

**TWIN CITIES AREA TRANSPORTATION AUTHORITY  
BERRIEN COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2016**

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## 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, 2016, 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, 2016, 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 6, 2017, 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 script is cursive and fluid, with the ampersand clearly visible between the two words.

Grand Rapids, Michigan  
March 6, 2017

## **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, 2016. 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 \$1,742,717 (shown as *net position*), representing an increase of \$142,361 over the previous fiscal year. Of this amount, \$688,819 (unrestricted net position) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the year, the Authority received \$2,626,392 in revenues and incurred \$2,484,031 in expenses, resulting in an increase in net position of approximately \$142,361.
- The Authority remained free of long-term debt during the year.
- Federal reimbursement of eligible expenses decreased by \$20,040 from the previous year.
- State reimbursement of eligible expenses decreased to 35.76% (from 36.34%).

### ***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, 2016, assets exceeded liabilities by \$1,742,717. The Authority is a capital-intensive enterprise, accordingly, 60% 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, 2016  
and September 30, 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 99,059	\$ 311,900
Accounts Receivable	7,397	12,090
Due from State	143,035	111,694
Due from Federal Government	479,812	216,082
Inventory	2,507	22,793
Prepaid Expenses	50,056	66,238
<b>Total Current Assets</b>	<b>781,866</b>	<b>740,797</b>
<i>Noncurrent Assets</i>		
Capital Assets, net	1,053,898	1,020,479
<b>Total Assets</b>	<b>1,835,764</b>	<b>1,761,276</b>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts Payable	41,644	130,518
Accrued Wages and Fringe Benefits	19,709	30,402
Due to State	31,694	-
<b>Total Current Liabilities</b>	<b>93,047</b>	<b>160,920</b>
<b>NET POSITION</b>		
Investment in Capital Assets	1,053,898	1,020,479
Unrestricted	688,819	579,877
<b>Total Net Position</b>	<b>\$ 1,742,717</b>	<b>\$ 1,600,356</b>

Due from state and due from federal government increased by \$31,341 and \$263,730, respectively. This was the result of operating grants receivables still outstanding at year-end. Accounts payable decreased by \$88,874 as a result of a payment on a bus purchased in the previous fiscal year. Cash and cash equivalents had a decrease of \$212,841 as a result of the increase in due from other governments.

The Authority's net position increased by \$142,361 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, 2016 and September 30, 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Passenger Fares	\$ 268,642	\$ 308,429
Auxiliary Transportation Revenues	3,805	14,078
<b><i>Total Operating Revenues</i></b>	<u>272,447</u>	<u>322,507</u>
<b>Nonoperating Revenues</b>		
Local Contributions	128,242	131,732
State Operating Grants	1,132,374	981,328
Federal Operating Grants	794,796	790,600
Interest Earned	127	206
Other Non-transit Revenues	69,831	6,201
Gain on Sale of Capital Assets	6,805	15,695
<b><i>Total Nonoperating Revenues</i></b>	<u>2,132,175</u>	<u>1,925,762</u>
<b>Total Revenues</b>	<u>2,404,622</u>	<u>2,248,269</u>
<b>Operating Expenses</b>		
Salaries and Wages	1,561,519	1,537,124
Depreciation	249,237	319,611
Other	673,275	716,747
<b><i>Total Operating Expenses</i></b>	<u>2,484,031</u>	<u>2,573,482</u>
<b>Capital Contributions</b>		
State Capital Grant	44,354	58,201
Federal Capital Grant	177,416	232,806
<b><i>Total Capital Contributions</i></b>	<u>221,770</u>	<u>291,007</u>
<b><i>Change in Net Position</i></b>	<u>142,361</u>	<u>(34,206)</u>
<i>Net Position at Beginning of Period</i>	<u>1,600,356</u>	<u>1,634,562</u>
<b><i>Net Position at End of Period</i></b>	<u>\$ 1,742,717</u>	<u>\$ 1,600,356</u>

State operating grants increased by \$151,046 due to a significant increase in prior year adjustments of \$172,650. The job access reverse commute (JARC) program continues to be funded by the State of Michigan. State operating assistance decreased by \$50,102 due to a decrease in the reimbursement percentage and a decrease in expenses eligible for reimbursement of \$110,411 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 2016 compared to 2015 by department:

<b>Department</b>	<b>2016</b>	<b>2015</b>
Operations	\$ 1,457,863	\$ 1,493,636
Maintenance	391,015	418,468
Administration	385,916	341,767
Depreciation	249,237	319,611
<b><i>Total Expenses</i></b>	<b>\$ 2,484,031</b>	<b>\$ 2,573,482</b>

***Operating Expense by Object*** – The object is the classification of expenses by type of item. The following table shows expenses for 2016 compared to 2015 by object:

<b>Object</b>	<b>2016</b>	<b>2015</b>
Labor	\$ 1,012,617	\$ 972,876
Fringe Benefits	548,902	564,248
Services	327,808	338,352
Materials & Supplies	212,954	230,361
Utilities	27,334	32,854
Casualty & Liability	74,207	90,060
Taxes and Fees	448	120
Miscellaneous	17,854	17,117
Interest Expense	14	-
Leases & Rentals	12,656	7,883
Depreciation	249,237	319,611
<b><i>Total Expenses</i></b>	<b>\$ 2,484,031</b>	<b>\$ 2,573,482</b>

### ***Capital Asset and Debt Administration***

***Capital Assets*** The Authority's investment in capital assets for the governmental activities at year end amounted to \$1,053,898 (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, 2016 included two busses, dispatch hardware and software, and radios with GPS in the amount of \$282,658.

***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 2016-2017 fiscal year:

- Federal operating assistance is anticipated to be 18.50% of eligible operating expenses for 2017.
- State operating assistance continues to be uncertain, with stagnant revenues coming into the comprehensive transportation fund.
- Operating expenses continue to grow, but the comprehensive transportation fund does not. This in turn reduces the percentage of reimbursement that the Authority receives from the Michigan Department of Transportation. The Authority is anticipating 38.31% of eligible expenses to be reimbursed by the Michigan Department of Transportation for the fiscal year ending 2017.

### ***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, 2016**

**ASSETS**

*Current Assets*

Cash and Cash Equivalents	\$ 99,059
Accounts Receivable	7,397
Due from State	143,035
Due from Federal Government	479,812
Inventory	2,507
Prepaid Expenses	50,056
<b>Total Current Assets</b>	<b>781,866</b>

*Noncurrent Assets*

Capital Assets not Being Depreciated	62,700
Capital Assets Being Depreciated	991,198
<b>Total Assets</b>	<b>1,835,764</b>

**LIABILITIES**

*Current Liabilities*

Accounts Payable	41,644
Accrued Wages and Fringe Benefits	19,709
Due to State	31,694
<b>Total Liabilities</b>	<b>93,047</b>

**NET POSITION**

Investment in Capital Assets	1,053,898
<i>Unrestricted</i>	688,819
<b>Total Net Position</b>	<b>\$ 1,742,717</b>

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, 2016**

<b>Operating Revenues</b>	
Passenger Fares	\$ 268,642
Auxiliary Transportation Revenues	3,805
<b><i>Total Operating Revenues</i></b>	<b><u>272,447</u></b>
<b>Operating Expenses</b>	
Labor	1,012,617
Fringe Benefits	548,902
Services	252,808
Materials and Supplies	212,954
Utilities	27,334
Casualty and Liability Costs	74,207
Taxes and Fees	448
Miscellaneous	17,854
Interest Expense	14
Leases and Rentals	12,656
Depreciation	227,608
Eligible Depreciation	21,629
New Freedom	75,000
<b><i>Total Operating Expenses</i></b>	<b><u>2,484,031</u></b>
<b><i>Operating Income (Loss)</i></b>	<b><u>(2,211,584)</u></b>
<b>Non-Operating Revenues (Expenses)</b>	
<b>Local Contributions</b>	
Taxes	128,242
<b>State of Michigan Operating Grants</b>	
Local Bus Operating Grant (ACT 51)	610,946
Job Access Reverse Commute	367,711
New Freedom - Mobility Management	15,000
Prior Year Adjustment	138,717
<b>Federal Operating Grants</b>	
USDOT Operating Grants (Section 5307)	734,796
New Freedom - Mobility Management	60,000
Interest Earned	127
Other Non-Transit Revenues	69,831
Gain on Sale of Capital Assets	6,805
<b><i>Total Non-Operating Revenues (Expenses)</i></b>	<b><u>2,132,175</u></b>
<b>Capital Contributions</b>	
State Capital Grants	44,354
Federal Capital Grants	177,416
<b><i>Total Capital Contributions</i></b>	<b><u>221,770</u></b>
<b><i>Change In Net Position</i></b>	<b><u>142,361</u></b>
<i>Net Position at Beginning of Period</i>	1,600,356
<b><i>Net Position at End of Period</i></b>	<b><u>\$ 1,742,717</u></b>

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, 2016**

**Cash Flows from Operating Activities**

Cash Received from Customers	\$ 277,140
Cash Payments to Employees for Services and Fringe Benefits	(1,572,212)
Cash Payments to Suppliers for Goods and Services	(725,681)
<b><i>Total Cash Flows from (used by) Operating Activities</i></b>	<b><u>(2,020,753)</u></b>

**Cash Flows from Non-capital and Related Financing Activities**

Local Tax Levy Received	128,242
State Grants	1,122,846
Federal Grants	484,991
Other Revenue	69,831
<b><i>Total Cash Flows from Non-capital and Related Financing Activities</i></b>	<b><u>1,805,910</u></b>

**Cash Flows from Capital and Related Financing Activities**

Purchases of Capital Assets	(282,658)
Capital Grants Received	277,728
Sale of Capital Assets	6,805
<b><i>Total Cash Flows from (used by) Capital and Related Financing Activities</i></b>	<b><u>1,875</u></b>

**Cash Flows from Investing Activities**

Interest on Investments	127
<b><i>Total Cash Flows from Investing Activities</i></b>	<b><u>127</u></b>
<b><i>Net Increase (Decrease) in Cash and Cash Equivalents</i></b>	<b><u>(212,841)</u></b>
<i>Cash and Cash Equivalents - Beginning of Year</i>	311,900
<b><i>Cash and Cash Equivalents - End of Year</i></b>	<b><u>\$ 99,059</u></b>

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, 2016**

<b>Reconciliation of Operating Income (Loss) to</b>	
<b>Net Cash Provided (Used) by Operating Activities</b>	
<b>Operating Income</b>	\$ (2,211,584)
Adjustments to Reconcile Operating Income to Net Cash	
<b>Provided (Used) by Operating Activities</b>	
Depreciation Expense	249,237
<b>Changes in Assets &amp; Liabilities</b>	
Accounts Receivable	4,693
Inventory	20,286
Prepaid Expenses	16,182
Accounts Payable	(88,874)
Accrued Wages and Fringe Benefits	(10,693)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (2,020,753)</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**

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### **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**

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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 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**

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### ***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 2015 ad valorem tax was levied and collectable on December 1, 2015. It is the policy of the Authority to recognize revenue from the current tax levy in the 2015/2016 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 expenses 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 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**

### ***New Accounting Standards Adopted***

For September 30, 2016, the Transportation Authority adopted Government Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB 72 requires the funds to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the funds' financial statements as a result of the implementation of GASB 72.

### **Note 2 - Deposits and Investments**

At year-end, the carrying amount of the Authority's deposits was \$98,829 and the bank balance was \$109,064, which was covered by federal depository insurance. The following schedule summarizes each cash and cash equivalents:

<b>Cash &amp; Cash Equivalents</b>	
Checking & Savings Accounts	\$ 98,829
Petty Cash	230
<b><i>Total Cash &amp; Cash Equivalents</i></b>	<b><u>\$ 99,059</u></b>

### ***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, 2016, 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

# Twin Cities Area Transportation Authority

## Notes to the Financial Statements

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, 2016.

*Fair Value Measurement* - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority holds no investments subject to fair value measurement.

### Note 3 - Due from Other Governments

#### *Due from State Government*

Due from (to) State	
FY 2016 - Operating Assistance - Act 51	\$ 30,330
FY 2016 - Due to State - ACT 51 Advance	(31,694)
Job Access Reverse Commute (MI-37-X047)	100,378
New Freedom Program - Mobility Management	4,177
Capital Grant (12-0173/P12 & P8)	8,150
<i>Due from State</i>	<u>\$ 111,341</u>

#### *Due from Federal Government*

Due from (to) Federal Government	
FY 2016 - Operating Assistance	\$ 441,946
New Freedom Program - Mobility Management	16,706
Capital Grant (12-0173/P17 & P8)	21,160
<i>Due from Federal Government</i>	<u>\$ 479,812</u>

### Note 4 - Accounts Receivable

Accounts receivable as of year end for the Authority are \$7,397. The receivables are considered to be fully collectable with no 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:

	9/30/2015	Increases	Decreases	9/30/2016
<b>Capital assets not being depreciated</b>				
Land	\$ 62,700	\$ -	\$ -	\$ 62,700
<b>Capital assets being depreciated</b>				
Buildings	1,666,875	25,925	-	1,692,800
Buses	1,626,810	173,722	115,388	1,685,144
Other Vehicles	138,738	-	-	138,738
Equipment	467,743	83,011	-	550,754
<b>Total</b>	3,900,166	282,658	115,388	4,067,436
<b>Accumulated depreciation</b>				
Buildings	1,535,854	20,296	-	1,556,150
Buses	961,696	191,227	115,388	1,037,535
Other Vehicles	111,713	5,240	-	116,953
Equipment	333,124	32,476	-	365,600
<b>Total</b>	2,942,387	249,239	115,388	3,076,238
<i>Net capital assets being depreciated</i>	957,779	33,419	-	991,198
<b>Net capital assets</b>	\$ 1,020,479	\$ 33,419	\$ -	\$ 1,053,898

Depreciation expense of the Authority for the year totaled \$249,239.

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 revenues in the year received

# **Twin Cities Area Transportation Authority**

## **Notes to the Financial Statements**

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and are included as ineligible from the operating calculation in accordance with Michigan Department of Transportation guidelines.

### **Note 7 - Concentration of Credit Risk**

For the fiscal year ended September 30, 2016, the Authority was reimbursed by the State of Michigan for 35.76% 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, 2016 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 6, 2017 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.

# **Twin Cities Area Transportation Authority**

## **Notes to the Financial Statements**

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### ***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.

### ***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 (\$69,831), 55009 Ineligible Percent of Association Dues (\$186), and 55010 Other Ineligible Expenses – Vending (\$1,055).

No expenses need to be subtracted out as ineligible for 40615 Advertising Revenue of \$2,750. 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 \$6,805.

### ***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, 2016**

	<u>2016</u>
<b>Local Revenues</b>	
Line Haul - Farebox (Urban - Small)	\$ 26,199
Demand Response - Farebox (Urban - Small)	208,471
Line Haul - Farebox (JARC)	11,837
Demand Response - Farebox (JARC)	22,135
Concessions	1,055
Advertising	2,750
Gain on Sale of Capital Asset	6,805
Other Non-transit Revenues	69,831
Taxes Levied Directly for/by Transit Agency	128,242
Interest Income	127
<b><i>Total Local Revenues</i></b>	<u><u>\$ 477,452</u></u>

**Twin Cities Area Transportation Authority**  
**Operating and Contract Expenses**  
**For the Year Ended September 30, 2016**

	Urban - Small State Operating FY 2016*	Urban - Small Operating JARC	New Freedom	Total
Labor	\$ 831,732	\$ 180,885	\$ -	\$ 1,012,617
Fringe Benefits	450,105	98,797	-	548,902
Services	193,785	59,023	75,000	327,808
Materials and Supplies	173,938	39,016	-	212,954
Utilities	22,372	4,962	-	27,334
Casualty and Liability Costs	60,790	13,417	-	74,207
Taxes and Fees	368	80	-	448
Miscellaneous Expenses	14,645	3,209	-	17,854
Interest Expense	12	2	-	14
Leases and Rentals	10,362	2,294	-	12,656
Depreciation	249,237	-	-	249,237
<b><i>Total Operating Expenses</i></b>	<b>\$ 2,007,346</b>	<b>\$ 401,685</b>	<b>\$ 75,000</b>	<b>\$ 2,484,031</b>

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

**Twin Cities Area Transportation Authority  
Operating Assistance Report - Revenues - Regular Service  
For the Year Ended September 30, 2016**

Code	Description	Line Haul	Demand Response	Total
<b>401</b>	<b>Farebox Revenue</b>			
40100	Passenger Fares	\$ 26,199	\$ 208,471	\$ 234,670
<b>402</b>	<b>Contract Fares</b>			
40203	Contract Fares	-	-	-
<b>406</b>	<b>Auxiliary Trans Revenue</b>			
40610	Concessions	-	1,055	1,055
40615	Advertising	-	2,750	2,750
<b>407</b>	<b>Nontrans Revenues</b>			
40760	Gains on Sale of Capital Assets	-	6,805	6,805
40799	Other NonTrans Revenue (Refunds)	-	69,831	69,831
<b>408</b>	<b>Local Revenue</b>			
40800	Taxes Levied Directly for/by Transit Agency	109,975	18,267	128,242
<b>409</b>	<b>Local Service Contract</b>			
40940	Local Service Contract/State Source (New Freedom)	-	-	-
<b>411</b>	<b>State Formula and Contracts</b>			
41101	State Operating Assistance	75,697	535,249	610,946
41110	Prior Year Adjustments	-	128,148	128,148
41114	State Capital Grants	-	44,354	44,354
<b>413</b>	<b>Federal Contracts</b>			
41302	Federal Section 5307	-	734,796	734,796
41310	Prior Year Adjustments	-	-	-
41314	Federal Capital Grants	-	177,416	177,416
<b>414</b>	<b>Other Revenue</b>			
41400	Interest Income	-	127	127
<b>Total Revenues</b>		<u>\$ 211,871</u>	<u>\$ 1,927,269</u>	<u>\$ 2,139,140</u>

**Twin Cities Area Transportation Authority**  
**Operating Assistance Report - Expenses - Regular Service**  
**For the Year Ended September 30, 2016**

Code	Description	Operations Line Haul	Operations Demand Response	Maintenance Line Haul	Maintenance Demand Response	Administration Line Haul	Administration Demand Response	Total
<b>501</b>	<b>Labor</b>							
50101	Operating Salaries and Wages	\$ 50,857	\$ 429,066	\$ -	\$ -	\$ -	\$ -	\$ 479,923
50102	Other Salaries and Wages	3,114	23,486	9,357	63,086	20,658	108,591	228,292
50103	Dispatchers Salaries and Wages	-	123,517	-	-	-	-	123,517
<b>502</b>	<b>Fringe Benefits</b>							
50200	Fringe Benefits	37,212	299,847	4,889	33,465	11,653	63,039	450,105
<b>503</b>	<b>Services</b>							
50302	Advertising Fees	-	-	-	-	329	1,725	2,054
50305	Audit Expense	-	-	-	-	680	3,600	4,280
50399	Other Services	870	6,914	22,615	154,534	400	2,118	187,451
<b>504</b>	<b>Materials and Supplies</b>							
50401	Fuel and Lubricants	16,754	99,940	165	1,115	193	1,018	119,185
50402	Tires and Tubes	2,839	22,612	-	-	-	-	25,451
50499	Other Materials and Supplies	1,017	8,096	1,197	8,073	1,740	9,179	29,302
<b>505</b>	<b>Utilities</b>							
50500	Utilities	556	4,426	1,938	13,082	378	1,992	22,372
<b>506</b>	<b>Insurance</b>							
50603	Liability Insurance	5,944	47,325	-	-	1,112	5,877	60,258
50699	Other Insurance	-	-	-	-	85	447	532
<b>507</b>	<b>Taxes and Fees</b>							
50700	Taxes and Fees	-	-	-	-	58	310	368
<b>509</b>	<b>Miscellaneous Expenses</b>							
50902	Travel, Meetings and Training	693	5,532	70	475	250	1,324	8,344
50903	Association Dues and Subscriptions	-	-	-	-	594	3,128	3,722
50999	Other Miscellaneous Expense	187	1,489	-	-	143	760	2,579
<b>511</b>	<b>Interest Expense</b>							
51123	Interest on State Advances	-	-	-	-	2	10	12
<b>512</b>	<b>Operating Leases and Rentals</b>							
51200	Operating Leases and Rentals	440	3,502	827	5,585	1	7	10,362
<b>513</b>	<b>Depreciation</b>							
51300	Depreciation	-	228,681	-	3,787	-	16,769	249,237
<b>Total Expenses</b>		<u>120,483</u>	<u>1,304,433</u>	<u>41,058</u>	<u>283,202</u>	<u>38,276</u>	<u>219,894</u>	<u>2,007,346</u>
<b>550</b>	<b>Ineligible Expenses</b>							
55007	Ineligible Depreciation	-	208,836	-	3,459	-	15,313	227,608
55008	Ineligible Refunds and Credits	-	-	-	-	-	69,831	69,831
55009	Ineligible Percent of Association Dues	-	-	-	-	22	164	186
55010	Other Ineligible Expenses - Vending	-	-	-	-	150	905	1,055
55103	Interest on State Advance	-	-	-	-	2	10	12
<b>570</b>	<b>Ineligible Expenses</b>							
57604	Ineligible Operating Expense Paid by Capital Grant	-	-	-	-	-	-	-
<b>Total Ineligible Expense</b>		<u>-</u>	<u>208,836</u>	<u>-</u>	<u>3,459</u>	<u>174</u>	<u>86,223</u>	<u>298,692</u>
<b>Total Eligible Expense</b>		<u>\$ 120,483</u>	<u>\$ 1,095,597</u>	<u>\$ 41,058</u>	<u>\$ 279,744</u>	<u>\$ 38,102</u>	<u>\$ 133,671</u>	<u>\$ 1,708,654</u>

**Twin Cities Area Transportation Authority**  
**Operating Assistance Report - Regular Service - Nonfinancial Data (unaudited)**  
**For the Year Ended September 30, 2016**

Code	Description	Weekday Line Haul	Weekday Demand Response	Saturday Line Haul	Saturday Demand Response	Total
<b>Public Service</b>						
610	Vehicle Hours	8,096	30,160	832	2,072	41,160
611	Vehicle Miles*	55,862	370,224	5,741	23,406	455,233
615	Passengers - Regular	16,823	59,952	2,226	5,159	84,160
616	Passengers - Seniors	8,971	18,278	1,065	2,126	30,440
617	Passengers - Persons w/ Disabilities	8,746	33,354	991	3,499	46,590
621	<b>Total Line Haul Passengers</b>	34,540	-	4,282	-	38,822
622	Total Demand Response Passengers	-	111,584	-	10,784	122,368
625	Days Operated	253	253	52	52	610

<b>Vehicle Information</b>		Quantity
653	Total Line Haul Vehicles	2
654	Line Haul Vehicles w/ Lifts	2
655	Total Demand Response Vehicles	19
656	Demand Response Vehicles w/Lifts	18
658	Total Transit Vehicles	21

<b>Miscellaneous Information</b>		Quantity Line Haul	Quantity Demand Response
601	Number of Routes (Line Haul Only)	2	-
602	Total Route Miles (Line Haul Only)	28	-
659	LPG or CNG Gallons Equivalent Consumed	4,972	9,717
660	Diesel/Gasoline Gallons Consumed	9,157	38,337
661	Total Transit Agency Employees	40	-
662	Total Revenue Vehicle Operators	20	-

\* 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, 2016**

Code	Description	Line Haul	Demand Response	Total
<b>401</b>	<b>Farebox Revenue</b>			
40100	Passenger Fares	\$ 11,837	\$ 22,135	\$ 33,972
<b>411</b>	<b>State Formula and Contracts</b>			
41199	Other MDOT Contracts - JARC	177,836	189,875	367,711
41110	Prior Year Adjustments	5,111	5,458	10,569
<b>Total Revenues</b>		<u>\$ 194,784</u>	<u>\$ 217,468</u>	<u>\$ 412,252</u>

**Twin Cities Area Transportation Authority**  
**Operating Assistance Report - Expenses - JARC**  
**For the Year Ended September 30, 2016**

Code	Description	Operations Line Haul	Operations Demand Response	Maintenance Line Haul	Maintenance Demand Response	Administration Line Haul	Administration Demand Response	Total
<b>501</b>	<b>Labor</b>							
50101	Operating Salaries and Wages	\$ 60,379	\$ 56,687	\$ -	\$ -	\$ -	\$ -	\$ 117,066
50102	Other Salaries and Wages	2,922	3,237	7,605	8,422	13,598	15,064	50,848
50103	Dispatchers' Salaries and Wages	-	12,971	-	-	-	-	12,971
<b>502</b>	<b>Fringe Benefits</b>							
50200	Fringe Benefits	35,447	38,819	3,981	4,416	7,653	8,481	98,797
<b>503</b>	<b>Services</b>							
50302	Advertising Fees	-	-	-	-	222	245	467
50305	Audit Expense	-	-	-	-	446	490	936
50399	Other Services	822	913	18,443	20,449	8,055	8,938	57,620
<b>504</b>	<b>Materials and Supplies</b>							
50401	Fuel and Lubricants	12,734	13,623	135	149	127	141	26,909
50402	Tires and Tubes	2,657	2,948	-	-	-	-	5,605
50499	Other Materials and Supplies	957	1,056	980	1,087	1,150	1,272	6,502
<b>505</b>	<b>Utilities</b>							
50500	Utilities	522	578	1,581	1,755	249	277	4,962
<b>506</b>	<b>Insurance</b>							
50603	Liability Insurance	5,576	6,182	-	-	730	808	13,296
50699	Other Insurance	-	-	-	-	57	64	121
<b>507</b>	<b>Taxes and Fees</b>							
50700	Taxes and Fees	-	-	-	-	38	42	80
<b>509</b>	<b>Miscellaneous Expenses</b>							
50902	Travel, Meetings and Training	639	715	58	63	161	178	1,814
50903	Association Dues and Subscriptions	-	-	-	-	393	438	831
50999	Other Miscellaneous Expense	175	195	-	-	92	102	564
<b>511</b>	<b>Interest Expense</b>							
51123	Interest on State Advances	-	-	-	-	1	1	2
<b>512</b>	<b>Operating Leases and Rentals</b>							
51200	Operating Leases and Rentals	414	460	673	745	1	1	2,294
<b>Total Expenses</b>		<u>123,244</u>	<u>138,384</u>	<u>33,456</u>	<u>37,086</u>	<u>32,973</u>	<u>36,542</u>	<u>401,685</u>
<b>550</b>	<b>Ineligible Expenses</b>							
55000	Ineligible JARC Farebox	-	-	-	-	11,837	22,135	33,972
55103	Interest on State Advances	-	-	-	-	1	1	2
<b>570</b>	<b>Ineligible Expenses</b>							
57604	Ineligible Operating Expense Paid by Capital Grant	-	-	-	-	-	-	-
<b>Total Ineligible Expense</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,838</u>	<u>22,136</u>	<u>33,974</u>
<b>Total Eligible Expense</b>		<u>\$ 123,244</u>	<u>\$ 138,384</u>	<u>\$ 33,456</u>	<u>\$ 37,086</u>	<u>\$ 21,135</u>	<u>\$ 14,406</u>	<u>\$ 367,711</u>

**Twin Cities Area Transportation Authority**  
**Operating Assistance Report - JARC - Nonfinancial Data (unaudited)**  
**For the Year Ended September 30, 2016**

Code	Description	Weekday Line Haul	Weekday Demand Response	Saturday Line Haul	Saturday Demand Response	Total
<b>Public Service</b>						
610	Vehicle Hours	4,048	4,048	260	728	9,084
611	Vehicle Miles*	55,862	80,960	3,588	14,560	154,970
615	Passengers - Regular	7,821	16,912	1,137	2,238	28,108
616	Passengers - Seniors	3,241	1,639	310	630	5,820
617	Passengers - Persons w/ Disabilities	2,933	3,817	470	750	7,970
621	<b>Total Line Haul Passengers</b>	13,995	-	1,917	-	15,912
622	Total Demand Response Passengers	-	22,368	-	3,618	25,986
625	Days Operated	253	253	52	52	610
<b>Vehicle Information</b>						
		<u>Quantity</u>				
653	Total Line Haul Vehicles	2				
654	Line Haul Vehicles w/ Lifts	2				
655	Total Demand Response Vehicles	2				
656	Demand Response Vehicles w/Lifts	2				
658	Total Transit Vehicles	4				
<b>Miscellaneous Information</b>						
		<u>Quantity Line Haul</u>	<u>Quantity Demand Response</u>			
601	Number of Routes (Line Haul Only)	2	-			
602	Total Route Miles (Line Haul Only)	30	-			
659	LPG or CNG Gallons Equivalent Consumed	10,060	6,506			
660	Diesel/Gasoline Gallons Consumed	16,628	10,350			

\* 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, 2016**

Code	Description	Admin
<b>411</b>	<b>State Formula and Contracts</b>	
41199	Other MDOT Contracts - New Freedom	\$ 15,000
<b>413</b>	<b>Federal Contracts</b>	
41399	Other MDOT Contracts - New Freedom	60,000
<b><i>Total Revenues</i></b>		<b><i>\$ 75,000</i></b>

**Twin Cities Area Transportation Authority**  
**Operating Assistance Report - Expenses - New Freedom**  
**For the Year Ended September 30, 2016**

Code	Description	Total
<b>503</b>	<b>Services</b>	
50399	Other Services	\$ 75,000
<b><i>Total Expenses</i></b>		<b><i>\$ 75,000</i></b>

**Twin Cities Area Transportation Authority  
Operating Assistance Schedule  
For the Fiscal Year Ended September 30, 2016**

	<u>Urban - Small</u>
<b>Total Operating Expenses</b>	\$ 2,484,031
<b>Less Ineligible Expenses</b>	
Depreciation	227,608
Ineligible Refunds and Credits	69,831
Association Dues MassTrans	186
Vending Machines	1,055
Interest on State Advance	14
JARC Expenses Funded by Grant	367,711
JARC Farebox	33,972
New Freedom Expenses Funded By Grant	75,000
<b><i>Total Ineligible Expenses Per R&amp;E Manual</i></b>	<u>775,377</u>
<b><i>Total State Eligible Expenses</i></b>	1,708,654
Reimbursement Percentage	35.76%
<b>State Operating Assistance</b>	<u>\$ 610,946</u>
<b><i>Total Federal Eligible Expenses</i></b>	\$ 1,708,654
Less Additional Federal Ineligible Expenses	
Urban - Small Farebox	234,670
Eligible Expenses for Federal Reimbursement	1,473,984
Reimbursement Percentage	50.00%
<b><i>Federal Operating Assistance</i></b>	<u>\$ 736,992</u>
OR	
Eligible Expenses for Federal Reimbursement	\$ 1,473,984
Less State Operating Assistance	610,946
Less Local Millage	128,242
<b><i>Federal Operating Assistance</i></b>	<u>\$ 734,796</u>

**TWIN CITIES AREA TRANSPORTATION AUTHORITY  
BERRIEN COUNTY, MICHIGAN  
SINGLE AUDIT ACT COMPLIANCE  
YEAR ENDED SEPTEMBER 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Schedule of Expenditures of Federal Awards**

We have audited the accompanying schedule of expenditures of federal awards of the Twin Cities Area Transportation Authority (the "Authority") for the year ended September 30, 2016, and the related notes.

#### ***Management's Responsibility***

Management is responsible for the preparation and fair presentation of this financial statement 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 a financial statement that is free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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

***Opinion***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards of the Authority for the year ended September 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

*Galbridge & Company*

Grand Rapids, Michigan  
March 6, 2017

**Twin Cities Area Transportation Authority**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended September 30, 2016**

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		
U.S. Department of Transportation Passed Through Michigan Department of Transportation								
2016 Operating Assistance - Act 51	N/A	N/A	\$ 610,946	\$ 610,946	\$ -	\$ 610,946	\$ -	\$ 128,148
Job Access Reverse Commute	N/A	2012-0173 - P15	386,040	-	-	40,640	-	10,569
Job Access Reverse Commute	N/A	2012-0173 - P20	386,040	-	-	327,071	-	58,969
New Freedom Program - Section 5317	20.521	2012-0173 - P18	75,000	75,000	60,000	15,000	-	-
Capital Assistance - Section 5307	20.507 *	MI-95-X114 - P19	31,884	46,186	-	31,884	14,302	-
Capital Assistance - Section 5307	20.507 *	MI-90-X693 - P17	5,060	5,060	-	5,060	-	-
Capital Assistance - Section 5307	20.526 *	MI-34-0003 - P8	50,000	37,050	29,640	7,410	6,553	12,950
<b>Total Assistance Passed Through MDOT</b>			<u>1,544,970</u>	<u>774,242</u>	<u>89,640</u>	<u>1,038,011</u>	<u>20,855</u>	<u>138,717</u>
Direct Pass Through US Department of Transportation								
Operating Assistance - Section 5307	20.507 *	MI-2016-010-00	734,796	734,796	734,796	-	-	-
Capital Assistance - Section 5307	20.507 *	MI-95-X114 - P19	127,536	127,536	127,536	-	-	-
Capital Assistance - Section 5307	20.507 *	MI-90-X693 - P17	20,240	20,240	20,240	-	-	-
<b>Total Direct Assistance</b>			<u>882,572</u>	<u>882,572</u>	<u>882,572</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assistance</b>			<u>\$ 2,427,542</u>	<u>\$ 1,656,814</u>	<u>\$ 972,212</u>	<u>\$ 1,038,011</u>	<u>\$ 20,855</u>	<u>\$ 138,717</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 accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Twin Cities Area Transportation Authority (the “Authority”) under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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, which is described in Note 1 to the Authority's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable and have been identified in the Schedule.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Authority has elected not to use the 10-percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

#### **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 \$734,796 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 6, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 6, 2017.

**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 2016-1 through 2016-3 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**

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### **Material Weakness**

#### **2016-1 – 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**

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#### **Material Weakness**

##### **2016-2 – 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**

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#### **Material Weakness**

##### **2016-3 – 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 FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
UNIFORM GUIDANCE

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 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, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2016.

## Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Gabridge & Company, PLC  
Grand Rapids, MI  
March 6, 2017



**Twin Cities Area Transportation Authority  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2016**

**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 2 CFR 200.516?	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?	\$ 750,000
Auditee qualified as a low-risk auditee?	No

**SECTION II - FINANCIAL STATEMENT FINDINGS**

2016-1 through 2016-3

**SECTION III - FEDERAL AWARDS AND QUESTIONED COSTS**

No matters were reported.

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

No prior audit findings were reported.

March 6, 2017

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 (the "Authority") for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, 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 16, 2017. 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 Authority are described in Note 1 to the financial statements. As discussed in Note 1 to the Financial Statements, the Authority adopted Governmental Accounting Standards Board Statement No. 72. We noted no transactions entered into by Authority 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 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.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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 clearly 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 and were corrected by management:

- Due from Federal Government was adjusted by \$69,124
- Due from State Capital was adjusted by \$89,289
- Prepaid workers' compensation was adjusted by \$18,522
- Depreciation expense of \$249,237 was recorded
- The advance from the state was recorded as a liability of \$31,694

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 6, 2017.

### *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 Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information except for pages 27 & 30, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 the supplemental information on pages 27 & 30, which accompany the financial statements but are not RSI. Such information 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 it.

Restriction on Use

This information is intended solely for the information and use of Board of Directors and management of Authority 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 signature is written in a cursive, flowing style.

Gabridge & Company, PLC  
Grand Rapids, MI