

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
BERRIEN COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2015**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
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	
Local Revenues	23
Operating and Contract Expenses	24
Operating Assistance Report - Revenues - Regular Service	25
Operating Assistance Report - Expenses - Regular Service	26
Operating Assistance Report - Regular Service - Nonfinancial Data - Unaudited	27
Operating Assistance Report - Revenues - JARC	28
Operating Assistance Report - Expenses - JARC	29
Operating Assistance Report - JARC - Nonfinancial Data - Unaudited	30
Operating Assistance Report - Revenues - New Freedom	31
Operating Assistance Report - Expenses - New Freedom	32
Operating Assistance Schedule	33

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, 2015, 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, 2015, 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 23 - 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information on pages 23 - 33, except for pages 27 & 30, is the responsibility of management and was 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 23 - 33, except for pages 27 & 30, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental information on pages 27 & 30 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 16, 2016, 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 dark ink that reads "Galbridge & Company". The signature is written in a cursive, flowing style with a large, sweeping "G" and a long, horizontal flourish extending to the right.

Grand Rapids, Michigan
March 16, 2016

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, 2015. 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 \$1,600,356 (shown as *net position*), representing a decrease of \$34,206 over the previous fiscal year. Of this amount, \$579,877 (unrestricted net position) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the year, the Authority received \$2,539,276 in revenues and incurred \$2,573,482 in expenses, resulting in a decrease in net position of approximately \$34,206.
- The Authority remained free of long-term debt during the year.
- Federal reimbursement of eligible expenses decreased by \$1,253 from the previous year.
- State reimbursement of eligible expenses decreased to 36.34% (from 39.30%).

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, 2015, assets exceeded liabilities by \$1,600,356. The Authority is a capital-intensive enterprise, accordingly, 64% 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, 2015
and September 30, 2014**

	2015	2014
ASSETS		
<i>Current Assets</i>		
Cash & Cash Equivalents	\$ 311,900	\$ 236,555
Accounts Receivable	12,090	13,590
Due from State	111,694	201,138
Due from Federal Government	216,082	278,222
Inventory	22,793	8,492
Prepaid Expenses	66,238	41,486
Total Current Assets	740,797	779,483
<i>Noncurrent Assets</i>		
Capital Assets, net	1,020,479	965,061
Total Assets	1,761,276	1,744,544
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	130,518	57,499
Accrued Wages and Fringe Benefits	30,402	52,483
Total Current Liabilities	160,920	109,982
NET POSITION		
Net Investment in Capital Assets	1,020,479	965,061
Unrestricted	579,877	669,501
Total Net Position	\$ 1,600,356	\$ 1,634,562

Due from state and due from federal government decreased by \$89,444 and \$62,140, respectively. This was the result of fewer capital grants still outstanding at year end. Accounts payable increased by \$73,019 primarily due to the purchase of a new bus. Cash and cash equivalents had an increase of \$75,345 compared to the previous year.

The Authority's net position decreased by \$34,206 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:

**Twin Cities Area Transportation Authority
Change in Net Position for Fiscal Year Ended
September 30, 2015 and September 30, 2014**

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Passenger Fares	\$ 277,243	\$ 276,087
Special Transit Fares	31,186	20,770
Auxiliary Transportation Revenues	14,078	6,384
<i>Total Operating Revenues</i>	<u>322,507</u>	<u>303,241</u>
Nonoperating Revenues		
Local Contributions	131,732	113,805
State Operating Grants	981,328	1,011,735
Federal Operating Grants	790,600	948,232
Interest Earned	206	694
Other Non-transit Revenues	6,201	4,792
Gain on Sale of Capital Assets	15,695	7,799
<i>Total Nonoperating Revenues</i>	<u>1,925,762</u>	<u>2,087,057</u>
Total Revenues	<u>2,248,269</u>	<u>2,390,298</u>
Operating Expenses		
Salaries and Wages	1,537,124	1,507,254
Depreciation	319,611	270,868
Other	716,747	835,385
<i>Total Operating Expenses</i>	<u>2,573,482</u>	<u>2,613,507</u>
Capital Contributions		
State Capital Grant	58,201	42,242
Federal Capital Grant	232,806	168,971
<i>Total Capital Contributions</i>	<u>291,007</u>	<u>211,213</u>
<i>Change in Net Position</i>	<u>(34,206)</u>	<u>(11,996)</u>
<i>Net Position at Beginning of Period</i>	<u>1,634,562</u>	<u>1,646,558</u>
<i>Net Position at End of Period</i>	<u>\$ 1,600,356</u>	<u>\$ 1,634,562</u>

Federal operating grants decreased by \$157,632. The job access reverse commute (JARC) program was no longer funded by the federal government. The State of Michigan is still administering and fully funding the JARC program. State operating assistance decreased by \$102,196 due to a decrease in the reimbursement percentage and a decrease in expenses eligible for reimbursement of \$114,255 due to less activity during the year.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department – The department describes the major functional areas of the Authority and includes:

Operations – Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance – Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration – All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation – Estimated pro-ratio of the cost of capital assets over the useful life of the asset.

The following table shows the expenses for 2015 compared to 2014 by department:

Department	2015	2014
Operations	\$ 1,493,636	\$ 1,589,388
Maintenance	418,468	393,712
Administration	341,767	359,539
Depreciation	319,611	270,868
<i>Total Expenses</i>	\$ 2,573,482	\$ 2,613,507

Operating Expense by Object – The object is the classification of expenses by type of item. The following table shows expenses for 2015 compared to 2014 by object:

Object	2015	2014
Labor	\$ 972,876	\$ 938,936
Fringe Benefits	564,248	568,318
Services	338,352	344,041
Materials & Supplies	230,361	352,740
Utilities	32,854	38,033
Casualty & Liability	90,060	74,903
Taxes and Fees	120	554
Miscellaneous	17,117	19,400
Leases & Rentals	7,883	5,714
Depreciation	319,611	270,868
<i>Total Expenses</i>	\$ 2,573,482	\$ 2,613,507

Capital Asset and Debt Administration

Capital Assets The Authority's investment in capital assets for the governmental activities at year end amounted to \$1,020,479 (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, 2015 included four busses, a retaining wall, and an LED sign in the amount of \$375,027.

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 2015-2016 fiscal year:

- 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 35.76% of eligible expenses to be reimbursed by the Michigan Department of Transportation for the fiscal year ending 2016. The Authority will continue to strive for a balanced budget while continuing to provide the same high level of service its residents are accustomed to.

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.

Twin Cities Area Transportation Authority
Statement of Net Position
September 30, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 311,900
Accounts Receivable	12,090
Due from State	111,694
Due from Federal Government	216,082
Inventory	22,793
Prepaid Expenses	66,238
Total Current Assets	740,797

Noncurrent Assets

Capital Assets - Nondepreciating	62,700
Capital Assets - Depreciating	957,779
Total Assets	1,761,276

LIABILITIES

Current Liabilities

Accounts Payable	130,518
Accrued Wages and Fringe Benefits	30,402
Total Current Liabilities	160,920

Noncurrent Liabilities

Total Liabilities	160,920
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NET POSITION

Net Investment in Capital Assets	1,020,479
Unrestricted	579,877
Total Net Position	\$ 1,600,356

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, 2015

Operating Revenues	
Passenger Fares	\$ 277,243
Special Transit Fares	31,186
Auxiliary Transportation Revenues	14,078
<i>Total Operating Revenues</i>	<u>322,507</u>
Operating Expenses	
<i>Total Operating Expenses</i>	<u>2,573,482</u>
<i>Operating Income (Loss)</i>	<u>(2,250,975)</u>
Non-Operating Revenues (Expenses)	
Local Contributions	
Taxes	131,732
State of Michigan Operating Grants	
Local Bus Operating Grant (Act 51)	661,048
Job Access Reverse Commute	342,381
New Freedom Program - Mobility Management	11,832
Prior Year Adjustment	(33,933)
Federal Operating Grants	
USDOT Operating Grants (Section 5307)	754,836
New Freedom Program - Mobility Management	47,326
Job Access Reverse Commute	-
Prior Year Adjustment	(11,562)
Interest Earned	206
Other Non-Transit Revenues	6,201
Gain on Sale of Capital Assets	15,695
<i>Total Non-Operating Revenues (Expenses)</i>	<u>1,925,762</u>
Capital Contributions	
State Capital Grants	58,201
Federal Capital Grants	232,806
<i>Total Capital Contributions</i>	<u>291,007</u>
<i>Change In Net Position</i>	<u>(34,206)</u>
<i>Net Position at Beginning of Period</i>	<u>1,634,562</u>
<i>Net Position at End of Period</i>	<u>\$ 1,600,356</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, 2015

Cash Flows from Operating Activities

Cash Received from Customers	\$ 466,814
Cash Payments to Employees for Services and Fringe Benefits	(1,559,205)
Cash Payments to Suppliers for Goods and Services	(682,782)
<i>Total Cash Flows from (used by) Operating Activities</i>	<u>(1,775,173)</u>

Cash Flows from Non-capital and Related Financing Activities

Local Tax Levy Received	131,732
State Grants	984,517
Federal Grants	796,187
Other Revenue	6,201
<i>Total Cash Flows from Non-capital and Related Financing Activities</i>	<u>1,918,637</u>

Cash Flows from Capital and Related Financing Activities

Purchases of Capital Assets	(375,027)
Capital Grants Received	291,007
Sale of Capital Assets	15,695
<i>Total Cash Flows from (used by) Capital and Related Financing Activities</i>	<u>(68,325)</u>

Cash Flows from Investing Activities

Interest on Investments	206
<i>Total Cash Flows from Investing Activities</i>	<u>206</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	<u>75,345</u>
<i>Cash and Cash Equivalents - Beginning of Year</i>	<u>236,555</u>
<i>Cash and Cash Equivalents - End of Year</i>	<u>\$ 311,900</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, 2015

Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ (2,250,975)
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Depreciation Expense	319,611
Changes in Assets & Liabilities	
Receivables (Net)	144,307
Inventory	(14,302)
Prepaid Expenses	(24,752)
Accounts Payable	73,019
Accrued and Other Liabilities	(22,081)
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,775,173)</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 Directors.

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 discretely presented component unit 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.

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 its operating fund, which is 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

Twin Cities Area Transportation Authority

Notes to the Financial Statements

be financed or recovered primarily through user charges; and 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

These 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.

Enterprise 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 an enterprise 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 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

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- 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 Expenses

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 expenses.

Capital Assets

Capital assets, which include property and equipment, are reported in the statement of net position. 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 the Authority 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.

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 2014 ad valorem tax was levied and collectable on December 1, 2014. It is the policy of the Authority to recognize revenue from the current tax levy in the 2014/2015 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

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.

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.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 2 - Deposits and Investments

At year end, the carrying amount of the Authority's deposits was \$311,900 and the bank balance was \$315,757 of which \$250,000 was covered by federal depository insurance. The remaining \$65,757 was uninsured and uncollateralized. The following schedule summarizes each cash and cash equivalents:

Cash & Cash Equivalents	
Checking & Savings Accounts	\$ 311,670
Petty Cash	230
Total Cash & Investments	\$ 311,900

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, 2015, 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, 2015.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 3 - Due from Other Governments

Due from State Government

Due from (to) State	
FY 2015 - Operating Assistance - Act 51	\$ 5,148
Job Access Reverse Commute (MI-37-X047)	84,978
New Freedom Program - Mobility Management	3,537
Capital Grant (12-0173/P12 & P13)	18,031
<i>Due from State</i>	<u>\$ 111,694</u>

Due from Federal Government

Due from (to) Federal Government	
FY 2015 - Operating Assistance	\$ 134,611
New Freedom Program - Mobility Management	14,146
Capital Grant (12-0173/P12 & P13)	67,325
<i>Due from Federal Government</i>	<u>\$ 216,082</u>

Note 4 – Accounts Receivable

Accounts receivable as of year end for the Authority are \$12,090, which is net of an allowance for doubtful accounts of \$1,945.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

	9/30/2014	Increases	Decreases	9/30/2015
Capital assets not being depreciated				
Land	\$ 62,700	\$ -	\$ -	\$ 62,700
Capital assets being depreciated				
Buildings	1,631,341	35,534	-	1,666,875
Buses	1,455,047	327,316	155,553	1,626,810
Other Vehicles	126,561	12,177	-	138,738
Equipment	467,743	-	-	467,743
Total	3,680,692	375,027	155,553	3,900,166
Accumulated depreciation				
Buildings	1,520,233	15,621	-	1,535,854
Buses	845,040	272,209	155,553	961,696
Other Vehicles	106,473	5,240	-	111,713
Equipment	306,583	26,541	-	333,124
Total	2,778,329	319,611	155,553	2,942,387
<i>Net capital assets being depreciated</i>	902,363	55,416	-	957,779
Net capital assets	\$ 965,063	\$ 55,416	\$ -	\$ 1,020,479

Depreciation expense of the Authority for the year totaled \$319,611.

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

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Note 7 - Concentration of Credit Risk

For the fiscal year ended September 30, 2015, the Authority was reimbursed by the State of Michigan for 36.34% 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, 2015 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 16, 2016 and has determined that there were no material subsequent events.

Note 11 - Compliance Requirements

Cost Allocation Plan

The Authority has two cost allocation plans where the methodology has been approved by the Office of Passenger Transportation (OPT). Currently, only the JARC and New Freedom cost allocation plan is needed and used. The cost allocation plan was adhered to in the preparation of the financial statements.

Nonfinancial Methodology

The methodology used for compiling miles for regular and JARC service has been reviewed and the recording method has been found to be adequate and reliable.

Capital Funds Used to Pay for Operating

No operating expenses were paid for with capital funds.

Depreciation

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset has been approved by OPT.

Twin Cities Area Transportation Authority

Notes to the Financial Statements

Expenses Associated with PTMS Codes 406 & 407

All expenses associated with 406xx Auxiliary Transportation Revenue and / or 407xx Non-transportation is subtracted out as ineligible under 55008 Ineligible refunds and credits (\$6,201), 55009 Ineligible Percent of Association Dues (\$253), and 55010 Other Ineligible Expenses – Vending (\$1,703).

No expenses need to be subtracted out as ineligible for 40615 Advertising Revenue of \$12,375. No expenses were incurred because the Authority contracts with an outside vendor that bills the advertiser directly for advertising on the buses.

No expenses were associated with the 40760 Gain on Sale of Capital Assets of \$15,695.

Retirement Benefits

The Authority has no costs for pension or other post-employment benefits to report as no retirement benefits are provided.

SUPPLEMENTAL INFORMATION

Twin Cities Area Transportation Authority
Local Revenues
For the Year Ended September 30, 2015

	2015
Local Revenues	
Line Haul - Farebox (Urban - Small)	\$ 26,543
Demand Response - Farebox (Urban - Small)	213,720
Line Haul - Farebox (JARC)	13,202
Demand Response - Farebox (JARC)	23,778
Contract Fares	31,186
Concessions	1,703
Advertising	12,375
Gain on Sale of Capital Asset	15,695
Other Non-transit Revenues	6,201
Taxes Levied Directly for/by Transit Agency	131,732
Interest Income	206
<i>Total Local Revenues</i>	<i>\$ 476,341</i>

Twin Cities Area Transportation Authority
Operating and Contract Expenses
For the Year Ended September 30, 2015

	Urban - Small State Operating FY 2015*	Urban - Small Operating JARC	New Freedom	Total
Labor	\$ 806,979	\$ 165,897	\$ -	\$ 972,876
Fringe Benefits	467,989	96,259	-	564,248
Services	230,236	48,958	59,158	338,352
Materials and Supplies	190,368	39,993	-	230,361
Utilities	27,237	5,617	-	32,854
Casualty and Liability Costs	71,655	18,405	-	90,060
Taxes and Fees	101	19	-	120
Miscellaneous Expenses	14,250	2,867	-	17,117
Leases and Rentals	6,537	1,346	-	7,883
Depreciation	319,611	-	-	319,611
<i>Total Operating Expenses</i>	\$ 2,134,963	\$ 379,361	\$ 59,158	\$ 2,573,482

* 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, 2015**

Code	Description	Line Haul	Demand Response	Total
401	Farebox Revenue			
40100	Passenger Fares	\$ 26,543	\$ 213,720	\$ 240,263
402	Contract Fares			
40203	Contract Fares	-	31,186	31,186
406	Auxiliary Trans Revenue			
40610	Concessions	-	1,703	1,703
40615	Advertising	-	12,375	12,375
407	Nontrans Revenues			
40760	Gains on Sale of Capital Assets	-	15,695	15,695
40799	Other NonTrans Revenue (Refunds)	-	6,201	6,201
408	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	106,799	24,933	131,732
411	State Formula and Contracts			
41101	State Operating Assistance	77,085	583,963	661,048
41110	Line-item Municipal Credit (Prior Year Adjustments)	-	(33,933)	(33,933)
41114	State Capital Grants	-	58,201	58,201
413	Federal Contracts			
41302	Federal Section 5307	-	754,836	754,836
41310	Prior Year Adjustments	-	(11,562)	(11,562)
41314	Federal Capital Grants	-	232,806	232,806
414	Other Revenue			
41400	Interest Income	-	206	206
Total Revenues		<u>\$ 210,427</u>	<u>\$ 1,890,330</u>	<u>\$ 2,100,757</u>

Twin Cities Area Transportation Authority
Operating Assistance Report - Expenses - Regular Service
For the Year Ended September 30, 2015

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	\$ 49,196	\$ 426,627	\$ -	\$ -	\$ -	\$ -	\$ 475,823
50102	Other Salaries and Wages	3,354	27,119	8,827	60,525	17,126	91,759	208,710
50103	Dispatchers Salaries and Wages	-	122,446	-	-	-	-	122,446
502	Fringe Benefits							
50200	Fringe Benefits	38,419	310,116	5,144	35,248	12,422	66,640	467,989
503	Services							
50302	Advertising Fees	-	-	-	-	303	1,600	1,903
50305	Audit Expense	-	-	-	-	488	2,645	3,133
50399	Other Services	847	6,880	26,742	182,154	1,353	7,224	225,200
504	Materials and Supplies							
50401	Fuel and Lubricants	20,518	136,825	-	-	-	-	157,343
50402	Tires and Tubes	1,120	9,072	-	-	49	262	10,503
50499	Other Materials and Supplies	222	1,836	943	6,422	2,073	11,026	22,522
505	Utilities							
50500	Utilities	710	5,751	2,284	15,636	450	2,406	27,237
506	Insurance							
50603	Liability Insurance	6,324	59,829	-	-	-	-	66,153
50699	Other Insurance	-	-	-	-	862	4,640	5,502
507	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	16	85	101
509	Miscellaneous Expenses							
50902	Travel, Meetings and Training	148	1,195	74	509	1,061	5,675	8,662
50903	Association Dues and Subscriptions	-	-	-	-	186	1,010	1,196
50999	Other Miscellaneous Expense	168	1,358	-	-	441	2,425	4,392
511	Interest Expense							
51102	Interest on Short-term Debt	-	-	-	-	-	-	-
512	Operating Leases and Rentals							
51200	Operating Leases and Rentals	555	4,494	183	1,255	10	40	6,537
513	Depreciation							
51300	Depreciation	-	293,309	-	4,846	-	21,456	319,611
Total Expenses		<u>121,581</u>	<u>1,406,857</u>	<u>44,197</u>	<u>306,595</u>	<u>36,841</u>	<u>218,892</u>	<u>2,134,963</u>
550	Ineligible Expenses							
55007	Ineligible Depreciation	-	282,408	-	4,667	-	20,666	307,741
55008	Ineligible Refunds and Credits	-	-	-	-	-	6,201	6,201
55009	Ineligible Percent of Association Dues	-	-	-	-	30	223	253
55010	Other Ineligible Expenses - Vending	-	-	-	-	242	1,461	1,703
570	Ineligible Expenses							
57604	Ineligible Operating Expense Paid by Capital Grant	-	-	-	-	-	-	-
Total Ineligible Expense		<u>-</u>	<u>282,408</u>	<u>-</u>	<u>4,667</u>	<u>272</u>	<u>28,551</u>	<u>315,898</u>
Total Eligible Expense		<u>\$ 121,581</u>	<u>\$ 1,124,449</u>	<u>\$ 44,197</u>	<u>\$ 301,928</u>	<u>\$ 36,569</u>	<u>\$ 190,341</u>	<u>\$ 1,819,065</u>

Twin Cities Area Transportation Authority
Operating Assistance Report - Regular Service - Nonfinancial Data (unaudited)
For the Year Ended September 30, 2015

Code	Description	Weekday Line Haul	Weekday Demand Response	Saturday Line Haul	Saturday Demand Response	Total
Public Service						
610	Vehicle Hours	4,064	34,851	432	2,497	41,844
611	Vehicle Miles*	56,083	358,206	5,713	16,675	436,677
615	Passengers - Regular	16,777	64,302	2,498	7,437	91,014
616	Passengers - Seniors	8,028	16,937	1,049	1,483	27,497
617	Passengers - Persons w/ Disabilities	10,875	34,639	1,282	3,150	49,946
621	Total Line Haul Passengers	35,680	-	4,829	-	40,509
622	Total Demand Response Passengers	-	115,878	-	12,070	127,948
625	Days Operated	214	214	45	45	259

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 w/Lifts	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)	13	-
661	Total Transit Agency Employees	40	40
662	Total Revenue Vehicle Operators	2	17

* 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 - JARC
For the Year Ended September 30, 2015**

Code	Description	Line Haul	Demand Response	Total
401	Farebox Revenue			
40100	Passenger Fares	\$ 13,202	\$ 23,778	\$ 36,980
411	State Formula and Contracts			
41199	Other MDOT Contracts - JARC	169,715	172,667	342,382
Total Revenues		\$ 182,917	\$ 196,445	\$ 379,362

**Twin Cities Area Transportation Authority
Operating Assistance Report - Expenses - JARC
For the Year Ended September 30, 2015**

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	\$ 57,912	\$ 53,008	\$ -	\$ -	\$ -	\$ -	\$ 110,920
50102	Other Salaries and Wages	2,921	15,402	6,746	7,496	10,597	11,815	54,977
502	Fringe Benefits							
50200	Fringe Benefits	33,964	37,804	3,947	4,372	7,667	8,505	96,259
503	Services							
50302	Advertising Fees	-	-	-	-	194	226	420
50305	Audit Expense	-	-	-	-	268	341	609
50399	Other Services	807	884	22,185	22,087	887	1,079	47,929
504	Materials and Supplies							
50401	Fuel and Lubricants	15,506	16,138	-	-	-	-	31,644
50402	Tires and Tubes	971	2,668	-	-	-	-	3,639
50499	Other Materials and Supplies	201	173	710	859	1,249	1,518	4,710
505	Utilities							
50500	Utilities	620	692	1,722	1,991	275	317	5,617
506	Insurance							
50603	Liability Insurance	10,936	6,293	-	-	55	13	17,297
50699	Other Insurance	-	-	-	-	511	597	1,108
507	Taxes and Fees							
50700	Taxes and Fees	-	-	-	-	9	10	19
509	Miscellaneous Expenses							
50902	Travel, Meetings and Training	132	140	60	56	674	725	1,787
50903	Association Dues and Subscriptions	-	-	-	-	119	112	231
50999	Other Miscellaneous Expense	149	160	-	-	283	257	849
512	Operating Leases and Rentals							
51200	Operating Leases and Rentals	488	539	145	146	6	22	1,346
Total Expenses		<u>124,607</u>	<u>133,901</u>	<u>35,515</u>	<u>37,007</u>	<u>22,795</u>	<u>25,537</u>	<u>379,361</u>
550	Ineligible Expenses							
55000	Ineligible JARC Farebox	13,202	23,778	-	-	-	-	36,980
570	Ineligible Expenses							
57604	Ineligible Operating Expense Paid by Capital Grant	-	-	-	-	-	-	-
Total Ineligible Expense		<u>13,202</u>	<u>23,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,980</u>
Total Eligible Expense		<u>\$ 111,405</u>	<u>\$ 110,123</u>	<u>\$ 35,515</u>	<u>\$ 37,007</u>	<u>\$ 22,795</u>	<u>\$ 25,537</u>	<u>\$ 342,381</u>

Twin Cities Area Transportation Authority
Operating Assistance Report - JARC - Nonfinancial Data (unaudited)
For the Year Ended September 30, 2015

Code	Description	Weekday Line Haul	Weekday Demand Response	Saturday Line Haul	Saturday Demand Response	Total
Public Service						
610	Vehicle Hours	4,048	4,048	275	770	9,141
611	Vehicle Miles*	55,862	66,540	3,795	18,554	144,751
615	Passengers - Regular	7,710	17,960	1,814	2,474	29,958
616	Passengers - Seniors	3,056	1,403	616	609	5,684
617	Passengers - Persons w/ Disabilities	3,177	4,623	798	680	9,278
621	Total Line Haul Passengers	13,943	-	3,228	-	17,171
622	Total Demand Response Passengers	-	23,896	-	3,763	27,659
625	Days Operated	214	214	45	45	259

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

Miscellaneous Information		Quantity Line Haul	Quantity Demand Response
601	Number of Routes (Line Haul Only)	2	-
602	Total Route Miles (Line Haul Only)	13	-
661	Total Transit Agency Employees	40	40
662	Total Revenue Vehicle Operators	2	2

* 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 - New Freedom
For the Year Ended September 30, 2015

Code	Description	Admin
411	State Formula and Contracts	
41199	Other MDOT Contracts - New Freedom	\$ 11,832
413	Federal Contracts	
41399	Other MDOT Contracts - New Freedom	47,326
<i>Total Revenues</i>		<u>\$ 59,158</u>

Twin Cities Area Transportation Authority
Operating Assistance Report - Expenses - New Freedom
For the Year Ended September 30, 2015

Code	Description	Total
503	Services	
50399	Other Services	\$ 59,158
<i>Total Expenses</i>		<i>\$ 59,158</i>

**Twin Cities Area Transportation Authority
Operating Assistance Schedule
For the Fiscal Year Ended September 30, 2015**

	<u>Urban - Small</u>
Total Operating Expenses	\$ 2,573,482
Less Ineligible Expenses	
Depreciation	307,741
Ineligible Refunds and Credits	6,201
Association Dues MassTrans	253
Vending Machines	1,703
JARC Expenses Funded by Grant	342,381
JARC Farebox	36,980
New Freedom Expenses Funded By Grant	59,158
<i>Total Ineligible Expenses Per R&E Manual</i>	<u>754,417</u>
<i>Total State Eligible Expenses</i>	1,819,065
Reimbursement Percentage	36.34%
State Operating Assistance	<u>\$ 661,048</u>
<i>Total Federal Eligible Expenses</i>	\$ 1,819,065
Less Additional Federal Ineligible Expenses	
Urban - Small Farebox	240,263
Contract Fares	31,186
Eligible Expenses for Federal Reimbursement	1,547,616
Reimbursement Percentage	50.00%
<i>Federal Operating Assistance</i>	<u>\$ 773,808</u>
OR	
Eligible Expenses for Federal Reimbursement	\$ 1,547,616
Less State Operating Assistance	661,048
Less Local Millage	131,732
<i>Federal Operating Assistance</i>	<u>\$ 754,836</u>

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
BERRIEN COUNTY, MICHIGAN
SINGLE AUDIT ACT COMPLIANCE
YEAR ENDED SEPTEMBER 30, 2015**

TABLE OF CONTENTS

	<u>Page</u>
<u>SINGLE AUDIT ACT COMPLIANCE</u>	
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards	1
Schedule of Expenditures of Federal Awards	2
Notes to the Schedule of Expenditures of Federal Awards	3
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	4
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	9
Schedule of Findings & Questioned Costs	11

INDEPENDENT AUDITOR'S REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 Twin Cities Area Transportation Authority (the "Authority"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements. We issued our report dated March 16, 2016, which contained an unmodified opinion on the basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying 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, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Gabridge & Company

Grand Rapids, Michigan
March 16, 2016

Twin Cities Area Transportation Authority
Schedule of Expenditures of Federal and State Awards
For the Year Ended September 30, 2015

Federal Grantor / Pass Through Grantor Program Title	Federal CFDA	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									
2015 Operating Assistance - Act 51	N/A	N/A	\$ 661,048	\$ 661,048	\$ -	\$ 661,048	\$ -	\$ (33,933)	\$ -
Job Access Reverse Commute	N/A	2012-0173 - P15	386,040	342,381	-	342,381	-	-	43,659
New Freedom Program - Section 5317	20.521	MI-57-X010-05 - P14/R1	75,000	59,158	47,326	11,832	-	-	15,842
Capital Assistance - Section 5307	20.507 *	MI-90-X092-00 - P10	34,800	35,862	-	34,800	1,062	-	-
Capital Assistance - Section 5307	20.526 *	MI-34-0003 - P8	109,975	26,851	21,482	5,370	-	-	83,124
Capital Assistance - Section 5307	20.526 *	MI-34-0003-02 - P12	112,122	79,155	63,324	15,831	-	-	32,967
Capital Assistance - Section 5307	20.507 *	MI-90-X683 - P13	17,200	2,200	-	2,200	-	-	15,000
Total Assistance Passed Through MDOT			<u>1,396,185</u>	<u>1,206,655</u>	<u>132,132</u>	<u>1,073,462</u>	<u>1,062</u>	<u>(33,933)</u>	<u>190,592</u>
Direct Pass Through US Department of Transportation									
Operating Assistance - Section 5307	20.507 *	MI-90-X693-00	754,836	754,836	754,836	-	-	(11,562)	-
Capital Assistance - Section 5307	20.507 *	MI-90-X092-00 - P10	139,200	139,200	139,200	-	-	-	-
Capital Assistance - Section 5307	20.507 *	MI-90-X683 - P13	68,800	8,800	8,800	-	-	-	60,000
Total Direct Assistance			<u>962,836</u>	<u>902,836</u>	<u>902,836</u>	<u>-</u>	<u>-</u>	<u>(11,562)</u>	<u>60,000</u>
Total Assistance			<u>\$ 2,359,021</u>	<u>\$ 2,109,491</u>	<u>\$ 1,034,968</u>	<u>\$ 1,073,462</u>	<u>\$ 1,062</u>	<u>\$ (45,495)</u>	<u>\$ 250,592</u>

* Included and tested as a major program in the Federal Transit Cluster

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

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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, 2015. 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 33, not to exceed the local match or contract limit. The Federal Section 5307 operating assistance of \$754,836 was recognized based on the contract limit.

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 16, 2016

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 the Twin Cities Area Transportation Authority, (the "Authority") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 16, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs 2015-1 through 2015-3 to be material weaknesses.

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*.

Twin Cities Area Transportation Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI

Twin Cities Area Transportation Authority

Schedule of Findings and Responses

Material Weakness

2015-1 – Preparation of Governmental Financial Statements

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

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.

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 the Authority to perform this task internally.

Effect: As a result of this condition, the Authority lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the authority's records were initially misstated by an amount material to the financial statements.

View of Responsible Officials: The Authority concurs with this finding. The Authority feels that it is cost prohibitive to prepare financial statements in conformity with GAAP. Accordingly, the Authority, at least in part, will continue to rely on its auditors to prepare financial statements in accordance with GAAP.

Twin Cities Area Transportation Authority

Schedule of Findings and Responses

Material Weakness

2015-2 – Segregation of Incompatible Duties

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.
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.
Cause:	This condition is a result of the limited size of the Authority's accounting staff.
Effect:	As a result of this condition, the Authority is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	The Authority concurs with this finding. The Authority has is working on enhancing internal control by increasing independent review of key transactions.

Twin Cities Area Transportation Authority

Schedule of Findings and Responses

Material Weakness

2015-3 – Reconciliation of Key Balance Sheet Accounts

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.
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.
Cause:	This condition is a result of the lack of documented control policies and procedures at the Authority.
Effect:	As a result of this condition, the Authority is susceptible to misstatements (whether caused by error or fraud) that may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	We recommend developing policies and procedures for reconciling accounts payable, accrued wages, accounts receivable, inventory, and due from state and federal agencies to the general ledger. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.
View of Responsible Officials:	The Authority concurs with this finding. The Authority will establish policies and procedures that require frequent reconciling of key financial statement accounts.

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 the Twin Cities Area Transportation Authority's (the "Authority") 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 the Authority's major federal programs for the year ended September 30, 2015. 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 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2015.

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 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 16, 2016

**Twin Cities Area Transportation Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	Yes
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
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	No
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Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507 and 20.526	Federal Transit Cluster
Dollar threshold used to distinguish between Type A and B programs?	\$300,000
Auditee qualified as a low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARDS AND QUESTIONED COSTS

See pages four (4) through eight (8) of the Single Audit Compliance section.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No matters were reported.

March 16, 2016

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, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standard*, and OMB Circular A-133, 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 5, 2016. 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, 2015. 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.

The financial statement disclosures are neutral, consistent, and clear.

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. The following material misstatements detected as a result of audit procedures were corrected by management:

- Capital grants were adjusted in the amount of \$291,007.
- Accounts payable was increased by \$87,381 to reconcile the accounts payable control total to the financial statements.
- New freedom grant revenues and expenses were recorded in the amount of \$59,158.
- Accounts receivable and due from state and federal agencies were decreased by a net amount of \$20,385 to reflect actual amounts as of September 30, 2015.
- Depreciation expense of \$318,906 was recorded to reconcile net book value of system assets to the depreciation lapse schedule as of September 30, 2015.

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 16, 2016.

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.

We were not engaged to report on Regular Service and JARC Nonfinancial Report on pages 27 & 30, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with a long, sweeping underline that extends to the right.

Gabridge & Company, PLC
Grand Rapids, MI