facility can apply for a Commercial Rehabilitation Exemption under Public Act 210 if making substantial improvements to a facility. Once approved by the City and the State of Michigan, the taxable value of the property is frozen for a period of up to 10 years. The program is designed to increase commercial activity, create/retain employment, and revitalize urban areas. The taxpayer must complete the rehabilitation project within the time period specified by the written agreement. The City may revoke the exemption and recover the taxes for non-compliance. Property taxes abated by the City under this program affecting the Authority for fiscal year 2017 amounted to \$4,949.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE J--TAX ABATEMENTS (Continued)

To incentivize new or expanded businesses, Public Act 328 allows for Personal Property Tax Exemptions for qualified businesses located within eligible distressed communities. The exemption must be approved by the City Commission and the State Treasurer. Once approved, the taxpayer is exempt from personal property tax on new investments after the date of the exemption. The City can recapture the taxes if the business defaults on the terms of the written agreement. Property taxes abated by the City under this program affecting the Authority for fiscal year 2017 amounted to \$7,769.

The City encourages environmental cleanup and economic development through its Brownfield Redevelopment Plan under Public Act 318. A developer performs redevelopment and cleanup activities at a site that is obsolete or blighted. The increased tax revenues resulting from the increase in taxable value are captured by the City and used to repay the developer for qualifying expenses. There is no provision for recovery of abated taxes because the developer is only paid for eligible expenses on a reimbursement-basis. Property taxes abated by the City under this program affecting the Authority for fiscal year 2017 amounted to \$30,821.

NOTE K--COST ALLOCATION PLAN

The Authority has two cost allocation plans where the methodology has been approved by the Bureau of Passenger Transportation (BPT) and MDOT. The cost allocations are for the New Freedom program and for the Job Access Reverse Commute program. The cost allocation plans were adhered to in the preparation of the financial statements.

NOTE L—NON-FINANCIAL DATA

The methodology used for compiling mileage on Operating Assistance Schedule 4N-Regular and Schedule 4N-JARC 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-Rugular and 4N-JARC is presented as an "unaudited" schedule and, accordingly, we do not express an opinion on the information.

NOTE M--DEPRECIATION

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset was determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2017

NOTE N--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 O--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 Q--CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 77, *Tax Abatement Disclosures*, was implemented during the year. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: (1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; (2) the gross dollar amount of taxes abated during the period; and (3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
LOCAL REVENUES
For the Fiscal Year Ended September 30, 2017

SCHEDULE 1

LOCAL REVENUES

Line Haul - Farebox (Urban - Small)	\$ 25,741
Demand Response - Farebox (Urban - Small)	218,353
Line Haul - Farebox (JARC)	10,161
Demand Response - Farebox (JARC)	20,053
Concessions	1,297
Advertising	4,500
Other Non-Transit Revenues	13,586
Taxes Levied Directly for/by Transit Agency	109,129
Interest Income	<u>163</u>
Total Local Revenues	<u><u>\$ 402,983</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended September 30, 2017

SCHEDULE 2

	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expend.	Amount Remaining
				Total	Federal	State		
US Department of Transportation								
Direct Pass Through US Department of Transportation								
Capital Assistance--Section 5339	20.526*	2012-0173P21	\$ 84,846	\$ 66,760	\$ 66,760	\$ -	\$ -	\$ 18,086
Operating Assistance--Section 5307	20.507*	MI-2017-008-00	777,380	777,380	777,380	-	-	-
Total Operating Assistance			862,226	844,140	844,140	-	-	18,086
US Department of Transportation								
Passed through Michigan Department of Transportation								
Capital Assistance--Section 5339	20.526*	MI-34-0003-03	111,858	21,818	17,454	4,364	-	90,040
Capital Assistance--Section 5339	20.526*	2012-0173P21	21,212	16,690	-	16,690	-	4,522
New Freedom Program--Section 5317	20.513	MI-2016-038	75,000	75,000	60,000	15,000	-	-
Job Access Reverse Commute	N/A	2012-0173/P20	389,353	389,353	-	389,353	-	-
Operating Assistance--Act 51	N/A	N/A	755,364	755,364	-	755,364	-	-
Total Capital Assistance			1,352,787	1,258,225	77,454	1,180,771	-	94,562
Total Department of Transportation			\$ 2,215,013	\$ 2,102,365	\$ 921,594	\$ 1,180,771	\$ -	\$ 112,648

*Federal Transit Cluster

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING AND CONTRACT EXPENSES
 For the Fiscal Year Ended September 30, 2017

SCHEDULE 3

<u>Expenses</u>	Non-urban State Operating FY 2017*	Non-urban Operating JARC	New Freedom	Total
Labor	\$ 907,406	\$ 181,819	\$ -	\$ 1,089,225
Fringe Benefits	465,605	101,225	-	566,830
Services	236,214	66,613	75,000	377,827
Materials and Supplies	190,367	41,258	-	231,625
Utilities	26,254	5,715	-	31,969
Casualty and Liability Costs	77,276	16,758	-	94,034
Taxes and Fees	437	91	-	528
Miscellaneous	21,534	4,607	-	26,141
Leases and Rentals	6,641	1,481	-	8,122
Depreciation	216,708	-	-	216,708
Total Expenses	\$ 2,148,442	\$ 419,567	\$ 75,000	\$ 2,643,009

*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, 2017

SCHEDULE 4R-REGULAR

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	\$ 25,741	\$ 218,353	\$ 244,094
402:	Contract Fares			
40203	Contract Fares	-	5,962	5,962
406:	Auxiliary Trans Revenues			
40610	Concessions	-	1,297	1,297
40615	Advertising	-	4,500	4,500
408:	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	-	109,129	109,129
411:	State Formula and Contracts			
41101	State Operating Assistance	84,975	670,389	755,364
41110	Line-Item Municipal Credit (Prior Year Adjustments)	-	(78,857)	(78,857)
41114	State Capital Grants	-	21,054	21,054
413:	Federal Contracts			
41302	Federal Section 5307	-	777,380	777,380
41314	Federal Capital Grants	-	84,214	84,214
414:	Other Revenue			
41400	Interest Income	-	163	163
440:	Non-Transit Revenues			
44000	Other Non-Transit Revenue (Refunds)	-	13,586	13,586
TOTAL REVENUES		<u>\$ 110,716</u>	<u>\$ 1,827,170</u>	<u>\$ 1,937,886</u>

EXPENSE SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>OPER. LINE HAUL</u>	<u>OPER. DEMAND RESPONSE</u>	<u>MAINT. LINE HAUL</u>	<u>MAINT. DEMAND RESPONSE</u>	<u>ADMIN. LINE HAUL</u>	<u>ADMIN. DEMAND RESPONSE</u>	<u>TOTAL</u>
501:	Labor							
50101	Operators' Salaries and Wages	\$ 51,122	\$ 452,380	\$ -	\$ -	\$ -	\$ -	\$ 503,502
50102	Other Salaries and Wages	4,813	38,453	8,815	59,805	24,131	127,810	263,827
50103	Dispatchers' Salaries and Wages	-	140,077	-	-	-	-	140,077
502:	Fringe Benefits							
50200	Other Salaries and Wages	36,428	290,931	6,277	42,569	14,196	75,204	465,605
503:	Services							
50302	Advertising Fees	-	-	-	-	715	3,781	4,496
50305	Audit Cost	-	-	-	-	976	5,228	6,204
50399	Other Services	2,262	17,256	26,134	104,305	11,263	64,294	225,514
504:	Materials and Supplies							
50401	Fuel and Lubricants	18,378	113,424	190	1,285	237	1,255	134,769
50402	Tires and Tubes	3,303	26,440	-	-	-	-	29,743
50499	Other Materials and Supplies	972	7,782	887	6,004	1,622	8,588	25,855
505:	Utilities							
50500	Utilities	654	5,210	2,263	15,346	441	2,340	26,254
506:	Insurance							
50603	Liability Insurance	7,742	61,853	-	-	1,218	6,463	77,276
507:	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	69	368	437
509:	Miscellaneous Expenses							
50902	Travel, Meetings and Training	838	6,882	40	273	1,101	5,638	14,772
50903	Association Dues and Subscriptions	-	-	-	-	974	5,103	6,077
50999	Other Miscellaneous Expenses	-	-	-	-	89	596	685
512:	Operating Leases and Rentals							
51200	Operating Leases and Rentals	137	1,088	700	4,577	22	117	6,641
513:	Depreciation							
51300	Depreciation	-	198,572	-	2,929	-	15,207	216,708
TOTAL EXPENSES		126,649	1,360,348	45,306	237,093	57,054	321,992	2,148,442
540:	Ineligible Expenses							
54000	Ineligible Prior Year Refunds and Credits	-	-	-	-	-	13,586	13,586
550:	Ineligible Expenses							
55007	Ineligible Depreciation	-	179,919	-	2,929	-	14,271	197,119
55010	Other Ineligible Expense--Vending Expense	-	-	-	-	89	595	684
TOTAL INELIGIBLE EXPENSES		-	179,919	-	2,929	89	28,452	211,389
TOTAL ELIGIBLE EXPENSES		\$ 126,649	\$ 1,180,429	\$ 45,306	\$ 234,164	\$ 56,965	\$ 293,540	\$ 1,937,053

NON-FINANCIAL 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	4,572	32,703	477	2,690	40,442
611	Vehicle Miles*	63,094	350,613	6,583	23,610	443,900
615	Passengers--Regular	15,517	43,677	2,257	3,557	65,008
616	Passengers--Elderly	7,944	22,709	1,003	2,455	34,111
617	Passengers--Persons w/Disabilities	8,317	33,874	1,124	3,058	46,373
621	Total Line-Haul Passengers	31,778	-	4,384	-	36,162
622	Total Demand-Response Passengers	-	100,260	-	9,070	109,330
625	Days Operated	254	254	53	53	614

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	17
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)	-
659	LPG or CNG Gallons Equivalent Consumed	25,058
660	Diesel/Gasoline Gallons Consumed	43,060
661	Total Transit Agency Employees	-
662	Total Revenue Vehicle Operators	-

*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 REPORT--
 REVENUES--JOB ACCESS REVERSE COMMUTE
 For the Fiscal Year Ended September 30, 2017

SCHEDULE 4R-JARC

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	\$ 10,161	\$ 20,053	\$ 30,214
411:	State Formula and Contracts			
41199	Other MDOT Contracts--Job Access Reverse Commute	-	389,353	389,353
TOTAL REVENUES		<u>\$ 10,161</u>	<u>\$ 409,406</u>	<u>\$ 419,567</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE REPORT--
 EXPENSES--JOB ACCESS REVERSE COMMUTE
 For the Fiscal Year Ended September 30, 2017

SCHEDULE 4E-JARC

EXPENSE SCHEDULE REPORT

CODE	DESCRIPTION	OPER. LINE HAUL	OPER. DEMAND RESPONSE	MAINT. LINE HAUL	MAINT. DEMAND RESPONSE	ADMIN. LINE HAUL	ADMIN. DEMAND RESPONSE	TOTAL
501:	Labor							
50101	Operators' Salaries and Wages	\$ 49,159	\$ 60,094	\$ -	\$ -	\$ -	\$ -	\$ 109,253
50102	Other Salaries and Wages	4,222	5,173	6,702	8,160	14,851	18,213	57,321
50103	Dispatchers' Salaries and Wages	-	15,245	-	-	-	-	15,245
502:	Fringe Benefits							
50200	Other Salaries and Wages	32,034	39,149	4,767	5,837	8,755	10,683	101,225
503:	Services							
50302	Advertising Fees	-	-	-	-	450	536	986
50305	Audit Cost	-	-	-	-	568	712	1,280
50399	Other Services	1,981	2,432	20,107	24,276	6,892	8,659	64,347
504:	Materials and Supplies							
50401	Fuel and Lubricants	12,875	15,727	147	176	145	178	29,248
50402	Tires and Tubes	2,859	3,538	-	-	-	-	6,397
50499	Other Materials and Supplies	847	1,029	671	837	1,003	1,226	5,613
505:	Utilities							
50500	Utilities	585	705	1,720	2,101	272	332	5,715
506:	Insurance							
50603	Liability Insurance	6,792	8,313	-	-	744	909	16,758
507:	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	41	50	91
509:	Miscellaneous Expenses							
50902	Travel, Meetings and Training	731	916	30	37	675	830	3,219
50903	Association Dues and Subscriptions	-	-	-	-	630	758	1,388
512:	Operating Leases and Rentals							
51200	Operating Leases and Rentals	120	152	533	645	15	16	1,481
TOTAL EXPENSES		112,205	152,473	34,677	42,069	35,041	43,102	419,567
550:	Ineligible Expenses							
55000	Ineligible Job Access Reverse Commute Fares	-	-	-	-	10,161	20,053	30,214
TOTAL INELIGIBLE EXPENSES		-	-	-	-	10,161	20,053	30,214
TOTAL ELIGIBLE EXPENSES		\$ 112,205	\$ 152,473	\$ 34,677	\$ 42,069	\$ 24,880	\$ 23,049	\$ 389,353

NON-FINANCIAL 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	3,556	4,064	265	742	8,627
611	Vehicle Miles*	49,073	81,280	3,657	14,840	148,850
615	Passengers--Regular	6,417	15,335	1,031	2,245	25,028
616	Passengers--Elderly	2,616	1,365	256	369	4,606
617	Passengers--Persons w/Disabilities	33,338	3,464	394	556	37,752
621	Total Line-Haul Passengers	12,371	-	1,681	-	14,052
622	Total Demand-Response Passengers	-	20,164	-	3,170	23,334
625	Days Operated	254	254	53	53	614

<u>Vehicle Information</u>	<u>Quantity</u>
653 Total Line-Haul Vehicles	2
654 Line-Haul Vehicles w/Lifts	2
655 Total Demand-Response Vehicles	2
656 Demand-Response Vehicles	2
658 Total Transit Vehicles	4

<u>Miscellaneous Information</u>	<u>Quantity LH</u>	<u>Quantity DR</u>
601 Number of Routes (Line Haul Only)	28	-
602 Total Route Miles (Line Haul Only)	30	-
659 LPG or CNG Gallons Equivalent Consumed	3,531	6,436
660 Diesel/Gasoline Gallons Consumed	6,067	11,060

*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.

REVENUE SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>LINE HAUL</u>	<u>DEMAND RESPONSE</u>	<u>TOTAL</u>
411:	State Formula and Contracts			
41119	Other MDOT Contracts--New Freedom Program	-	15,000	15,000
413:	Federal Contracts			
41399	Other MDOT Contracts--New Freedom Program	-	60,000	60,000
TOTAL REVENUES		\$ -	\$ 75,000	\$ 75,000

EXPENSE SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	<u>TOTAL</u>
503:	Services	
50399	Other Services	<u>\$ 75,000</u>
TOTAL EXPENSES		<u><u>\$ 75,000</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE CALCULATION--STATE
 For the Fiscal Year Ended September 30, 2017

SCHEDULE 5S

	<u>Non-urban</u>
Total Operating Expenses	<u>\$ 2,643,009</u>
Less: Ineligible Expenses	
Depreciation	197,119
Ineligible Prior Year Refunds and Credits	13,586
Other Revenue	30,214
Vending Machines	684
Line Haul Funded by Other State and Federal Grants	<u>464,353</u>
Total Ineligible Expenses Per R&E Manual	<u>\$ 705,956</u>
Total State Eligible Expenses	<u>\$ 1,937,053</u>
Eligible Expenses for State Reimbursement	\$ 1,937,053
Reimbursement Percentage	<u>38.9955%</u>
State Operating Assistance	<u>\$ 755,364</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 OPERATING ASSISTANCE CALCULATION--FEDERAL
 For the Fiscal Year Ended September 30, 2017

SCHEDULE 5F

	<u>Urban</u>
Total Operating Expenses	\$ 2,643,009
Less: Ineligible Expenses	
Depreciation	\$ 197,119
Ineligible Prior Year Refunds and Credits	13,586
Other Revenue	30,214
Vending Machines	684
Job Access Reverse Commute Program	389,353
New Freedom Program	<u>75,000</u>
Total Ineligible Expenses According to R&E Manual	<u>705,956</u>
Total Federal Eligible Expenses	<u>1,937,053</u>
Less Farebox and Other Revenues	
Farebox	<u>(250,056)</u>
Total Farebox and Other Revenues	<u>(250,056)</u>
Net Project Cost	<u>1,686,997</u>
Maximum Amount of Reimbursement (Net Project Cost x 50%)	<u>843,499</u>
FTA Fund Available	<u>777,380</u>
FTA Funds Requested	<u><u>\$ 777,380</u></u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

June 14, 2018

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

Independent Auditor's Report

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 Commissioners:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the major fund of the Twin Cities Area Transportation Authority (Authority), a component unit of the City of Benton Harbor, Michigan as of and for the fiscal year ended September 30, 2017, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 14, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs listed as Findings 2017-001 through 2017-006 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, non-compliance 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 instances of non-compliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2017-007 through 2017-011.

The Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Authority's responses and accordingly, we express no opinion on them.

Purpose of this Report

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

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

June 14, 2018

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 and the major fund of the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 14, 2018. Professional standards require that we provide you with 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 October 23, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Twin Cities 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.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods

of preparing the information to determine that the information complies with the accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters February 12, 2018, with management.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Twin Cities Area Transportation Authority are described in Note A to the financial statements. As described in Note Q, during the fiscal year ended September 30, 2017, the County implemented GASB Statement No. 77, *Tax Abatements*. The notes to the financial statement now includes tax abatement information. We noted no transactions entered into by the Twin Cities 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 the depreciation is based on the straight-line method for all other capital assets. We evaluated the key factors and assumptions used to develop the 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, a disagreement with management is 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 June 14, 2018.

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 Cities 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 Cities 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 Cities Area Transportation Authority Board, management of the Twin Cities 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.

Sincerely,



Cary Jay Vaughn, CPA, CGFM
Audit Manager

Community Engagement and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

June 14, 2018

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

Independent Auditor's Report

RE: Independent Auditors' Report on Compliance for Each Major Federal Program and Internal Control over Compliance Required by the Uniform Guidance

Report on Compliance with Each Major Federal Program

We have audited the Twin Cities Area Transportation Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major Federal programs for the year ended September 30, 2017. The Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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, non-compliance 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 non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. The results of our tests disclosed an instance of non-compliance related to federal programs that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2017-007 through 2017-011.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Cary Jay Vaughn', is centered below the word 'Sincerely,'.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Community Engagement and Finance Division

TWIN CITIES AREA TRANSPORTATION AUTHORITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended September 30, 2017

<u>Federal Agency/Cluster/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>	<u>Passed-Through to Subrecipients</u>
US DEPARTMENT OF TRANSPORTATION				
Direct Pass Through US Department of Transportation				
Capital Assistance--Section 5339	20.526*	2012-0173P21	\$ 66,760	\$ -
Operating Assistance--Section 5307	20.507*	MI-2017-008-00	777,380	-
Passed through Michigan Department of Transportation				
Capital Assistance--Section 5339	20.526*	MI-34-0003-03	17,454	-
New Freedom Program--Section 5317	20.513	MI-2016-038	60,000	-
TOTAL US DEPARTMENT OF TRANSPORTATION			<u>\$ 921,594</u>	<u>\$ -</u>

*Federal Transit Cluster

See Notes to Schedule of Expenditures of Federal Awards.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES
For the Fiscal Year Ending September 30, 2017

NOTE 1--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Twin Cities Area Transportation Authority (Authority) under programs of the federal government for the year ended September 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority. The Authority's reporting entity is defined in Note A of the Authority's financial statement audit report.

NOTE 2--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note A to the Authority's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

For purposes of charging indirect costs to federal awards, the Authority has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

NOTE 3--SECTION 5307 OPERATING ASSISTANCE

Maximum Section 5307 operating assistance revenue can be 50% of net eligible expenses as presented, not to exceed the local match or contract limit. The Federal Section 5307 operating assistance of \$777,380 was recognized based on the contract limit.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 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? X Yes No

• Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X No

Non-compliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified? X Yes No

• Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.5160(a) of the Compliance Supplement? X Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.507, 20.526

Federal Transit Cluster

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

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, 2017

Section II--Financial Statement Findings

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

MATERIAL WEAKNESS

Preparation of Financial Statements in Accordance
with GAAP (Repeat Comment)

Finding 2017-001

Condition: This is a repeat comment. As is the case with many smaller and medium sized entities, the Twin Cities Transportation Authority (Authority) has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Authority's internal controls. In addition, we proposed, and management approved, material journal entries to properly record capital assets, accounts receivable, accounts payable, and revenues.

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

Cause: This condition was caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Authority personnel to prepare them internally.

Effect: The Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2017

MATERIAL WEAKNESS (continued)

Recommendation: We recommend that the Authority's Board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interest of the Authority to outsource this duty to its external auditors. If the Authority continues to rely on its external auditors to prepare the financial statements, we recommend the board designate a responsible Authority official to carefully review the draft financial statements including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The Authority concurs for the FY 2017 audit. The Authority will cease relying upon its external auditors for preparation of the annual financial statements in FY 2018. The Authority will obtain the services of an outside booking/accounting firm to assist the Authority's accountant in performing quarterly reconciliations of its financial statements and its annual statement. As Executive Director, I will review all draft financial statements including the notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Incompatible Duties (Repeat Comment)

Finding 2017-002

Condition: The Authority has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include adjusting journal entries and accounting for federal aid programs..

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Authority. A key element of internal control is the segregation of incompatible duties within the accounting function.

Cause: This condition is a result of the limited size of the Authority's accounting staff.

Effect: As a result of this condition, the Authority is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2017

Management concurs with this finding for this audit period. However, the Authority will improve on its internal controls and segregation of incompatible duties. The accountant will maintain the Authority's daily accounts and perform monthly reports. An outside accounting firm will assist in performing quarterly financial statements. An additional staff person will be hired to assist with procurement and segregation of duties. The Executive Director will not be involved in the regular accounting but will oversee the proper administration of the grants, allocations, and review of all financial statements before approving them.

Reconciliation of Key Balance Sheet Accounts (Repeat Comment)

Finding 2017-003

Condition: The Authority has balance sheet accounts that are only reconciled at year end as part of the audit. These areas include, and due from state and federal agencies in regards to the operating and capital assistance grants and capital asset accounts and related accumulated depreciation accounts. Accordingly, the Authority's ability to prepare financial statements with reconciled balance sheet accounts is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Authority's internal controls.

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Authority. A key element of internal control is the monitoring and reconciling of financial data within the accounting function.

Cause: This condition is a result of the lack of documented control policies and procedures at the Authority.

Effect: As a result of this condition, the Authority is susceptible to misstatements (whether caused by error or fraud) that may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation: We recommend developing policies and procedures for reconciling accounts payable, accrued wages, accounts receivable, inventory, and due from state and federal agencies to the general ledger. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The Authority will correct this deficiency through implementation of the policy requiring reconciliation of key financial accounts, with the assistance of the outside accounting firm which will assist in regular reconciliations of accounts in the preparation of quarterly financial statements. The Executive Director will review these quarterly reports prior to acceptance and distribution.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2017

Lack of Personnel Policy

Finding 2017-004

Condition: The Authority does not have a personnel policy for non-union employees.

Criteria: Personnel policies are the rules that govern how to deal with a human resources or personnel related situation. Policies and procedures also provide clarity when dealing with accountability issues or activities that are of critical importance, such as, health and safety, legal liabilities, regulatory requirements or issues that have serious consequences.

Cause: The Authority has not prepared or adopted a personnel policy.

Effect: The Authority has no written rules for governing its non-union employees and provides greater risks for lawsuits.

Recommendation: We recommend the Authority prepare, adopt, and implement a personnel policy for non-union employees as soon as possible.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The Executive Director who was a SHRM certified SPHR for over ten years will develop a personnel policy and procedures manual for non-union personnel and implement it prior to the end of this fiscal year.

Vested Employee Benefits

Finding 2017-005

Condition: The Authority has not recorded a liability for the unpaid vested employee benefits. In regards to union employees there is a projected unrecorded liability of \$10,026. For the non-union personnel, the amount cannot be definitively determined as a personnel policy has not been adopted. However, if the same benefit for union employees is provided to non-union employees, there is a projected unrecorded liability of \$20,999.

Criteria: Generally Accepted Accounting Principles (GAAP) requires the Authority to record the liability for vested employee benefits on its financial statements.

Cause: The Authority was not aware of the need to record the liability, or since there is no personnel policy, the actual amount to record.

Effect: The Authority is not in compliance with GAAP and the liabilities on the balance sheet are understated.

Recommendation: We recommend that the Authority review and determine what vested benefits it is providing to both union and non-union employees. We then recommend that the Authority record the liability as required to conform with GAAP.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

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Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

Upon completion and implementation of the Personnel Policy and Procedures Manual, determinations will be made regarding benefit liabilities for non-Union employees and said liabilities will be properly recorded as such in the Authority's accounts.

Preparation of the Operating Assistance Report

Finding 2017-006

Condition: The Operating Assistance Report prepared by the Authority did not agree with the Authority's own financial statements (prior to the posting of audit adjustments). The revenue page did not report any amounts related to the taxes, prior year adjustments, New Freedom Program, and capital grants. The expense page did not report depreciation.

Criteria: Public Act 51 of 1951 requires transits to submit quarterly and annual operating assistance reports to the Michigan Department of Transportation (MDOT).

Cause: The Authority did not properly prepare the report.

Effect: Without proper information, the Authority may not receive all the operating assistance it is eligible for; or the Authority may have to pay back operating assistance funds.

Recommendation: We recommend that the Authority implement procedures to ensure that the information being provided to MDOT is accurate and being reviewed by a person independent of its preparation.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The proposed use of an outside accounting firm to assist TCATA's accountant with quarterly account reconciliations and financial reports which will be reviewed by the Executive Director and submitted to MDOT should address this issue and insure accurate reporting.

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NON-COMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following non-compliance procedures:

Minutes

Finding 2017-007

Condition: The Authority did not prepare minutes for the December 2017 meeting.

Criteria: According to the Open Meetings Act, MCL 15.269, “Each public body shall keep minutes of each meeting showing the date, time, place, members present, members absent, any decisions made at a meeting open to the public, and the purpose or purposes for which a closed session is held.

Cause: The tape recorder did not work during the meeting so no minutes were produced.

Effect: TCATA is not in compliance with state statute.

Directive: We direct TCATA to produce minutes for all meetings held to comply with the Open Meetings Act.

Management’s Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The Authority concurs and will comply. The Authority will acquire and utilize a second recorder as a backup to protect against future equipment failures and staff attending will keep notes on actions taken to insure that minutes are produced of all meetings.

Section III—Federal Award Findings and Questioned Costs

Financial Management

Finding 2017-008

Condition: The Authority is not sufficiently tracking its grant balances. We found that the spreadsheets in use by the Authority were not adequate to provide tracking by activity line item and by year of expense. During the year, federal funds were received that pertained to fiscal years 2014, 2015, and 2016; with the final 2016 draw down not occurring until after the 2017 fiscal year ended. The Authority did not approve a financial management policy until September 27, 2017. There is also a lack of internal control over financial management as one person was solely responsible for maintaining the information regarding federal grants. Additional audit time and conversations with the Federal Transit Authority were necessary to determine the status of all open grants utilized in the 2017 fiscal year.

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Criteria: According to 2 CFR 200.302, “Non-Federal entity’s financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.”

2 CFR 200.303 states, “The non-federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Cause: The Authority has relied on one individual for years to perform the financial management of the grant. No oversight was performed to ensure the information prepared was accurate or performed timely.

Effect: The Authority is non-compliant with the federal requirements. This also led to numerous, significant adjustments affecting the Authority’s financial statements.

Directive: While the Authority did approve a policy at year-end, we direct the Authority to comply with its policy going forward. We also direct the Authority to implement an internal control system to review the grant information and balances to ensure more accurate information and that funds are being received in a more timely manner.

Management’s Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The one individual that the Authority has relied on has retired, and policies for Financial Management, Internal Controls, and for Procurement have now been put in place and will be followed. TCATA’s accountant will be responsible for maintaining the Authorities records, reconciliation of accounts, and financial reporting, augmented by the quarterly assistance of an outside accounting firm and reviewed by the Executive Director who shall not perform accounting functions.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

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Inventory Management of Equipment Acquired Under Federal Awards

Finding 2017-009

Condition: The Authority did not maintain an inventory management of equipment acquired under federal awards (capital asset listing).

Criteria: According to 2 CFR 200.313, "Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Cause: The Authority relied on its prior auditors to maintain the inventory management of equipment.

Effect: The Authority is non-compliant with the federal requirements.

Directive: We direct the Authority to maintain its own inventory management of equipment and maintain the list following the requirements listed above. We further direct the Authority to implement procedures to ensure that an inventory is performed at least one every two years as required.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

Utilizing the asset records reconciled as of this audit, the records shall be maintained on an ongoing basis by the administrative support personnel assigned this function on spreadsheets that list all assets that are still being depreciated and those assets that have been fully depreciated but still have are in active use and those items whose value is too low to be depreciated as requested during the Triennial Review by FTA. Each new equipment purchase will be documented as received, tagged, and logged on the appropriate asset listing, and recorded in that months financial records. The Executive Director will oversee this as a part of his review and acceptance of monthly and quarterly reports.

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The Procurement Policy

Finding 2017-010

Condition: The Authority did not adopt a Procurement Policy until September 27, 2017. Also, the procurements examined did not contain a complete history documenting the process.

Criteria: According to 2 CFR 200.318 the following must occur.

1. The non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.
2. Non-Federal entities must maintain oversight to ensure that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
3. The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts.
4. The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Cause: The Authority was not aware of the requirement of a procurement policy or the requirement to maintain records regarding procurement.

Effect: The Authority is non-compliant with the federal requirements.

Directive: While the Authority did approve a policy at year-end, we direct the Authority to comply with its policy going forward. We further direct the Authority to maintain procurement records in accordance with the federal guidelines.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The Authority will comply with its newly adopted policy going forward and maintain procurement records in accordance with the federal guidelines.

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Single Audit Report Submission

Finding 2017-011

Condition: The Authority's 2016 single audit data collection form and reporting package was not submitted until March 2018; nine months past the required deadline.

Criteria: According to 2 CFR 200.512, "The audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period.

Cause: Neither the Authority or the prior year auditor submitted the information until March 2018.

Effect: The Authority is non-compliant with the federal requirements.

Directive: We direct the Authority to implement procedures to ensure that future reports are submitted by the required date.

Management's Response--Corrective Action Plan: Contact person is Alex Little, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

Now that the new Executive Director is aware of the requirement and the process, a procedure will be put in place and complied with to insure that the Authority is compliant with Federal Requirements.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

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Section IV--Summary Schedule of Prior Audit Findings

Material Weakness

2016-1 – Preparation of Governmental Financial Statements

Condition/Finding: As is the case with many smaller and medium sized entities, the Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Authority's internal controls. In addition, we proposed, and management approved, material journal entries to properly record capital assets, accounts receivable, accounts payable, and revenues.

Current Year Status: This finding will be carried forward to the current year. Management concurs but will correct this condition/finding as described earlier by implementation of the new policies along with additional personnel to improve on the internal controls and the use of an outside accounting firm to assist the accountant in quarterly account reconciliations and production of quarterly statements to be reviewed and accepted by the Executive Director.

2016-2 – Segregation of Incompatible Duties

Condition/Finding: The Authority has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, cash receipting, accounts payable, adjusting journal entries, and payroll.

Current Year Status: This finding will be carried forward to the current year. Management concurs but will correct this condition/finding as described earlier by implementation of the new policies along with additional personnel to improve on the internal controls and the use of an outside accounting firm to assist the accountant in quarterly account reconciliations and production of quarterly statements to be reviewed and accepted by the Executive Director.

2016-3 – Reconciliation of Key Balance Sheet Accounts

Condition/Finding: The Authority has balance sheet accounts that are only reconciled at year end as part of the audit. These areas include accounts payable, accrued wages, accounts receivable, inventory, and due from state and federal agencies. Accordingly, the Authority's ability to prepare financial statements with reconciled balance sheet accounts is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Authority's internal controls.

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Current Year Status: This finding will be carried forward to the current year. Management concurs but will correct this condition/finding as described earlier by implementation of the new policies along with additional personnel to improve on the internal controls and the use of an outside accounting firm to assist the accountant in quarterly account reconciliations and production of quarterly statements to be reviewed and accepted by the Executive Director.