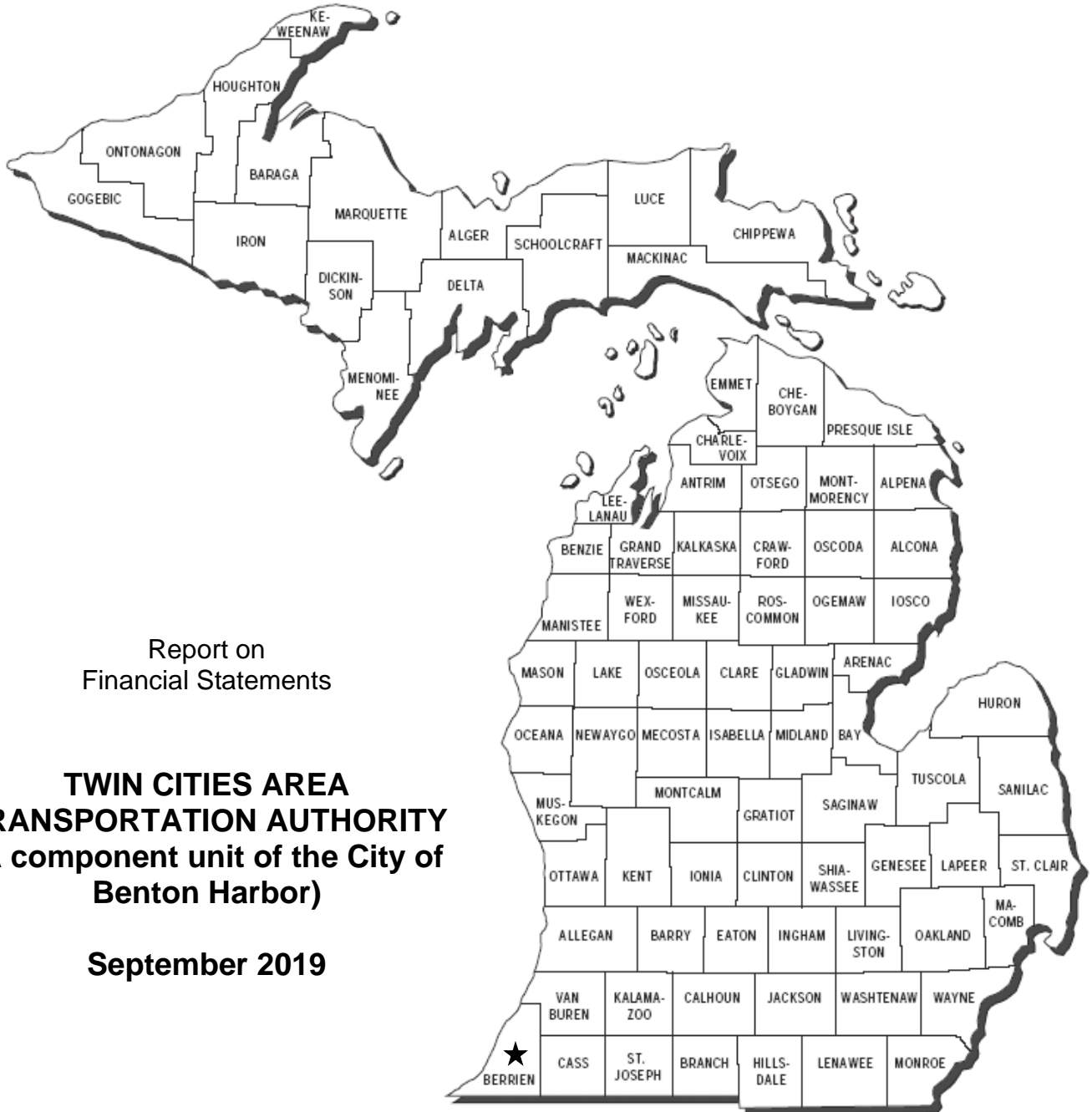


# STATE OF MICHIGAN

Gretchen Whitmer, Governor

## DEPARTMENT OF TREASURY

Rachael Eubanks, State Treasurer



Report on  
Financial Statements

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

**September 2019**

TWIN CITIES AREA TRANSPORTATION AUTHORITY

BOARD OF TRUSTEES

(June 10, 2020)

Anthony Andrews  
Chairman

Emma Kinnard  
Secretary

Juanita Henry  
Trustee

Lisa Varrie  
Trustee

James Childs  
Trustee

Paul Gillespie  
Executive Director

CITY OF BENTON HARBOR POPULATION--2010  
10,038

TAXABLE VALUATION--2018  
\$110,018,936



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

June 10, 2020

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, 2019, 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, 2019, 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.

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 10, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Twin Cities Area Transportation Authority's, a component unit of the City of Benton Harbor, Michigan, 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

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Statement of Net Position.....	6
EXHIBIT B--Statement of Revenues, Expenses and Changes in Net Position.....	7
EXHIBIT C--Statement of Cash Flows .....	8
NOTES TO FINANCIAL STATEMENTS.....	9
<u>SUPPLEMENTARY INFORMATION AND SCHEDULES</u>	
SCHEDULE 1--Local Revenues .....	19
SCHEDULE 2-- Expenditures of Federal and State Awards .....	20
SCHEDULE 3--Operating and Contract Expenses .....	21
SCHEDULE 4R--Operating Assistance Report--Revenues--Regular Service.....	22
SCHEDULE 4E--Operating Assistance Report--Expenses--Regular Service .....	23
SCHEDULE 4N--Operating Assistance Report--Regular Service Non-financial Data--Unaudited .....	24
SCHEDULE 4R--JARC--Operating Assistance Report--Revenues Job Access Reverse Commute .....	25
SCHEDULE 4E--JARC--Operating Assistance Report--Expenses Job Access Reverse Commute .....	26
SCHEDULE 4N--JARC--Operating Assistance Report Job Access Reverse Commute--Non-Financial Data--Unaudited .....	27
SCHEDULE 4R--NF--Operating Assistance Report--Revenues--New Freedom.....	28
SCHEDULE 4E--NF--Operating Assistance Report--Expenses--New Freedom.....	29
SCHEDULE 5S--Operating Assistance Calculation--State.....	30
SCHEDULE 5F--Operating Assistance Calculation--Federal.....	31

TWIN CITIES AREA TRANSPORTATION AUTHORITY

TABLE OF CONTENTS  
(Continued)

	<u>Page</u>
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 <i>Government Auditing Standards</i> .....	32
Report to Those Charged With Governance.....	34
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Federal Uniform Guidance .....	37
Schedule of Expenditures of Federal Awards.....	40
Notes to SEFA.....	41
Schedule of Findings and Questioned Costs.....	42

# TWIN CITIES AREA TRANSPORTATION AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

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, 2019.

### 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.

##### *Other Supplementary Information*

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

#### The Authority as a Whole

The Authority's net position increased from \$1,214,188 to \$1,891,425 for the year ended September 30, 2019. This is a contrast to the previous year when the net position decreased \$287,759. 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, 2019

Table 1  
Net Position of Business-Type Activities

	09/30/18 Business-Type Activities	09/30/19 Business-Type Activities	Variance
Current and Other Assets	\$ 516,499	\$ 574,183	\$ 57,684
Net Capital Assets	<u>805,955</u>	<u>1,438,402</u>	<u>632,447</u>
Total Assets	<u>1,322,454</u>	<u>2,012,585</u>	<u>690,131</u>
Current Liabilities	60,446	70,119	9,673
Noncurrent Liabilities	<u>47,820</u>	<u>51,041</u>	<u>3,221</u>
Total Liabilities	<u>108,266</u>	<u>121,160</u>	<u>12,894</u>
Net Position			
Net Investment in Capital Assets	805,955	1,438,402	632,447
Unrestricted	<u>408,233</u>	<u>453,023</u>	<u>44,790</u>
Total Net Position	<u>\$ 1,214,188</u>	<u>\$ 1,891,425</u>	<u>\$ 677,237</u>

The Authority's business-type activities total net position increased by 56% or \$677,237. Total net investment in capital assets increased \$632,447 due to the purchase of nine buses totaling \$798,972 and the purchase of support vehicles and other equipment totaling \$182,566 offset by the continued depreciation of the Authority's capital assets. The increase in the unrestricted net position of \$44,970 was due and increased amount of federal operating assistance grant funding received.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended September 30, 2019

Table 2  
Changes in Net Position of Business-Type Activities

	2018	2019	Variance
Operating Revenue			
Passenger Fares	\$ 233,215	\$ 245,607	\$ 12,392
Special Transit Fares	9,609	1,620	(7,989)
Auxiliary Transportation Revenues	-	21,222	21,222
Non-operating Revenue			
Local Contributions			
Tax Levy	107,458	102,551	(4,907)
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	757,983	744,334	(13,649)
Job Access Reverse Commute	363,661	378,684	15,023
New Freedom Program--Mobility Management	12,027	4,201	(7,826)
Local Community Stabilization Funds	24,780	28,323	3,543
Federal Operating Grants			
USDOT Operating Grant (Section 5307)	814,000	867,455	53,455
New Freedom Program--Mobility Management	48,110	16,806	(31,304)
State and Federal Grants--Prior Year Adjustments	(116,956)	19,858	136,814
Interest Earned	342	462	120
Other Non-Transit Revenues	24,202	49,668	25,466
Total Revenue	<u>2,278,431</u>	<u>2,480,791</u>	<u>202,360</u>
Operating Expense			
Salaries and Wages	1,699,786	1,659,079	(40,707)
Depreciation	226,964	372,392	145,428
Other	710,010	732,597	22,587
Total Operating Expense	<u>2,636,760</u>	<u>2,764,068</u>	<u>127,308</u>
Income (Loss) Before Capital Contributions	(358,329)	(283,277)	75,052
Capital Contributions			
Federal and State Capital Grants	70,570	976,729	906,159
Income (Loss) Before Extraordinary Items	(287,759)	693,452	981,211
Extraordinary Items			
Misappropriation of Assets	-	(16,215)	(16,215)
Increase (Decrease) in Net Position	<u>(287,759)</u>	<u>677,237</u>	<u>964,996</u>
Ending Net Position	<u>\$ 1,214,188</u>	<u>\$ 1,891,425</u>	<u>\$ 677,237</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

*Business-Type Activities*

The Authority’s business-type activities operating, and non-operating revenues increased by \$202,360 or 9% and capital contribution revenues increased by \$906,159. Expenses increased \$127,308 or 5% as compared with the prior fiscal year. This increase in revenues was due to the change in prior year adjustments and increase in federal operating assistance. The increase in expenses is primarily due to the increased depreciation relating the nine new buses and other equipment purchased this year with capital grant funds which is also the reason for the increase in the capital contributions. The Authority also experienced an extraordinary item this year due to a misappropriation of assets that occurred by the service organization contracted by the Authority to process payroll. The misappropriation did not occur with any of the Authority’s own employees and the Authority changed service organizations shortly after the occurrence.

*Budgetary Highlights*

TCATA’s budgets are being squeezed by a reduction in local match as a result of approximately \$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, 2019, the Transit had \$1,438,402 invested in a broad range of capital assets, including land, buildings, buses and other vehicles, and equipment. This amount represents a net increase (including additions and deductions) of \$632,447.

Table 3  
Capital Assets at Year-End

	9/30/18	9/30/19
Capital Assets Not Being Depreciated		
Land	\$ 80,715	\$ 80,715
Subtotal	<u>80,715</u>	<u>80,715</u>
Capital Assets being Depreciated		
Buildings	1,716,493	1,739,794
Buses	1,675,275	2,017,162
Other Vehicles	126,561	166,067
Equipment	<u>407,379</u>	<u>523,439</u>
Subtotal	3,925,708	4,446,462
Total Capital Assets	4,006,423	4,527,177
Total Accumulated Depreciation	<u>(3,200,468)</u>	<u>(3,088,775)</u>
Total Net Capital Assets	<u>\$ 805,955</u>	<u>\$ 1,438,402</u>

## TWIN CITIES AREA TRANSPORTATION AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

During the year, the Authority purchased nine buses for \$798,972, other vehicles for \$66,506, equipment (plow, hoist, and bus tablets and cameras) for \$116,060, and fencing for \$23,301. More detailed information about the Authority's capital assets is presented in Note E to the financial statements. The Authority received \$976,729 in federal and state grants to assist in the purchasing of these capital assets.

The Authority has plans to continue to replace old equipment purchase further support vehicles using more federal and state grant funds that have already been approved for the Authority.

#### *Debt*

The Authority opened a line of credit for \$250,000. During the year, \$100,000 was used from the line of credit and was then repaid shortly after as the line of credit was closed after the Authority received communications from the State of Michigan that the Authority could not legally use lines of credit.

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

The following factors were considered in preparing the Authority's budget for the 2019-2020 fiscal year:

- Federal operating assistance is anticipated to be 48% of eligible operating expenses for 2020.
- 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 38.1% of eligible expenses to be reimbursed by the Michigan Department of Transportation for the fiscal year ending 2020.

#### 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, 2019

EXHIBIT A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 126,203
Accounts Receivable	2,283
Due From State Government	141,290
Due From Federal Government	245,641
Inventory	9,023
Prepaid Expenses	49,743

Total Current Assets 574,183

Non-Current Assets

Capital Assets--Non-Depreciating	80,715
Capital Assets--Depreciating	1,357,687

Total Non-Current Assets 1,438,402

Total Assets 2,012,585

LIABILITIES

Current Liabilities

Accounts Payable	17,558
Accrued Wages and Fringe Benefits	52,561

Total Current Liabilities 70,119

Long-Term Liabilities

Vested Employee Benefits--Due In One Year	18,583
Vested Employee Benefits--Due In More Than Year	32,458

Total Long-Term Liabilities 51,041

Total Liabilities 121,160

NET POSITION

Net Investment in Capital Assets	1,438,402
Unrestricted	453,023

Total Net Position \$ 1,891,425

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, 2019

EXHIBIT B

Operating Revenue	
Passenger Fares	\$ 245,607
Special Transit Fares	1,620
Auxiliary Transportation Revenues	21,222
	<hr/>
Total Operating Revenue	268,449
	<hr/>
Operating Expense	2,764,068
	<hr/>
Total Operating Expense	2,764,068
	<hr/>
Operating Income (Loss)	(2,495,619)
	<hr/>
Non-Operating Revenue	
Local Contributions	
Tax Levy	102,551
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	744,334
Job Access Reverse Commute	378,684
New Freedom Program--Mobility Management	4,201
Local Community Stabilization Funds	28,323
Federal Operating Grants	
USDOT Operating Grant	867,455
New Freedom Program--Mobility Management	16,806
State and Federal Grants--Prior Year Adjustments	19,858
Interest Earned	462
Other Non-Transit Revenues	49,668
	<hr/>
Total Non-Operating Revenue	2,212,342
	<hr/>
Income (Loss) Before Capital Contributions	(283,277)
	<hr/>
Capital Contributions	
State Capital Grants	195,350
Federal Capital Grants	781,379
	<hr/>
Total Capital Contributions	976,729
	<hr/>
Income (Loss) Before Extraordinary Items	693,452
	<hr/>
Extraordinary Items	
Misappropriation of Assets	(16,215)
	<hr/>
Change in Net Position	677,237
	<hr/>
Total Net Position--October 1, 2018	1,214,188
	<hr/>
Total Net Position--September 30, 2019	\$ 1,891,425
	<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, 2019

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 268,144
Cash Payments to Employees for Services and Benefits	(1,630,019)
Cash Payments to Suppliers for Goods and Services	<u>(773,984)</u>
Net Cash Provided by Operating Activities	<u>(2,135,859)</u>
Cash Flows From Non-Capital Financing Activities	
State Grants	1,157,937
Federal Grants	768,868
State and Federal Grants--Prior Year Adjustments	19,858
Property Tax	102,551
Other Revenue	<u>49,668</u>
Net Cash Provided by Non-Capital Financing Activities	<u>2,098,882</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(1,004,839)
Capital Assets Purchased With State and Federal Grants	<u>809,977</u>
Net Cash Provided From Capital and Related Financing Activities	(194,862)
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>462</u>
Net Cash Provided by Investing Activities	462
Net Increase in Cash and Cash Equivalents	(231,377)
Cash and Cash Equivalents at Beginning of the Year	<u>357,580</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 126,203</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (2,495,619)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Non-Cash Items)	
Depreciation Expense	372,392
(Increase) Decrease in Accounts Receivable	(305)
(Increase) Decrease in Inventory	(4,780)
(Increase) Decrease in Prepaid Expenses	(4,226)
Increase (Decrease) in Accounts Payable	(16,166)
Increase (Decrease) in Other Accrued Liabilities	29,060
Extraordinary Item-Misappropriation of Assets	<u>(16,215)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (2,135,859)</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, 2019

### 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 position.

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, 2019

### 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 fuel 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, 2019

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 \$2,500 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 2018 ad valorem tax was levied and collectible on December 1, 2018. It is the policy of the Authority to recognize revenue from the current tax levy in the 2018/2019 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

The 2018 real and personal taxable valuation of Benton Harbor property amounted to \$110,018,936. Ad valorem taxes of 1.1867 mills were levied for Authority operating purposes and the total amount collected and recognized as revenue was \$102,551.

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, 2019

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 two banks 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.

At year end, the Authority's bank deposits (checking accounts) of \$126,203 are reported in the basic financial statements.

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 \$189,453, of which all is covered by Federal depository insurance. The Authority also maintains \$230 in imprest cash.

NOTE C--DUE FROM FEDERAL GOVERNMENT

The following amount was due at September 30, 2019:

Federal Operating Assistance for Fiscal Year 2018/19	\$ 154,542
Federal Capital Assistance (MI-2019-002-00)	<u>91,099</u>
Total Due From Federal Government	<u><u>\$ 245,641</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2019

NOTE D--DUE FROM STATE GOVERNMENT

The following amount was due at September 30, 2019:

State Operating Assistance for Fiscal Year 2017/18	\$ 14,706
State Operating Assistance for Fiscal Year 2018/19	(14,115)
State Capital Assistance (MI-2019-002-00)	35,779
State Capital Assistance (MI-2017-008-01)	39,874
Job Access Reverse Commute (2017-0133/P7)	<u>65,046</u>
Total Due From State	<u><u>\$ 141,290</u></u>

NOTE E--CAPITAL ASSETS

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

<u>Business-Type Activities</u>	<u>Beginning Balance 10/01/18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 09/30/19</u>
Capital Assets Not Being Depreciated				
Land	\$ 80,715	\$ -	\$ -	\$ 80,715
Subtotal	<u>80,715</u>	<u>-</u>	<u>-</u>	<u>80,715</u>
Capital Assets Being Depreciated				
Building	1,716,493	23,301	-	1,739,794
Buses	1,675,275	825,972	484,085	2,017,162
Other Vehicles	126,561	39,506	-	166,067
Equipment	<u>407,379</u>	<u>116,060</u>	<u>-</u>	<u>523,439</u>
Subtotal	<u>3,925,708</u>	<u>1,004,839</u>	<u>484,085</u>	<u>4,446,462</u>
Less Accumulated Depreciation for				
Building	1,604,209	21,442	-	1,625,651
Buses	1,181,902	288,166	484,085	985,983
Other Vehicles	126,561	-	-	126,561
Equipment	<u>287,796</u>	<u>62,784</u>	<u>-</u>	<u>350,580</u>
Subtotal	<u>3,200,468</u>	<u>372,392</u>	<u>484,085</u>	<u>3,088,775</u>
Net Capital Assets Being Depreciated	<u>725,240</u>	<u>632,447</u>	<u>-</u>	<u>1,357,687</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u><u>\$ 805,955</u></u>	<u><u>\$ 632,447</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,438,402</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2019

NOTE F--LONG-TERM DEBT (LINE OF CREDIT)

The Authority opened a \$250,000 line of credit with a local financial institution and borrowed \$100,000 against the line. The balance was subsequently repaid after the Michigan Department of Treasury determined that the line of credit was not a permissible municipal security under the Revised Municipal Finance Act, Public Act 34 of 2001.

NOTE G--ACCRUED EMPLOYEE BENEFITS

Vacation Leave

Full-time union and non-union employees earn 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.
- 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.

Union employees may accumulate up to one hundred twenty (120) hours of vacation and non-union employees may accumulate up to two hundred forty (240) hours. 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. As of September 30, 2019, the accrued vacation time liability is \$33,697.

Sick Leave

Full-time union and non-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. For union employees, no payment shall be made for unused accumulated sick leave at separation from employment. For non-union employees, no payment shall be made for unused accumulated sick leave at separation from employment except for retirement. Upon retirement from the Authority, the retiring employee shall be paid 10% of remaining sick time per ten years of service. As of September 30, 2019, the accumulated sick time liability is \$17,344.

# TWIN CITIES AREA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS For the Fiscal Year Ended September 30, 2019

### NOTE H--RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Authority participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

### NOTE I--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 2019 amounted to \$92.

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 2019 amounted to \$13,800.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2019

NOTE I--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 2019 amounted to \$23,278.

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 2019 amounted to \$29,841.

NOTE J--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 K--NON-FINANCIAL METHODOLOGY

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. After review, the methodology for the Authority's process appears to be adequate and reliable. Schedule 4N-Regular and 4N-JARC is presented as an "unaudited" schedule and, accordingly, we do not express an opinion on the information.

NOTE L--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.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2019

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.

NOTE N--EXPENSES ASSOCIATED WITH 406 & 407

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

NOTE O--POSTEMPLOYMENT BENEFITS

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

NOTE P--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 Q--CONTINGENT LIABILITY

On August 19, 2019, the Authority was served by the Michigan Department of Licensing and Regulatory Affairs Bureau of Employment Relations Wage and Hour Division, with a claim for unpaid wages and fringe benefits in the amount of \$63,186.06 made by the Authority's former Executive Director whose employment was terminated by the Authority on March 27, 2019. The Authority has responded by denying the claim. The Authority recognizes exposure for \$642.24 and has offered to settle for that amount. An adverse outcome is more than remote but less than probable and, given the inherent uncertainties involved, no further judgment can be offered. The exposure in the event of an adverse outcome is the \$63,186.06 claimed. The claim is still pending administratively before the Wage and Hour Division with no schedule for resolution in place at this time.



TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended September 30, 2019

NOTE Q--EXTRAORDINARY ITEM

The Authority uses a service organization to process its payroll. The service organization electronically withdraws funds from the Authority's bank account to remit payroll liabilities. During the fiscal year, the service organization misappropriated some of these funds. For the fiscal year 2019, the Authority has recorded an extraordinary item labeled as misappropriation of assets in the Operating Fund of \$16,215. None of these funds are expected to be recovered as the service organization filed for bankruptcy shortly after the incidences occurred.

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
LOCAL REVENUES  
For the Fiscal Year Ended September 30, 2019

SCHEDULE 1

LOCAL REVENUES

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Line Haul - Farebox (Urban - Small)	\$ 24,070
Demand Response - Farebox (Urban - Small)	194,743
Line Haul - Farebox (JARC)	26,794
Advertising	11,850
Other Auxillary Trans Revenues	9,372
Other Non-Transit Revenues	49,668
Taxes Levied Directly for/by Transit Agency	102,551
Interest Income	<u>462</u>
Total Local Revenues	<u><u>\$ 419,510</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
EXPENDITURES OF FEDERAL AND STATE AWARDS  
For the Fiscal Year Ended September 30, 2019

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 5307	20.507	MI-2017-008-01	\$ 433,859	\$ 424,858	\$ 339,887	\$ 84,971	\$ -	\$ 9,001
Capital Assistance--Section 5339	20.526	MI-2017-008-01	85,498	85,498	68,398	17,100	-	-
Capital Assistance--Section 5307	20.507	MI-2017-006	287,500	287,500	230,000	57,500	-	-
Capital Assistance--Section 5307	20.507	MI-2019-002-00	412,000	78,612	62,890	15,722	-	333,388
Capital Assistance--Section 5339	20.526	MI-2019-002-00	176,940	100,261	80,204	20,057	-	76,679
Operating Assistance--Section 5307	20.507	MI-2019-002-01	1,116,500	867,455	867,455	-	-	249,045
			<u>2,512,297</u>	<u>1,844,184</u>	<u>1,648,834</u>	<u>195,350</u>	<u>-</u>	<u>668,113</u>
US Department of Transportation								
Passed through Michigan Department of Transportation								
New Freedom Program--Section 5317	20.513	MI-2018-033	75,000	21,007	16,806	4,201	-	53,993
Job Access Reverse Commute	N/A	2017-0133/P7	386,040	378,684	-	378,684	-	7,356
Operating Assistance--Act 51	N/A	N/A	744,334	744,334	-	744,334	-	-
			<u>1,205,374</u>	<u>1,144,025</u>	<u>16,806</u>	<u>1,127,219</u>	<u>-</u>	<u>61,349</u>
Total Department of Transportation			<u>\$ 3,717,671</u>	<u>\$ 2,988,209</u>	<u>\$ 1,665,640</u>	<u>\$ 1,322,569</u>	<u>\$ -</u>	<u>\$ 729,462</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
 OPERATING AND CONTRACT EXPENSES  
 For the Fiscal Year Ended September 30, 2019

SCHEDULE 3

<u>Expenses</u>	<u>Non-urban State Operating FY 2019*</u>	<u>Non-urban Operating JARC</u>	<u>New Freedom</u>	<u>Total</u>
Labor	\$ 930,947	\$ 193,885	\$ 21,007	\$ 1,145,839
Fringe Benefits	426,476	86,764	-	513,240
Services	250,699	52,965	-	303,664
Materials and Supplies	233,174	48,224	-	281,398
Utilities	25,399	5,322	-	30,721
Casualty and Liability Costs	77,576	14,268	-	91,844
Taxes and Fees	410	466	-	876
Miscellaneous	11,239	2,322	-	13,561
Interest	2,978	173	-	3,151
Leases and Rentals	6,293	1,089	-	7,382
Depreciation	372,392	-	-	372,392
Misappropriation of Assets	16,215	-	-	16,215
<b>Total Expenses</b>	<b><u>\$ 2,353,798</u></b>	<b><u>\$ 405,478</u></b>	<b><u>\$ 21,007</u></b>	<b><u>\$ 2,780,283</u></b>

\*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, 2019

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	\$ 24,070	\$ 194,743	\$ 218,813
402:	Contract Fares			
40203	Contract Fares	-	1,620	1,620
406:	Auxiliary Trans Revenues			
40615	Advertising	-	11,850	11,850
40699	Other Auxillary Trans Revenues	-	9,372	9,372
408:	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	102,551	-	102,551
411:	State Formula and Contracts			
41101	State Operating Assistance	97,525	646,809	744,334
41110	Line-Item Municipal Credit (Prior Year Adjustments)	-	19,858	19,858
41199	Local Community Stabilization Funds	28,323	-	28,323
413:	Federal Contracts			
41302	Federal Section 5307	4,480	862,975	867,455
414:	Other Revenue			
41400	Interest Income	-	462	462
440:	Non-Transit Revenues			
44000	Other Non-Transit Revenue (Refunds)	-	49,668	49,668
TOTAL REVENUES		<u>\$ 256,949</u>	<u>\$ 1,797,357</u>	<u>\$ 2,054,306</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	\$ 52,439	\$ 479,023	\$ -	\$ -	\$ -	\$ -	\$ 531,462
50102	Other Salaries and Wages	11,747	94,943	10,945	74,905	24,008	95,671	312,219
50103	Dispatchers' Salaries and Wages	-	87,266	-	-	-	-	87,266
502:	Fringe Benefits							
50200	Other Salaries and Wages	33,717	284,694	3,453	23,098	13,538	67,976	426,476
503:	Services							
50302	Advertising Fees	-	-	-	-	1,082	5,370	6,452
50305	Audit Cost	-	-	-	-	1,515	7,995	9,510
50399	Other Services	3,040	23,675	14,367	100,052	14,897	78,706	234,737
504:	Materials and Supplies							
50401	Fuel and Lubricants	46,676	95,519	320	2,199	209	1,118	146,041
50402	Tires and Tubes	337	2,676	-	-	-	-	3,013
50499	Other Materials and Supplies	1,125	9,045	6,970	53,746	1,886	11,348	84,120
505:	Utilities							
50500	Utilities	125	994	2,643	18,058	565	3,014	25,399
506:	Insurance							
50603	Liability Insurance	6,783	62,707	-	-	1,257	6,829	77,576
507:	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	346	64	410
509:	Miscellaneous Expenses							
50902	Travel, Meetings and Training	595	5,351	95	650	493	1,964	9,148
50903	Association Dues and Subscriptions	-	-	-	-	121	809	930
50999	Other Miscellaneous Expenses	42	334	30	207	85	463	1,161
511:	Interest Expense							
51102	Interest on Short-Term Debt	91	2,887	-	-	-	-	2,978
512:	Operating Leases and Rentals							
51200	Operating Leases and Rentals	383	4,668	118	818	132	174	6,293
513:	Depreciation							
51300	Depreciation	-	353,559	-	2,929	-	15,904	372,392
N/A								
N/A	Misappropriation of Assets	-	-	-	-	-	16,215	16,215
TOTAL EXPENSES		157,100	1,507,341	38,941	276,662	60,134	313,620	2,353,798
540:	Ineligible Expenses							
54000	Ineligible Prior Year Refunds and Credits	-	-	-	-	-	49,668	49,668
550:	Ineligible Expenses							
55007	Ineligible Depreciation	-	330,890	-	2,929	-	14,968	348,787
TOTAL INELIGIBLE EXPENSES		-	330,890	-	2,929	-	64,636	398,455
TOTAL ELIGIBLE EXPENSES		\$ 157,100	\$ 1,176,451	\$ 38,941	\$ 273,733	\$ 60,134	\$ 248,984	\$ 1,955,343

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>Sunday Line Haul</u>	<u>Sunday Demand Response</u>	<u>TOTAL</u>
<u>Public Service</u>								
610	Vehicle Hours	4,716	340,981	468	3,380	-	-	349,545
611	Vehicle Miles*	65,081	340,981	6,458	23,500	-	-	436,020
615	Unlinked Passenger Trips--Regular	15,168	81,684	1,777	8,202	-	-	106,831
616	Unlinked Passenger Trips--Elderly	5,845	25,290	503	2,038	-	-	33,676
617	Unlinked Passenger Trips--Persons w/Disabilities	11,248	42,049	1,182	4,157	-	-	58,636
618	Unlinked Passenger Trips--Elderly Persons w/Disabilities	-	5,351	11	502	-	-	5,864
621	Total Line-Haul Unlinked Passenger Trips	32,261	13,854	3,473	2,082	-	-	51,670
622	Total Demand-Response Unlinked Passenger Trips	-	140,520	-	12,817	-	-	153,337
625	Days Operated	262	262	51	51	-	-	626
<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	26						
656	Demand-Response Vehicles w/Lifts	24						
658	Total Transit Vehicles	28						
<u>Miscellaneous Information</u>		<u>Quantity LH</u>	<u>Quantity DR</u>					
601	Number of Routes (Line Haul Only)	2	2					
602	Total Route Miles (Line Haul Only)	28	30					
659	LPG or CNG Gallons Equivalent Consumed	5,745	24,349					
660	Diesel/Gasoline Gallons Consumed	11,572	48,662					
661	Total Transit Agency Employees	18	37					
662	Total Revenue Vehicle Operators	2	21					
803	Injuries	2	5					

\*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, 2019

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	\$ 26,794	\$ -	\$ 26,794
411:	State Formula and Contracts			
41199	Other MDOT Contracts--Job Access Reverse Commute	378,684	-	378,684
TOTAL REVENUES		<u>\$ 405,478</u>	<u>\$ -</u>	<u>\$ 405,478</u>



TWIN CITIES AREA TRANSPORTATION AUTHORITY  
 OPERATING ASSISTANCE REPORT--  
 EXPENSES--JOB ACCESS REVERSE COMMUTE  
 For the Fiscal Year Ended September 30, 2019

SCHEDULE 4E-JARC

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	\$ 109,237	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,237
50102	Other Salaries and Wages	21,833	-	17,803	-	31,303	-	70,939
50103	Dispatchers' Salaries and Wages	13,709	-	-	-	-	-	13,709
502:	Fringe Benefits							
50200	Other Salaries and Wages	63,245	-	5,562	-	17,957	-	86,764
503:	Services							
50302	Advertising Fees	-	-	-	-	1,475	-	1,475
50305	Audit Cost	-	-	-	-	2,105	-	2,105
50399	Other Services	5,921	-	23,806	-	19,658	-	49,385
504:	Materials and Supplies							
50401	Fuel and Lubricants	30,608	-	513	-	277	-	31,398
50402	Tires and Tubes	670	-	-	-	-	-	670
50499	Other Materials and Supplies	2,137	-	11,536	-	2,483	-	16,156
505:	Utilities							
50500	Utilities	242	-	4,330	-	750	-	5,322
506:	Insurance							
50603	Liability Insurance	12,598	-	-	-	1,670	-	14,268
507:	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	466	-	466
509:	Miscellaneous Expenses							
50902	Travel, Meetings and Training	1,198	-	156	-	688	-	2,042
50999	Other Miscellaneous Expenses	83	-	47	-	150	-	280
511:	Interest Expense							
51102	Interest on Short-Term Debt	173	-	-	-	-	-	173
512:	Operating Leases and Rentals							
51200	Operating Leases and Rentals	726	-	186	-	177	-	1,089
TOTAL EXPENSES		262,380	-	63,939	-	79,159	-	405,478
550:	Ineligible Expenses							
55000	Ineligible Job Access Reverse Commute Fares	-	-	-	-	26,794	-	26,794
TOTAL INELIGIBLE EXPENSES		-	-	-	-	26,794	-	26,794
TOTAL ELIGIBLE EXPENSES		\$ 262,380	\$ -	\$ 63,939	\$ -	\$ 52,365	\$ -	\$ 378,684

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
 OPERATING ASSISTANCE REPORT--JOB ACCESS REVERSE COMMUTE  
 NON-FINANCIAL DATA--UNAUDITED  
 For the Fiscal Year Ended September 30, 2019

SCHEDULE 4N-JARC

NON-FINANCIAL SCHEDULE REPORT

<u>CODE</u>	<u>DESCRIPTION</u>	Weekday	Weekday	Saturday	Saturday	Sunday	Sunday	<u>TOTAL</u>
		Line Haul	Demand Response	Line Haul	Demand Response	Line Haul	Demand Response	
<u>Public Service</u>								
610	Vehicle Hours	8,534	-	969	-	-	-	9,503
611	Vehicle Miles*	128,813	-	17,799	-	-	-	146,612
615	Unlinked Passenger Trips--Regular	15,601	-	2,424	-	-	-	18,025
616	Unlinked Passenger Trips--Elderly	4,008	-	627	-	-	-	4,635
617	Unlinked Passenger Trips--Persons w/Disabilities	5,161	-	854	-	-	-	6,015
621	Total Line-Haul Unlinked Passenger Trips	91	-	36	-	-	-	127
622	Total Demand-Response Unlinked Passenger Trips	24,861	-	3,941	-	-	-	28,802
625	Days Operated	194	-	39	-	-	-	233
<u>Vehicle Information</u>		<u>Quantity</u>						
653	Total Line-Haul Vehicles	5						
654	Line-Haul Vehicles w/Lifts	5						
658	Total Transit Vehicles	5						
<u>Miscellaneous Information</u>		<u>Quantity LH</u>	<u>Quantity DR</u>					
601	Number of Routes (Line Haul Only)	2	-					
602	Total Route Miles (Line Haul Only)	30						
659	LPG or CNG Gallons Equivalent Consumed	12,025						
660	Diesel/Gasoline Gallons Consumed	36,632						
661	Total Transit Agency Employees	18						
662	Total Revenue Vehicle Operators	2						
801	Property Damage Only Accident w/damage equal to or greater than \$1,000 but less than \$25,000	7						

\*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	-	4,201	4,201
413:	Federal Contracts			
41399	Other MDOT Contracts--New Freedom Program	-	16,806	16,806
TOTAL REVENUES		\$ -	\$ 21,007	\$ 21,007

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
OPERATING ASSISTANCE REPORT--EXPENSES--NEW FREEDOM  
For the Fiscal Year Ended September 30, 2019

SCHEDULE 4E-NF

EXPENSE SCHEDULE REPORT

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<u>CODE</u>	<u>DESCRIPTION</u>	<u>TOTAL</u>
501:	Labor	
50101	Operators' Salaries and Wages	\$ 21,007
TOTAL EXPENSES		<u>\$ 21,007</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
 OPERATING ASSISTANCE CALCULATION--STATE  
 For the Fiscal Year Ended September 30, 2019

SCHEDULE 5S

	<u>Non-Urban</u>
Total Operating Expenses	<u>\$ 2,780,283</u>
Less: Ineligible Expenses	
Depreciation	348,787
Ineligible Prior Year Refunds and Credits	49,668
Other Revenue-JARC Fares	26,794
Line Haul Funded by Other State and Federal Grants	<u>399,691</u>
Total Ineligible Expenses Per R&E Manual	<u>\$ 824,940</u>
Total State Eligible Expenses	<u>\$ 1,955,343</u>
Eligible Expenses for State Reimbursement	\$ 1,955,343
Reimbursement Percentage	<u>38.0667%</u>
State Operating Assistance	<u>\$ 744,335</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY  
 OPERATING ASSISTANCE CALCULATION--FEDERAL  
 For the Fiscal Year Ended September 30, 2019

SCHEDULE 5F

	<u>Urban</u>
Total Operating Expenses	\$ 2,780,283
Less: Ineligible Expenses	
Depreciation	\$ 348,787
Ineligible Prior Year Refunds and Credits	49,668
Other Revenue-JARC Fares	26,794
Job Access Reverse Commute Program	378,684
New Freedom Program	<u>21,007</u>
Total Ineligible Expenses According to R&E Manual	<u>824,940</u>
Total Federal Eligible Expenses	<u>1,955,343</u>
Less Farebox and Other Revenues	
Farebox	<u>(220,433)</u>
Total Farebox and Other Revenues	<u>(220,433)</u>
Net Project Cost	<u>1,734,910</u>
Maximum Amount of Reimbursement (Net Project Cost x 50%)	<u>867,455</u>
FTA Fund Available	<u>1,116,500</u>
FTA Funds Requested	<u><u>\$ 867,455</u></u>



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

June 10, 2020

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, 2019, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 10, 2020.

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 2019-001 through 2019-004 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 2019-005 and 2019-006.

#### 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

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

June 10, 2020

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, 2019, and have issued our report thereon dated June 10, 2020. 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 22, 2019, 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 March 2, 2020, 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. 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 10, 2020.

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

GRETCHEN WHITMER  
GOVERNOR

RACHAEL EUBANKS  
STATE TREASURER

June 10, 2020

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, 2019. 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, 2019.

#### 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 one instance of non-compliance related to federal programs that is required to be reported under *Government Auditing Standards* as Finding 2019-006.

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 on the page.

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, 2019

<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				
Transit Cluster				
Capital Assistance--Section 5307	20.507	MI-2017-008-01	\$ 339,887	\$ -
Capital Assistance--Section 5307	20.507	MI-2017-006	230,000	-
Capital Assistance--Section 5307	20.507	MI-2019-002-00	62,890	-
Capital Assistance--Section 5339	20.526	MI-2017-008-01	68,398	-
Capital Assistance--Section 5339	20.526	MI-2019-002-00	80,204	-
Operating Assistance--Section 5307	20.507	MI-2018-005-00	867,455	-
Passed through Michigan Department of Transportation				
New Freedom Program--Section 5317	20.513	MI-2018-033	<u>16,806</u>	<u>-</u>
TOTAL US DEPARTMENT OF TRANSPORTATION			<u>\$ 1,665,640</u>	<u>\$ -</u>

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, 2019

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, 2019. 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 \$867,455 was recognized based on the contract limit.



TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2019

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 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, 2019

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 2019-001*

*Condition:* 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, footnotes, and Schedule of Expenses for Federal Awards 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.

*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, 2019

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 Paul Gillespie, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

The Management of the Authority recognizes that significant issues existed in the practices of the agency that were identified by the audit and is committed to taking the necessary steps to rectifying and improving our performance. Both the Executive Director and the Accountant for the agency who were in place at the beginning of fiscal year 2019 have been removed and replaced in the past year. Financial roles and responsibilities have now been taken over by the newly appointed Executive Director, the new formed position of Grant Manager, newly hired Accountant, and Office Manager. A retired Executive Director has been retained as a Consultant. The Grant Manager, Accountant, and Consultant all have accounting backgrounds and training. Management also will consider and ask the Board to consider whether an outside independent accountant should be engaged to review financial records prior to our annual audit, whether on an annual, bi-annual, or quarterly basis. We believe this new management structure will allow us to prepare financial statements in accordance with GAAP; and will recommend outside consultants to assist if necessary. We will recommend to the Board to designate a responsible authority to review and approve all statements.

Segregation of Incompatible Duties (Repeat Comment)

*Finding 2019-002*

*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.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

MATERIAL WEAKNESS (continued)

*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 Paul Gillespie, Executive Director, 275 East Wall Street, P.O. Box 837, Benton Harbor, Michigan 49023. Telephone (269) 927-2268.

As stated in the previous finding, the Authority has created and hired a Grant Manager who will work in coordination with the Accountant and Executive Director to provide a better segregation of duties and oversight in its internal financial control structure.

Reconciliation of Key Balance Sheet Accounts (Repeat Comment)

*Finding 2019-003*

*Condition:* The Authority has balance sheet accounts that are only reconciled at year end as part of the audit. These areas include cash, due from state and federal agencies regarding the operating and capital assistance grants, prepaid expenses, capital asset accounts and related accumulated depreciation accounts, payroll withholding accounts, advances from state accounts, and vested employee benefit liabilities. 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 all balance sheet accounts to subsidiary reports. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

MATERIAL WEAKNESS (continued)

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

The Grant Manager of the Authority will assume the role of second responsible person in the monitoring and reconciling of financial data within the accounting function. We also will consider the hiring of an independent consultant to review the key balance sheet accounts prior to our annual audit

Capital Assets (Repeat Comment)

*Finding 2019-004*

*Condition:* The Authority does not maintain adequate internal controls for capital assets and a capital asset listing provided did not reconcile with the Authority's general ledger.

*Criteria:* It is the responsibility of the Authority to update the capital assets listing for additions and deletions. Additions and deletions should also reconcile to the Authority's general ledger. Depreciation should also be recorded in the general ledger based on the capital asset schedule.

*Effect:* The Authority cannot readily determine or value the assets owned. The depreciation expense recorded was understated, understating the expenses and overstating the value of the Authority's capital assets.

*Recommendation:* We recommend that the Authority implement procedures to record the assets and depreciation expense as listed above.

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

A result of the audit process was an updated capital assets file. This was greatly appreciated and will be maintained and updated regularly by the Grant Manager with input from the Office Manager and Accountant and oversight by the Executive Director.

NON-COMPLIANCE WITH STATE STATUTES

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

Line of Credit

*Finding 2019-005*

*Condition:* The Authority obtained a \$250,000 line of credit from a local financial institution. During the fiscal year, the Authority borrowed \$100,000 from the line of credit.

## TWIN CITIES AREA TRANSPORTATION AUTHORITY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

*Criteria:* The Authority is subject to the Revised Municipal Finance Act, Public Act 34 of 2001 (the “Finance Act”). The Finance Act allows for other types of municipal securities, but not lines of credit. Furthermore, any issuance under the Finance Act would require either qualified status under Section 303(3) or the prior written approval from the Department of Treasury under Section 303(7). After issuance, a security report shall be submitted as required by Section 319. In this instance, the Authority had neither qualified status or the prior written approval from the Department of Treasury and did not submit a security report.

*Cause:* On March 12, 2018, the Authority received a legal opinion from Straub, Seaman & Allen, P.C. This opinion cited the Transportation Act, Section 4, as giving the Authority the authorization to borrow money. While Section 4 provides general authorization to carry out the Authority’s functions, the Finance Act is unambiguous that all municipal securities issued must be issued pursuant to its requirements.

*Effect:* The Michigan Department of Treasury determined the Authority’s line of credit to be an unauthorized municipal security. The Authority was notified by written communication from Treasury that it should immediately repay any outstanding monies drawn upon the line of credit. After repayment, the line of credit must be closed.

*Directive:* After receiving the written communication from the Michigan Department of Treasury, the Authority repaid the outstanding balance and closed the line of credit. If future municipal securities are required by the Authority, we direct the Authority to comply with the requirements of the Finance Act.

*Management’s Response--Corrective Action Plan:* The Authority has no intention of opening any future lines of credit and recognizes that it is an unauthorized municipal security. We have repaid and closed the account in reference.

### Section III—Federal Award Findings and Questioned Costs

#### Procurement and Suspension and Debarment

*Finding 2019-006*

*Condition:* During the fiscal year, the Authority purchased six capital assets using Federal Section 5307 and Section 5309 funding. For the six capital assets purchased, all qualify as “small purchases” per the Code of Federal Regulations (CFR). The Authority did not verify that the six vendors used were not on the debarment list. For five of the assets purchased, the Authority maintained no procurement documentation which is noncompliant with Federal requirements. By not performing the procurement procedures and maintaining related documentation, the Authority is also not complying with its own Procurement Policy.

*Criteria:* The CFR and the Authority’s procurement policy states the following.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

CFR 200.318(a) - The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part. The Authority has approved a Procurement Policy, however; it is not following its own policy as further demonstrated below.

CFR 200.318(i) - 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.

The Authority's Procurement Policy, Procurement Requests Section IV (page 5) – "TCATA will maintain sufficient records to detail the history of a procurement. Such records shall include the method of procurement, section of contract type, contractor selection (or rejection), and the contract price."

CFR 200.319(a) - All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section.

CFR 200.320 - The non-Federal entity must use one of the following methods of procurement.

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

The Authority's Procurement Policy, Method of Procurement Section I and II (page 8) – "Small Purchase Procurement – for supplies, materials, and services which shall not cost more than \$100,000 in the aggregate. Such procurement shall be made in the following manner:

- (a) A minimum of two price or rate quotations shall be obtained from qualified sources;
- (b) The procurement will be made from the lowest priced qualified quote, if products are good and equal;
- (c) If a procurement is established as a DEB set aside, a minimum of three price or rate quotations shall be obtained from qualified DBE sources. In addition, one price quote from a non-DBE firm shall be obtained to ensure that competitive prices are secured. The procurement will be made from the lowest priced DBE quotations unless the non-DBE firm is substantially lower. In such a case, FTA will be advised of the price quotes with a request for release of the DBE "set-aside" and to procure from non-DBE firms.
- (d) MDOT requirements for procurements under \$25,000, include Procurement Appendix A, B, E, F, G, H, or I and Vehicle Specification certification if applies.
- (e) MDOT requirements for procurements over \$25,000, solicitations, including specifications and written selection procedures (lowest bids), include Procurement Appendix A, F, G, H, or I and Vehicle Specification certification if applies. Third Party Contract with applicable clauses and bond documents must be included."

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

CFR 200.205 – Review of OMB-designated repositories of governmentwide data.

(1) Prior to making a Federal award, the Federal awarding agency is required by 31 U.S.C. 3321 and 41 U.S.C. 2313 note to review information available through any OMB-designated repositories of governmentwide eligibility qualification or financial integrity information as appropriate. See also suspension and debarment requirements at 2 CFR part 180 as well as individual Federal agency suspension and debarment regulations in title 2 of the Code of Federal Regulations.

(2) In accordance 41 U.S.C. 2313, the Federal awarding agency is required to review the non-public segment of the OMB-designated integrity and performance system accessible through SAM (currently the Federal Awardee Performance and Integrity Information System (FAPIIS)) prior to making a Federal award where the Federal share is expected to exceed the simplified acquisition threshold, defined in 41 U.S.C. 134, over the period of performance. At a minimum, the information in the system for a prior Federal award recipient must demonstrate a satisfactory record of executing programs or activities under Federal grants, cooperative agreements, or procurement awards; and integrity and business ethics.

The Authority's Procurement Policy, Debarment and Suspension (page 6) – “To see if a prospective contractor is eligible we will look on the website [www.SAM.gov](http://www.SAM.gov) when the bid has been received.

*Cause:* While the Authority has established a written policy for procurement procedures, the Authority is not consistently following its own policy and has established no oversight to ensure the policy is followed.

*Effect:* The Authority has violated its own policy and Federal regulations.

*Directive:* We direct the Authority to comply with its own policy when purchasing capital assets with Federal funds. We further direct the Authority to establish additional procedures to ensure oversight of the procedures and compliance with the Authority's directives and Federal regulations.

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

The Authority's management acknowledges that prior procurements in fiscal year 2019 have not adhered to established and approved procurement policy. The Authority is committed to making sure that new employees like the Executive Director and Grant Manager familiarize themselves with and adhere to existing procurement policies. Going forward, all procurements will have their own file that will hold all relevant materials related to the procurement. Procurements will be identified by type and the appropriate checklists will be followed. Working together at every step



TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

of each procurement, the Executive Director and Grant Manager will follow agency and federal guidelines to ensure fair and compliant procurements.

Section IV--Summary Schedule of Prior Audit Findings

Material Weakness

2018-001 – 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.

2018-002 – 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.

2018-003 – 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.

*Current Year Status:* This finding will be carried forward to the current year.

2018-004 – Preparation of the Operating Assistance Report

Condition/Finding: 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).

TWIN CITIES AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2019

*Current Year Status:* This finding will be deleted.

2018-005 - Capital Assets

*Condition/Finding:* The Authority does not maintain adequate internal controls for capital assets and a capital asset listing provided did not reconcile with the Authority's general ledger.

*Current Year Status:* This finding will be carried forward to the current year.

2018-006 – Minutes

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

*Current Year Status:* This finding will be deleted as minutes were prepared for all meetings.