

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
BERRIEN COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
<hr/>	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Financial Statements	13
SUPPLEMENTAL INFORMATION	
<hr/>	
Local Revenues	22
Operating and Contract Expenses	23
Operating Assistance Report - Revenues - Regular Service	24
Operating Assistance Report - Expenses - Regular Service	25
Operating Assistance Report - Regular Service - Nonfinancial Data - Unaudited	26
Operating Assistance Schedule - State	27
Operating Assistance Schedule - Federal	28
SINGLE AUDIT ACT COMPLIANCE	
<hr/>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Report on Compliance With Requirements Applicable to Each Major Program and in Internal Control over Compliance in Accordance with OMB Circular A-133	32
Schedule of Expenditures of Federal Awards	34
Notes to the Schedule of Expenditures of Federal Awards	35
Schedule of Findings & Questioned Costs	36

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Twin Cities Area Transportation Authority
Benton Harbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Twin Cities Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the business-type activities of the Twin Cities Area Transportation Authority, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows 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, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Twin Cities Area Transportation Authority's basic financial statements. The supplemental information on pages 22 - 28 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplemental information on pages 22 - 28, except for page 26, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information on pages 22 - 28, except for page 26, 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.

The supplemental information on page 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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.

A handwritten signature in cursive script that reads "Galbridge & Company". The signature is written in dark ink and is positioned above the typed address and date.

Grand Rapids, Michigan
March 26, 2015

Management's Discussion and Analysis

As management of the Twin Cities Area Transportation Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of this fiscal year by \$1,634,562 (shown as *net position*), representing a decrease of \$11,996 over the previous fiscal year. Of this amount, \$669,501 (unrestricted net position) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the year, the Authority received \$2,601,511 in revenues and incurred \$2,613,507 in expenses, resulting in a decrease in net position of approximately \$11,996.
- The Authority remained free of long-term debt during the year.
- Federal reimbursement of eligible expenses increased by \$79,450 from the previous year.
- State reimbursement of eligible expenses increased to 39.30% (from 38.49%).

Overview of the Financial Statements

The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *statement of net position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The *statement of revenues, expenses and changes in net position* presents information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a complete understanding of the information provided in the financial statements.

Other Information

Other supplementary information includes financial and statistical schedules that are required to be included by the Michigan Department of Transportation.

Financial Analysis of the Authority

For the year ended September 30, 2014, assets exceeded liabilities by \$1,634,562. The Authority is a capital-intensive enterprise, and approximately 61% of the net position is invested in capital assets. The following tables reflect a comparative analysis of the Authority's net position:

Twin Cities Area Transportation Authority Net Position as of September 30, 2014 and September 30, 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
<i>Current Assets</i>		
Cash & Cash Equivalents	\$ 236,555	\$ 452,354
Accounts Receivable	13,590	13,063
Due from Primary Government	-	25,000
Due from State	201,138	69,402
Due from Federal Government	278,222	16,650
Inventory	8,492	38,142
Prepaid Expenses	41,486	75,530
<i>Total Current Assets</i>	<u>779,483</u>	<u>690,141</u>
<i>Noncurrent Assets</i>		
Capital Assets, net	965,061	1,007,317
<i>Total Assets</i>	<u>1,744,544</u>	<u>1,697,458</u>
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	57,499	37,699
Accrued Wages and Fringe Benefits	52,483	13,201
<i>Total Current Liabilities</i>	<u>109,982</u>	<u>50,900</u>
NET POSITION		
Net Investment in Capital Assets	965,061	1,007,317
Unrestricted	669,501	639,241
<i>Total Net Position</i>	<u>\$ 1,634,562</u>	<u>\$ 1,646,558</u>

Cash and cash equivalents declined from \$452,354 as of 9/30/13 to \$236,555 as of 9/30/14. This is a result of the state and federal operating grants being collected just after the end the fiscal year. Accordingly, state and federal grants receivable show an increase from \$69,402 and \$16,650 as of 9/30/13, respectively, to \$201,138 and \$278,222 as of 9/30/14.

The Authority's net position decreased by \$11,996 during the year. The following table shows a comparative analysis of revenues, expenses and changes in net position summarizing how the decrease in net position occurred:

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Passenger Fares	\$ 276,087	\$ 321,124
Special Transit Fares	20,770	20,505
Auxiliary Transportation Revenues	6,384	4,436
<i>Total Operating Revenues</i>	<u>303,241</u>	<u>346,065</u>
Nonoperating Revenues		
Local Contributions	113,805	106,323
State Operating Grants	1,011,735	954,819
Federal Operating Grants	948,232	895,115
Interest Earned	694	247
Other Non-transit Revenues	4,792	23,153
Gain on Sale of Capital Assets	7,799	-
<i>Total Nonoperating Revenues</i>	<u>2,087,057</u>	<u>1,979,657</u>
Total Revenues	<u>2,390,298</u>	<u>2,325,722</u>
Operating Expenses		
Salaries and Wages	1,507,254	1,478,040
Depreciation	270,868	193,477
Other	835,385	845,960
<i>Total Operating Expenses</i>	<u>2,613,507</u>	<u>2,517,477</u>
Capital Contributions		
State Capital Grant	42,242	69,700
Federal Capital Grant	168,971	278,000
<i>Total Capital Contributions</i>	<u>211,213</u>	<u>347,700</u>
<i>Change in Net Position</i>	<u>(11,996)</u>	<u>155,945</u>
<i>Net Position at Beginning of Period</i>	<u>1,646,558</u>	<u>1,490,613</u>
<i>Net Position at End of Period</i>	<u>\$ 1,634,562</u>	<u>\$ 1,646,558</u>

Passenger fares decreased from \$321,124 for the year ended 9/30/13 to \$276,087 for the year ended 9/30/14 for a couple of reasons. First, line-haul ridership has increased significantly which actually decreased the charges per ride by \$1-2 per trip. This is an important program for the community but does decrease the overall passenger fares collected per rider. Also, many local agencies have declining revenue sources and, accordingly, purchases of tokens from these agencies for ridership have declined.

Capital Asset and Debt Administration

Capital Assets The Authority's investment in capital assets for the governmental activities at year end amounted to \$965,061 (net of accumulated depreciation). This amount complies with

methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB Statement 34. More information on the Authority's capital assets is available in the Notes to the Financial Statements section of this document. Major capital asset acquisitions during the year ended September 30, 2014 included three busses, administrative vehicle, and a bus shelter in the amount of \$228,612.

Long-term Debt At the end of the current fiscal year, the Authority had no long-term debt outstanding.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2014-2015 fiscal year:

- 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 36.34% of eligible expenses to be reimbursed by the Michigan Department of Transportation for the fiscal year ending 2015.

Requests for Information

This financial report is designed to provide the wide variety of users of this document with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to:

Twin Cities Area Transportation Authority
275 East Wall Street
PO Box 837
Benton Harbor, Michigan 49023.

BASIC FINANCIAL STATEMENTS

Twin Cities Area Transportation Authority
Statement of Net Position
September 30, 2014

ASSETS

Current Assets

Cash and Cash Equivalents	\$	236,555
Accounts Receivable		13,590
Due from State		201,138
Due from Federal Government		278,222
Inventory		8,492
Prepaid Expenses		41,486
<i>Total Current Assets</i>		779,483

Noncurrent Assets

Capital Assets - Nondepreciating		62,700
Capital Assets - Depreciating		902,361
<i>Total Assets</i>		1,744,544

LIABILITIES

Current Liabilities

Accounts Payable		57,499
Accrued Wages and Fringe Benefits		52,483
<i>Total Current Liabilities</i>		109,982

Noncurrent Liabilities

<i>Total Liabilities</i>		109,982
---------------------------------	--	----------------

NET POSITION

Net Investment in Capital Assets		965,061
<i>Unrestricted</i>		669,501
<i>Total Net Position</i>	\$	1,634,562

The Notes to the Financial Statements are an integral part of these Financial Statements

Twin Cities Area Transportation Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2014

Operating Revenues	
Passenger Fares	\$ 276,087
Special Transit Fares	20,770
Auxiliary Transportation Revenues	6,384
<i>Total Operating Revenues</i>	<u>303,241</u>
Operating Expenses	
<i>Total Operating Expenses</i>	<u>2,613,507</u>
<i>Operating Income (Loss)</i>	<u>(2,310,266)</u>
Non-Operating Revenues (Expenses)	
Local Contributions	
Taxes	113,805
State of Michigan Operating Grants	
Local Bus Operating Grant (Act 51)	763,244
Job Access Reverse Commute	193,744
Prior Year Adjustment	54,747
Federal Operating Grants	
USDOT Operating Grants (Section 5307)	779,450
New Freedom Program - Mobility Management	75,000
Job Access Reverse Commute	93,782
Interest Earned	694
Other Non-Transit Revenues	4,792
Gain on Sale of Capital Assets	7,799
<i>Total Non-Operating Revenues (Expenses)</i>	<u>2,087,057</u>
Capital Contributions	
State Capital Grants	42,242
Federal Capital Grants	168,971
<i>Total Capital Contributions</i>	<u>211,213</u>
<i>Change In Net Position</i>	<u>(11,996)</u>
<i>Net Position at Beginning of Period</i>	1,602,612
<i>Prior Period Adjustment (Note 12)</i>	43,946
<i>Net Position at Beginning of Period - Restated</i>	<u>1,646,558</u>
<i>Net Position at End of Period</i>	<u>\$ 1,634,562</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Twin Cities Area Transportation Authority
Statement of Cash Flows
For the Year Ended September 30, 2014

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 302,714
Cash Payments to Employees for Services and Fringe Benefits	(1,467,972)
Cash Payments to Suppliers for Goods and Services	(689,974)
<i>Total Cash Flows from Operating Activities</i>	<u>(1,855,232)</u>
 Cash Flows from Non-capital and Related Financing Activities	
Local Tax Levy Received	150,222
State Grants	879,999
Federal Grants	624,743
Other Revenue	4,792
<i>Total Cash Flows from Non-capital and Related Financing Activities</i>	<u>1,659,756</u>
 Cash Flows from Capital and Related Financing Activities	
Purchases of Capital Assets	(228,612)
Capital Grants Received	211,213
Gain on Sale of Capital Asset	7,799
<i>Total Cash Flows from Capital and Related Financing Activities</i>	<u>(9,600)</u>
 Cash Flows from Investing Activities	
Interest on Investments	694
<i>Total Cash Flows from Investing Activities</i>	<u>694</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(204,382)
<i>Cash and Cash Equivalents - Beginning of Year</i>	452,354
<i>Cash and Cash Equivalents - End of Year</i>	<u>\$ 247,972</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Twin Cities Area Transportation Authority
Statement of Cash Flows
For the Year Ended September 30, 2014

Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ (2,246,683)
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Depreciation Expense	270,868
Changes in Assets & Liabilities	
Receivables (Net)	(527)
Inventory	29,650
Prepaid Expenses	34,044
Accounts Payable	6,717
Accrued and Other Liabilities	39,282
Net Cash Provided by Operating Activities	<u>\$ (1,866,649)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Twin Cities Area Transportation Authority (the “Authority” or “government”) have been prepared in conformity with the U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting principles are described below.

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 with 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.

In accordance with generally accepted accounting principles and 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 these criteria, these financial statements present the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor; and for financial purposes within general accepted accounting principles, an enterprise fund of the City of Benton Harbor.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all 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, restricted, or unrestricted net position.

The *statement of revenues, expense, and changes in net position* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program 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 program revenues are reported instead as *general revenues*.

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

Twin Cities Area Transportation Authority

Notes to the Financial Statements

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; b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriated capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are 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 revenues 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* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Position

Cash & 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. Investments are stated at fair value and short-term investments are reported at cost which approximates fair value.

State statutes and the Authority's investment policy authorize the Authority to make deposits and invest surplus funds as follows

- 1) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal is fully guaranteed by the United States.
- 2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

- 3) In commercial paper rated at the time of purchase within the 3 highest classifications by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- 4) In United States government of Federal agency obligation repurchase agreements.
- 5) In bankers' acceptances of United States banks.
- 6) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Inventory & Prepaid Items

Inventories of fuel and tires are valued at the lower of cost or market on a first-in, first-out basis. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Authority as assets with an estimated useful life in excess of two years and an initial individual cost of more than \$5,000. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of all exhaustible fixed assets used by an enterprise fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been expensed over the estimated useful lives using the straight-line method. Depreciation expense that is to be reimbursed with state funds only includes assets purchased with local funds where the useful life of the asset has been approved by the Bureau of Passenger Transportation. The estimated useful lives are as follows:

<u>Asset</u>	<u>Useful Life</u>
Operating Facility	2 - 20 Years
Vehicles	3 - 7 Years
Shop Equipment	3 - 10 Years
Office Equipment	6 - 10 Years

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Grants

The Authority receives two distinct types of grants from governmental agencies:

- Capital grants are used for capital acquisitions.
- Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

Property Tax Revenue Recognition

Property taxes are levied 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 2012 ad valorem tax was levied and collectable on December 1, 2013. It is the policy of the Authority to recognize revenue from the current tax levy in the 2013/2014 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

Cost Allocation Plans

The Authority has one cost allocation plan where the methodology has been approved by the Bureau of Passenger Transportation (BPT) and MDOT. The cost allocation is for the line haul route for the Job Access Reverse Commute program. The total charges of \$287,526 related to line haul routes funded by other Federal grants and the related grant revenue was included an ineligible expense in the supplemental schedules.

Use of Estimates in the Preparation of Financial Statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fiscal Year

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

Note 2 - Deposits and Investments

At year end, the carrying amount of the Authority's deposits was \$236,555 and the bank balance was \$254,862 of which \$250,000 was covered by federal depository insurance. The remaining \$4,862 was uninsured and uncollateralized. The following schedule summarizes each cash and cash equivalents:

Cash & Cash Equivalents	
Checking & Savings Accounts	\$ 254,632
Petty Cash	230
<i>Total Cash & Investments</i>	<u>\$ 254,862</u>

Credit Risk – State statutes and the Authority's investment policy authorize the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; 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 any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. As of September 30, 2014, the Authority has no investments that meet the above criteria.

Interest Rate Risk – Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority did not have any investments in the fiscal year ended September 30, 2014.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 3 - Due from Other Governments

Due from State Government

The following amount was receivable at September 30, 2014:

<u>Due from (to) State</u>	
FY 2013 - Operating Assistance - Act 51	\$ 20,745
FY 2014 - Operating Assistance - Act 51	7,780
FY 2011 - Operating Assistance - Act 51 Prior Year Adjustment	8,963
Job Access Reverse Commute (MI-37-X047)	156,208
Capital Grant (12-0173/P8 & P12)	7,442
<i>Due from State</i>	<u>\$ 201,138</u>

Due from Federal Government

The following amount was receivable at September 30, 2014:

<u>Due from (to) Federal Government</u>	
FY 2013 - Operating Assistance - 5311	\$ 194,762
Job Access Reverse Commute (MI-37-X047)	40,606
New Freedom Program - Mobility Management	13,083
Capital Grant (12-0173/P8 & P12)	29,771
<i>Due from Federal Government</i>	<u>\$ 278,222</u>

Note 4 – Accounts Receivable

Accounts receivable as of year end for the Authority are \$13,590, net of allowance for doubtful accounts.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

Business-type Activities

	9/30/2013	Increases	Decreases	9/30/2014
Capital assets not being depreciated				
Land	\$ 62,700	\$ -	\$ -	\$ 62,700
Capital assets being depreciated				
Buildings	1,631,341	-	-	1,631,341
Buses	1,427,705	175,878	148,538	1,455,045
Other Vehicles	123,987	20,961	18,387	126,561
Equipment	435,970	31,773	-	467,743
Total	<u>3,619,003</u>	<u>228,612</u>	<u>166,925</u>	<u>3,680,690</u>
Accumulated depreciation				
Buildings	1,504,167	16,066	-	1,520,233
Buses	765,888	227,690	148,538	845,040
Other Vehicles	122,453	2,407	18,387	106,473
Equipment	281,878	24,705	-	306,583
Total	<u>2,674,386</u>	<u>270,868</u>	<u>166,925</u>	<u>2,778,329</u>
<i>Net capital assets being depreciated</i>	<u>944,617</u>	<u>(42,256)</u>	<u>-</u>	<u>902,361</u>
Net capital assets	<u>\$ 1,007,317</u>	<u>\$ (42,256)</u>	<u>\$ -</u>	<u>\$ 965,061</u>

Depreciation expense of the Authority for the year totaled \$270,868.

Disposition of assets acquired with federal and state money require prior approval from the Michigan Department of Transportation.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. Premiums are expensed as

Twin Cities Area Transportation Authority

Notes to the Financial Statements

incurred while excess of reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

Note 7 - Concentration of Credit Risk

For the fiscal year ended September 30, 2014, the Authority was reimbursed by the State of Michigan for 39.30% of their eligible operating expenses. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage will be recalculated after total eligible expenses for all transits are determined based on audited figures.

Note 8 - Contingencies

The state and federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2014 have not commenced or have not been completed.

Note 9 - Pension

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

Note 10 - Subsequent Events

Management has evaluated subsequent events through March 26, 2015 and has determined that there were no material subsequent events.

Note 11 - Compliance Requirements

The methodology used for compiling mileage on the Schedule of Mileage Data is an adequate and reliable methodology for recording vehicle mileage.

All ineligible expenses, as defined by the Local Public Transit Revenue & Expense Manual are properly reported and subtracted as ineligible.

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.

Any capital money used to pay for operating expenses has been subtracted as ineligible on the Nonurban Regular Service Expense Report and the Net Eligible Costs Computations of General Operations.

The Authority has reported its cost allocation plan in Note 1, and its nontransportation revenue in Note 1.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 12 - Prior Period Adjustment

Net position was increased on October 1, 2013 by \$43,946 to account for increased Job Access Reverse Commute revenues because estimated prior period revenues were exceeded by final audited revenues.

SUPPLEMENTAL INFORMATION

Twin Cities Area Transportation Authority
Local Revenues
For the Year Ended September 30, 2014

	<u>2014</u>
Local Revenues	
Farebox	\$ 276,087
Contracted Fares	20,770
Concessions & Advertising	6,384
Other Non-transit Revenues	4,792
Taxes Levied Directly for/by Transit Agency	113,805
Interest Income	<u>694</u>
<i>Total Local Revenues</i>	<u>\$ 422,532</u>

**Twin Cities Area Transportation Authority
Operating and Contract Expenses
For the Year Ended September 30, 2014**

	Nonurban State Operating FY 2014*	Nonurban Operating JARC	Total
Labor	\$ 799,652	\$ 139,284	\$ 938,936
Fringe Benefits	486,467	81,851	568,318
Services	309,126	34,915	344,041
Materials and Supplies	308,523	44,217	352,740
Utilities	32,588	5,445	38,033
Casualty and Liability Costs	63,631	11,272	74,903
Taxes and Fees	467	87	554
Miscellaneous Expenses	16,373	3,027	19,400
Leases and Rentals	4,892	822	5,714
Depreciation	270,868	-	270,868
<i>Total Operating Expenses</i>	<u>\$ 2,292,587</u>	<u>\$ 320,920</u>	<u>\$ 2,613,507</u>

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

**Twin Cities Area Transportation Authority
Operating Assistance Report - Revenues - Regular Service
For the Year Ended September 30, 2014**

Code	Description	Line Haul	Demand Response	Total
401	Farebox Revenue			
40100	Passenger Fares	\$ 33,922	\$ 230,748	\$ 264,670
40200	Contract Fares	-	20,770	20,770
406	Auxiliary Trans Revenue			
40610	Concessions	-	2,364	2,364
40615	Advertising	-	4,020	4,020
407	Nontrans Revenues			
40710	Other Non-transit Revenue (Refunds, Gains on Sale of Capital Assets)	-	12,591	12,591
408	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	105,100	20,122	125,222
411	State Formula and Contracts			
41101	State Operating Assistance	77,757	685,487	763,244
41110	Line-item Municipal Credit (Prior Year Adjustments)	-	54,747	54,747
41119	Other MDOT Contracts - New Freedom Program	-	75,000	75,000
41199	Other MDOT Contracts - JARC	-	193,744	193,744
41114	State Capital Grants	-	42,242	42,242
413	Federal Contracts			
41302	Federal Section 5307	-	779,450	779,450
41399	Other MDOT Contracts - JARC	-	93,782	93,782
41314	Federal Capital Grants	-	168,971	168,971
414	Other Revenue			
41400	Interest Income	-	694	694
Total Revenues		<u>\$ 216,779</u>	<u>\$ 2,384,732</u>	<u>\$ 2,601,511</u>

Twin Cities Area Transportation Authority
Operating Assistance Report - Expenses - Regular Service
For the Year Ended September 30, 2014

Code	Description	Operations Line Haul	Operations Demand Response	Maintenance Line Haul	Maintenance Demand Response	Administration Line Haul	Administration Demand Response	Total
501	Labor							
50101	Operating Salaries and Wages	\$ 89,004	\$ 492,481	\$ -	\$ -	\$ -	\$ -	\$ 581,485
50102	Other Salaries and Wages	5,416	33,242	12,263	64,530	21,371	94,708	231,530
50103	Dispatchers Salaries and Wages	-	125,921	-	-	-	-	125,921
502	Fringe Benefits							
50200	Other Salaries and Wages	60,905	371,538	6,758	36,161	16,699	76,257	568,318
503	Services							
50302	Advertising Fees	-	-	-	-	221	929	1,150
50305	Audit Expense	-	-	-	-	2,531	7,369	9,900
50399	Other Services	822	6,764	32,797	201,082	2,535	88,991	332,991
504	Materials and Supplies							
50401	Fuel and Lubricants	40,098	234,019	245	1,748	353	1,981	278,444
50402	Tires and Tubes	3,484	41,533	-	-	73	668	45,758
50499	Other Materials and Supplies	181	1,403	1,616	9,478	2,663	13,197	28,538
505	Utilities							
50500	Utilities	1,037	6,472	4,201	22,187	760	3,376	38,033
506	Insurance							
50603	Liability Insurance	9,654	54,303	-	-	-	-	63,957
50699	Other Insurance	-	-	-	-	1,886	9,060	10,946
507	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	106	448	554
509	Miscellaneous Expenses							
50902	Travel, Meetings and Training	732	3,654	149	496	1,154	4,183	10,368
50903	Association Dues and Subscriptions	-	-	-	-	1,064	5,103	6,167
50999	Other Miscellaneous Expense	164	1,147	-	-	200	1,198	2,709
511	Interest Expense							
51102	Interest on Short-term Debt	-	-	-	-	5	151	156
512	Operating Leases and Rentals							
51200	Operating Leases and Rentals	768	4,646	-	1	48	251	5,714
513	Depreciation							
51300	Depreciation	-	248,528	-	4,116	-	18,224	270,868
Total Expenses		<u>212,265</u>	<u>1,625,651</u>	<u>58,029</u>	<u>339,799</u>	<u>51,669</u>	<u>326,094</u>	<u>2,613,507</u>
540	Ineligible Expenses							
54000	Ineligible Prior Year Refunds and Credits	-	-	-	-	-	4,792	4,792
550	Ineligible Expenses							
55000	Ineligible Job Access Revenue Commute Fares	-	-	-	-	8,118	25,276	33,394
55007	Ineligible Depreciation	-	246,498	-	4,116	-	18,224	268,838
55009	Ineligible Percent of Association Dues	-	-	-	-	55	408	463
55010	Other Ineligible Expenses	-	-	-	-	1,215	12,695	13,910
570	Ineligible Expenses							
57099	Other Ineligible FSL (New Freedom Program)	-	-	-	-	-	75,000	75,000
57099	Other Ineligible FSL (JARC)	67,369	124,611	25,627	32,008	16,774	54,531	320,920
Total Ineligible Expense		<u>67,369</u>	<u>371,109</u>	<u>25,627</u>	<u>36,124</u>	<u>26,162</u>	<u>190,926</u>	<u>717,317</u>
Total Eligible Expense		<u>\$ 144,896</u>	<u>\$ 1,254,542</u>	<u>\$ 32,402</u>	<u>\$ 303,675</u>	<u>\$ 25,507</u>	<u>\$ 135,168</u>	<u>\$ 1,896,190</u>

Twin Cities Area Transportation Authority
Operating Assistance Report - Regular Service - Nonfinancial Data - Unaudited
For the Year Ended September 30, 2014

Code	Description	Weekday Line Haul	Weekday Demand Response	Saturday Line Haul	Saturday Demand Response	Total
Public Service						
610	Vehicle Hours	4,016	36,428	454	3,017	43,915
611	Vehicle Miles*	55,421	381,409	5,851	16,723	459,404
615	Passengers - Regular	18,122	68,106	2,564	8,168	96,960
616	Passengers - Seniors	6,859	17,819	636	2,010	27,324
617	Passengers - Persons w/ Disabilities	6,707	42,642	952	4,808	55,109
621	Total Line Haul Passengers	31,688	-	4,152	-	35,840
622	Total Demand Response Passengers	-	128,567	-	14,986	143,553
625	Days Operated	251	253	53	53	610
Vehicle Information						
		Quantity				
652	Number of Personnel Vehicles in Service	2				
653	Total Line Haul Vehicles	2				
654	Line Haul Vehicles w/ Lifts	18				
655	Total Demand Response Vehicles	19				
656	Demand Response Vehicles	19				
658	Total Transit Vehicles	21				
Miscellaneous Information						
		Quantity Line Haul	Quantity Demand Response			
601	Number of Routes (Line Haul Only)	2	-			
602	Total Route Miles (Line Haul Only)	28	-			
660	Diesel/Gasoline Gallons Consumed	9,857	64,049			
661	Total Transit Agency Employees	40	40			
662	Total Revenue Vehicle Operators	2	18			

* 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 Schedule - State
 For the Fiscal Year Ended September 30, 2014**

	Nonurban
Total Operating Expenses	\$ 2,613,507
Less Ineligible Expenses	
Depreciation	268,838
Ineligible Prior Year Refunds and Credits	4,792
Other Revenue - Farebox	33,394
Association Dues	463
Vending Machines	1,397
Line Haul Funded by Other Federal Grants	362,526
<i>Total Ineligible Expenses Per R&E Manual</i>	671,410
 <i>Total State Eligible Expenses</i>	 1,942,097
 Reimbursement Percentage	 39.30%
 State Operating Assistance	 \$ 763,244

**Twin Cities Area Transportation Authority
Operating Assistance Schedule - Federal
For the Fiscal Year Ended September 30, 2014**

	Nonurban
Total Operating Expenses	\$ 2,613,507
Less Ineligible Expenses	
Depreciation	268,838
Ineligible Prior Year Refunds and Credits	4,792
Other Revenue	33,394
Association Dues	463
Vending Machines	1,397
Auxiliary Transportation Revenues - Advertising	4,020
Interest	694
Gain on Sale of Capital Assets	7,799
Line Haul Funded by Other Federal Grants	395,920
Total Ineligible Expenses Per R&E Manual	717,317
Less Farebox and Other Revenues	
Farebox	(296,857)
Total Farebox and Other Revenues	(296,857)
Net Project Cost	1,599,333
Maximum Amount of Reimbursement (Net Project Cost x 50%)	799,667
FTA Fund Available	779,450
FTA Fund Requested	\$ 779,450

SINGLE AUDIT ACT COMPLIANCE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 26, 2015

To the Board of Directors
Twin Cities Area Transportation Authority
Benton Harbor, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Twin Cities Area Transportation Authority, (the "Authority") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 26, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinions on the financial statements, but not for the purpose of expressing an opinion 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. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, MI

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Twin Cities Area Transportation Authority
Benton Harbor, Michigan

Report on Compliance for Each Major Federal Program

We have audited Twin Cities Area Transportation Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Twin Cities Area Transportation Authority's major federal programs for the year ended September 30, 2014. Twin Cities Area Transportation Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Twin Cities Area Transportation 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Twin Cities Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Twin Cities Area Transportation Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Twin Cities Area Transportation 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, 2014.

Report on Internal Control Over Compliance

Management of Twin Cities Area Transportation 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 Twin Cities Area Transportation 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Gabridge & Company, PLC
Grand Rapids, MI
March 26, 2015

Twin Cities Area Transportation Authority
Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2014

Federal Grantor / Pass Through Grantor Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program or Award Amount	Current Year Expenditures			Prior Year's Adjustments	Amount Remaining	
				Total	Federal	State			Local
U.S. Department of Transportation Passed Through Michigan Department of Transportation									
Job Access Reverse Commute	20.516	MI-37-X047-01	\$ 386,040	\$ 287,526	\$ 93,782	\$ 193,744	\$ -	\$ 46,054	\$ 98,514
New Freedom Program - Section 5317	20.521	MI-57-X010-04	75,000	75,000	75,000	-	-	-	-
Total Assistance			<u>461,040</u>	<u>362,526</u>	<u>168,782</u>	<u>193,744</u>	<u>-</u>	<u>46,054</u>	<u>98,514</u>
Direct Pass Through US Department of Transportation									
Operating Assistance - Section 5307	20.507	MI-90-X662-00	779,450	779,450	779,450	-	-	-	-
Capital Assistance - Section 5307	20.507	MI-34-0003-P8	25,217	24,785	19,828	4,957	-	-	432
Capital Assistance - Section 5307	20.507	MI-34-0003-02-P12	13,178	12,428	9,943	2,485	-	-	750
Capital Assistance - Section 5307	20.507	MI-90-X662-P9	174,000	175,878	139,200	34,800	1,878	-	-
Total Assistance			<u>991,845</u>	<u>992,541</u>	<u>948,421</u>	<u>42,242</u>	<u>1,878</u>	<u>-</u>	<u>1,182</u>
Michigan Department of Transportation (MDOT) Operating Assistance - Act 51	N/A	N/A	763,244	763,244	-	763,244	-	8,693	-
Total Michigan Department of Transportation			<u>763,244</u>	<u>763,244</u>	<u>-</u>	<u>763,244</u>	<u>-</u>	<u>8,693</u>	<u>-</u>
Total Department of Transportation			<u>\$ 2,216,129</u>	<u>\$ 2,118,311</u>	<u>\$ 1,117,203</u>	<u>\$ 999,230</u>	<u>\$ 1,878</u>	<u>\$ 54,747</u>	<u>\$ 99,696</u>

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this Statement

Twin Cities Area Transportation Authority

Notes to the Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

The Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Authority under programs of the federal government for the year ended September 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. 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.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Section 5307 Operating Assistance

Maximum Section 5307 operating assistance revenue can be 50% of net eligible expenses as presented on page 28, not to exceed the local match or contract limit. The Federal Section 5307 operating assistance of \$779,450 was recognized based on the contract limit.

**Twin Cities Area Transportation Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014**

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported

Type of auditors' report issued on compliance for major programs	Unmodified
--	------------

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	No
--	----

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507	2014 Section 5307 Operating

Dollar threshold used to distinguish between Type A and B programs?	\$300,000
---	-----------

Auditee qualified as a low-risk auditee?	Yes
--	-----

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARDS AND QUESTIONED COSTS

No matters were reported

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No matters were reported

March 26, 2015

To the Board of Directors
Twin Cities Area Transportation Authority
Benton Harbor, Michigan

We have audited the financial statements of the business-type activities of the Twin Cities Area Transportation Authority for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 23, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended September 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. The most sensitive estimate affecting the Twin Cities Area Transportation Authority's financial statements was:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimated of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 26, 2015.

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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with 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 to the financial statements themselves.

This information is intended solely for the use of management, the Board of Directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI