

Ann Arbor Area Transportation Authority

*Financial Statements as of and for the
Years Ended September 30, 2018 and 2017 and
Additional Information for the Year Ended
September 30, 2018, Independent Auditor's Reports
Required by the Office of Management and Budget
Uniform Grant Guidance at 2 CFR Part 200 and
Supplementary Schedule of Expenditures of Federal
Awards for the Year Ended September 30, 2018, and
Independent Auditor's Reports*

ANN ARBOR AREA TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	3-6
FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017:	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-27
REQUIRED GASB STATEMENT NO. 75 SUPPLEMENTARY INFORMATION	28
Schedule of Changes in the Net OPEB Liability and Related Ratios	29
Schedule of Other Post-Employment Benefits (OPEB) Contributions	30
ADDITIONAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018:	31
Schedule of Revenues (Unaudited)	32
Schedule of Operating Expenses (Unaudited)	33
Schedule of Federal and State Interest in Capital Assets (Unaudited)	34
Schedule of Expenditures of Federal Awards (Unaudited)	35
Schedule of Expenditures of State Awards (Unaudited)	36
Schedule of Operating and Contract Expenses (Unaudited)	37
Schedule of Urban Regular Service Revenues (Unaudited)	38
Schedule of Urban Regular Service Expenses (Unaudited)	39
Schedule of Nonurban Regular Service Revenues (Unaudited)	40
Schedule of Nonurban Regular Service Expenses (Unaudited)	41
Schedule of Urban and Nonurban Regular Service Nonfinancial Information (Unaudited)	42
Schedule of Operating Assistance Calculation (Unaudited)	43
Notes to Schedule of Operating Assistance Calculation (Unaudited)	44
SINGLE AUDIT:	
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 <i>GOVERNMENT AUDITING STANDARDS</i>	45-46
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE	47-48
Supplementary Schedule of Expenditures of Federal Awards	49
Notes to Schedule of Expenditures of Federal Awards	50
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	51

Independent Auditor's Report

To the Board of Directors
Ann Arbor Area Transportation Authority

Report on the Financial Statements

We have audited the accompanying basic financial statements of Ann Arbor Area Transportation Authority (the "Authority") as of and for the years ended September 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the basic financial statements of the Authority, 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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Ann Arbor Area Transportation Authority as of September 30, 2018 and 2017 and the changes in its financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the basic financial statements, the Authority adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. This new standard establishes accounting and financial reporting requirements for OPEB plans provided to employees of governmental employers. The adoption of GASB Statement No. 75 resulted in the recognition of a net OPEB liability. Our opinion is not modified with respect to this matter.

To the Board of Directors
Ann Arbor Area Transportation Authority

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as identified 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, which 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 supplemental 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 an opinion on the financial statements that collectively comprise Ann Arbor Area Transportation Authority's basic financial statements. The additional information schedules, as identified in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The supplemental schedule of expenditures of federal awards 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. 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The additional information schedules, as identified in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements; 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 January 24, 2019 on our consideration of Ann Arbor Area Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ann Arbor Area Transportation Authority's internal control over financial reporting and compliance.



January 24, 2019

ANN ARBOR AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

As management of the Ann Arbor Area Transportation Authority (the "Authority") in Ann Arbor, Michigan, 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, 2018. We encourage readers to consider the information in conjunction with the financial statements, related note disclosures and the required supplementary and additional information as listed in the table of contents.

Five-Year Transit Improvement Plan

In January 2014, the Board of Directors adopted the Five-Year Transit Improvement Plan (5YTIP) for the Urban Core of Washtenaw County. Funding for this plan included a five-year property tax millage, which was approved by the voters of the Cities of Ann Arbor and Ypsilanti and Ypsilanti Township on May 6, 2014. The first 0.7 mill property tax was levied on July 1, 2014, which raised about \$4.5 million per year. These funds have been used to provide additional local transit service and buy 15 buses to provide the service. The rollout of all the additional services was completed in January 2018. On May 8, 2018, the 0.7 mill property tax was renewed for five years and will be levied on July 1, 2019 to 2023, inclusive.

Governance of the Authority

In 2013, the Authority and the City of Ann Arbor approved the City of Ypsilanti's and the Charter Township of Ypsilanti's requests to become members of the Authority, creating a three-member authority. The Board of Directors expanded from seven directors to ten directors, by adding one director each from of the City of Ann Arbor, the City of Ypsilanti and the Charter Township of Ypsilanti.

Overview of the Financial Statements and Financial Analysis

The discussion is intended to present an overview of the Authority's financial performance for the years ended September 30, 2018 and 2017 and does not purport to make any statement regarding the future operations of the Authority. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

The annual report consists of the basic financial statements, which are the statement of net position (formerly called the balance sheet), statements of revenues, expenses and changes in net position (formerly net assets), and the statements of cash flows, prepared in accordance with GASB principles. This report also contains other supplementary information in addition to the basic financial statements, as required by the State of Michigan Departments of Treasury and Transportation.

The basic financial statements for the year ended September 30, 2017 have been audited and are included herein for comparative purposes.

Financial Highlights

The Authority's total assets increased from the prior year by \$1.17 million (1.5%), primarily due to an increase of \$4.30 million (41.1%) in investments being offset by a decrease in net capital assets of \$3.19 million (5.8%).

Total net position decreased by \$1.97 million (2.7%) as unrestricted net position increased by \$1.22 million (6.3%) and the net investment in capital assets decreased by \$3.19 million (5.8%).

Total operating revenues is comprised of passenger fares and special fares, where someone other than the passenger pays the fare. These decreased \$13,000 (0.2%) as most fare categories remained flat.

Total operating expenses increased \$2.33 million (5.0%) due to expanded ARide purchased transportation services and expanded VanRide commuter services, where we pay for some of the operating costs instead of buying the VanRide vehicles.

Authority's Net Position

The statements of net position include all assets, liabilities and deferred inflows. It is prepared under the "full accrual" basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when they occur, regardless of the timing of the related cash flows. Assets and liabilities are measured using the economic resources measurement focus. Capital assets are reported at historical cost less an allowance for depreciation.

A summary of the Authority's assets, liabilities and net position at September 30, 2018, 2017 and 2016 follows (in thousands):

	2018	2017	2016
Assets:			
Current assets	\$29,251	\$24,961	\$23,705
Noncurrent assets	133	665	-
Capital assets, net	<u>51,459</u>	<u>54,644</u>	<u>54,738</u>
Total assets	<u>\$80,843</u>	<u>\$79,670</u>	<u>\$78,443</u>
Liabilities:			
Current liabilities	\$5,776	\$3,969	\$3,521
Noncurrent liabilities, including OPEB	<u>3,044</u>	<u>1,713</u>	<u>1,671</u>
Total liabilities	8,820	5,682	5,192
Net Position:			
Invested in capital assets	51,459	54,644	54,738
Unrestricted	<u>20,564</u>	<u>19,344</u>	<u>18,513</u>
Total net position	<u>\$72,023</u>	<u>\$73,988</u>	<u>\$73,251</u>

At September 30, 2018, the Authority's net position was \$72.0 million, compared to \$74.0 million at September 30, 2017.

The majority of the Authority's current liabilities are accounts payable and other accrued expenses.

The Authority maintains a postretirement healthcare plan and life insurance plan (the "Plan") and adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This Standard requires the Authority to recognize the expense related to these healthcare and life insurance benefits on an actuarially determined basis to better match the expense of the benefits with the period in which employees earn the benefit instead of a "pay as you go" basis. The unfunded actuarial accrued liability for the Plan was \$1.60 million as of

September 30, 2018, based on the most recent available valuation and was recorded as a prior period adjustment as required in the statement. See Note 16 for more information.

The total assets of the Authority exceeded its total liabilities by \$72.0 million (net position) as of September 30, 2018. Of this amount, \$20.6 million (unrestricted net position) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2018 property tax levies of \$16.0 million have been included in nonoperating revenues for the year ended September 30, 2018, even though three quarters of them will be needed to help fund operations from October 1, 2018 to June 30, 2019.

Statement of Revenues, Expenses and Changes in Net Position

A summary of the Authority's revenues, expenses and changes in net position for the years ended September 30, 2018, 2017 and 2016 is as follows (in \$1,000s):

	2018	2017	2016
Operating revenues	\$6,926	\$6,939	\$6,187
Operating expenses	<u>(48,849)</u>	<u>(46,520)</u>	<u>(43,739)</u>
Operating loss	(41,923)	(39,581)	(37,552)
Nonoperating revenues	<u>37,826</u>	<u>35,774</u>	<u>34,434</u>
Change in net position before capital contributions	(4,097)	(3,807)	(3,118)
Net capital contributions	<u>3,655</u>	<u>4,544</u>	<u>9,486</u>
Change in net position	(442)	734	6,368
Net position, beginning of year (2018, as restated)	<u>72,465</u>	<u>73,251</u>	<u>66,883</u>
Net position, end of year	<u>\$72,023</u>	<u>\$73,988</u>	<u>\$73,251</u>

The Authority's primary sources of operating revenues are passenger fares collected in the farebox in each bus, sales of 30-day passes and tokens. Other operating revenues are special fares where someone else other than the rider pays the fare, such as the MRide program paid by the University of Michigan and the go!pass program paid by the Downtown Development Authority of the City of Ann Arbor.

Total operating expenses of \$48.8 million include operations (\$35.0 million), fleet and facility maintenance (\$5.7 million) and general administration (\$8.1 million). The largest portion of all expenses is for employee wages and fringe benefits of \$24.4 million, 49.9% of all expenses.

Non-operating revenues include Federal and State grants. Local operating assistance includes local property taxes, purchase of service agreements, other governmental agreements and bus advertising.

Capital contributions represent federal, state and local grants for the purchase of new capital assets. In 2018, the Authority purchased six fixed-route buses, and one van for local nonprofit agencies for \$2.8 million. The purchase of all of the vehicles was funded by Federal grants administered by the Federal Transportation Administration (FTA) and matching State of Michigan Department of Transportation (MDOT) grants. A portion of Federal formula dollars (Section 5307) can be used as operating assistance. In 2018 and 2017, the Authority used \$3,921,000 and \$2,780,000, respectively for operating assistance, such as operating assistance, planning, preventive maintenance, and capital cost of contracting.

The beginning net position for the year ended September 30, 2018 has been restated in order to adopt GASB Statement No. 75. The effect of this new accounting standard was a decrease in net position to record the net OPEB liability at the beginning of the current fiscal year.

Notes to the Financial Statements

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

Capital Assets

The Authority continues to invest in vehicles, facilities and equipment. In 2018, the Authority purchased seven vehicles: six buses for fixed route, one van for local nonprofit agencies. In 2017, the Authority purchased 23 vehicles: 10 buses for fixed route, six vehicles for the VanRide program, and seven vans for local nonprofit agencies. The Authority's largest capital investments include buses and related equipment, net of depreciation, of \$29.5 million in 2018 and \$33.7 million in 2017 and the land and buildings, net of depreciation, of \$17.8 million in 2018 and \$19.2 million in 2017.

Economic Factors and Next Year's Budget (Fiscal Year 2019)

For fiscal year 2019, the Board of Directors adopted a \$45.86 million operating budget with an operating surplus of \$93,500 and a \$8.66 million capital budget. The Authority receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The source of these funds includes a portion of state gasoline taxes, vehicle-related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded.

Local funding is provided through municipal property tax levies and purchase of service agreements from the following communities: the Cities of Ann Arbor, Ypsilanti and Chelsea and the Charter Townships of Pittsfield, Scio, Superior and Ypsilanti.

The 0.7 mill property tax levy, which funds the additional 5YTIP service, was originally levied from July 1, 2014 to July 1, 2018, inclusive. In May 2018, the 0.7 mill property tax was renewed by voters of the Cities of Ann Arbor, Ypsilanti and Ypsilanti Township. The property tax is scheduled to be levied on July 1, 2019 to 2023 to continue to fund the additional services.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the transit provider's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Manager, Ann Arbor Area Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104. The Authority's website at www.theride.org contains copies of the annual operating budgets, annual audits and financial operating reports.

This year and prior year audited financial statements are also available on the State of Michigan's website at <https://treas-secure.state.mi.us/LAFDocSearch/>. Once there, select "Washtenaw County" for County, select the year "2018" (or a previous year as far back as 2004) for the Year and "Authority, Drain District" for the municipality Type. Then you can select the "Ann Arbor Area Transportation Authority" for the municipality.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF NET POSITION SEPTEMBER 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS:		
Cash (Note 3)	\$ 4,823,641	\$ 4,414,834
Investments (Note 3 and 4)	14,757,358	10,455,287
Accounts receivable, less allowance of \$0 in 2018 and 2017	922,402	2,320,431
Grants receivable (Notes 2 and 5)	5,883,212	4,211,963
Other receivables (Note 6)	1,174,584	1,111,026
Inventory	937,926	762,199
Prepaid expenses	752,346	1,085,486
Total current assets	29,251,469	24,361,226
NONCURRENT ASSETS:		
Restricted cash (Note 3)	132,910	664,550
CAPITAL ASSETS: (Note 7)		
Land and improvements	2,270,821	2,270,821
Park and Ride lot construction	5,759,849	5,759,849
Buildings and improvements	28,048,161	28,048,161
Equipment and other	73,181,881	70,096,951
Construction in progress	70,898	597,958
Total capital assets	109,331,610	106,773,740
Less accumulated depreciation	57,872,319	52,129,318
Net capital assets	51,459,291	54,644,422
TOTAL ASSETS	\$ 80,843,670	\$ 79,670,198
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,339,023	\$ 1,243,675
Grant refunds payable (Notes 2 and 5)	152,756	878,524
Accrued payroll	704,476	656,320
Accrued compensated absences, current portion	160,827	172,342
Other accrued expenses	113,921	133,660
Unearned revenue (Note 8)	304,462	884,002
Total current liabilities	5,775,465	3,968,523
NONCURRENT LIABILITIES:		
Accrued compensated absences	1,447,440	1,551,075
Postretirement benefit obligation	-	162,054
Net postretirement benefit (OPEB) liability (Note 16)	1,596,849	
Total noncurrent liabilities	3,044,289	1,713,129
Total liabilities	8,819,754	5,681,652
DEFERRED INFLOW OF RESOURCES:		
Deferred OPEB cost reductions (Note 16)	514	
NET POSITION:		
Net investment in capital assets	51,459,291	54,644,422
Unrestricted	20,564,111	19,344,124
Total net position	\$ 72,023,402	\$ 73,988,546

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES (Note 13)	\$ 6,926,124	\$ 6,939,087
OPERATING EXPENSES (Notes 9, 13, 16 and 17):		
Operations	35,054,247	32,962,420
Maintenance	5,652,950	5,548,948
General administration	<u>8,141,509</u>	<u>8,008,270</u>
Total operating expenses	<u>48,848,706</u>	<u>46,519,638</u>
OPERATING LOSS	(41,922,582)	(39,580,551)
NONOPERATING REVENUES:		
Local (Notes 10 and 11)	18,685,963	17,970,618
State (Note 2)	14,083,421	13,795,594
Federal	<u>5,056,459</u>	<u>4,007,624</u>
Total nonoperating revenues	<u>37,825,843</u>	<u>35,773,836</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(4,096,739)	(3,806,715)
CAPITAL CONTRIBUTIONS - FEDERAL, STATE AND LOCAL	<u>3,654,628</u>	<u>4,543,820</u>
CHANGE IN NET POSITION	(442,111)	737,105
NET POSITION, BEGINNING OF YEAR, as restated (Note 15)	<u>72,465,513</u>	<u>73,251,441</u>
NET POSITION, END OF YEAR	<u>\$ 72,023,402</u>	<u>\$ 73,988,546</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 4,959,372	\$ 4,313,598
Payments for salaries and wages and fringe benefits	(24,180,096)	(24,188,592)
Payments to suppliers	(7,080,692)	(7,205,329)
Payments for claims and insurance	(799,989)	(802,647)
Payments for purchased transportation	(7,149,907)	(5,750,507)
Net cash used in operating activities	<u>(34,251,312)</u>	<u>(33,633,477)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenues:		
Local	18,519,169	17,753,533
State	13,076,776	13,803,187
Federal	3,835,908	4,703,650
Net cash provided by noncapital financing activities	<u>35,431,853</u>	<u>36,260,370</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,085,106)	(6,744,989)
Capital contributed by state and federal grants	2,975,313	2,881,655
Proceeds from sales of equipment	1,077,050	35,500
Net cash used in capital and related financing activities	<u>2,967,257</u>	<u>(3,827,834)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(98,308,461)	(47,490,462)
Proceeds from sale and maturities of investment securities	94,006,390	48,590,462
Interest income	31,440	32,671
Net cash provided by investing activities	<u>(4,270,631)</u>	<u>1,132,671</u>
NET INCREASE (DECREASE) IN CASH	(122,833)	(68,270)
CASH AT BEGINNING OF YEAR	<u>5,079,384</u>	<u>5,147,654</u>
CASH AT END OF YEAR	<u>\$ 4,956,551</u>	<u>\$ 5,079,384</u>
STATEMENTS OF POSITION CLASSIFICATION OF CASH		
Unrestricted cash	\$ 4,823,641	\$ 4,414,834
Restricted cash	132,910	664,550
Total cash	<u>\$ 4,956,551</u>	<u>\$ 5,079,384</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (41,922,582)	\$ (39,580,551)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,815,239	6,540,995
Changes in assets and liabilities which provided (used) cash:		
Receivables	322,729	(512,422)
Inventory	(175,727)	92,516
Prepaid expenses	333,140	(27,660)
Payables	550,346	(239,657)
Accrued payroll	48,156	5,386
Other accrued expenses	(222,613)	87,916
Total adjustments	<u>7,671,270</u>	<u>5,947,074</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u>\$ (34,251,312)</u>	 <u>\$ (33,633,477)</u>
 NONCASH TRANSACTIONS:		
Subcontracted revenue - urban demand response (Note 13)	538,200	612,360
Subcontracted revenue - interurban airport shuttle (Note 13)	1,002,289	1,015,255
Nonurban - passenger fares and other governmental sources	<u>670,191</u>	<u>598,584</u>
 Total noncash transactions	 <u>\$ 2,210,680</u>	 <u>\$ 2,226,199</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Ann Arbor Area Transportation Authority (the "Authority") is a governmental unit established under Act 55 of 1963 of the State of Michigan to provide a mass transportation system within and beyond the corporate limits of the City of Ann Arbor. In 2013, the City of Ypsilanti and the Charter Township of Ypsilanti became members of the Authority.

The Authority is not included in the financial reporting entities of the cities of Ann Arbor or Ypsilanti or the Charter Township of Ypsilanti because the municipalities do not have the ability to exercise significant oversight over the Authority. The Authority can independently generate revenue, adopt budgets and borrow funds.

Eight members of the governing Board of Directors are appointed by the mayor of the City of Ann Arbor and confirmed by the City of Ann Arbor Council. One member of the governing Board of Directors is appointed by the mayor of the City of Ypsilanti and confirmed by the City of Ypsilanti Council. One member of the Board of Directors is appointed by the township supervisor of the Charter Township of Ypsilanti and confirmed by the township's Board of Trustees.

In December 2012, the passage of Michigan Public Act (PA) 387 created the Regional Transit Authority of Southeast Michigan (RTA) and added Washtenaw County to the formerly tri-county transit region comprised of Macomb, Oakland and Wayne counties. The Authority, the Suburban Mobility Authority for Regional Transportation (SMART), the Detroit Department of Transportation (DDOT) and the Detroit Transportation Corporation (the Detroit People Mover) are subrecipients of the RTA for Federal and state operating assistance and capital grants. The State of Michigan and the Federal Transit Administration (FTA) pay such funds directly to the Authority at the direction of the RTA.

Significant Accounting Policies

Basis of Accounting – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of less than 28 days when acquired.

Investments are held primarily in certificates of deposit and in pooled municipal investment trust funds. These trust funds consist of certificates of deposit, United States Treasury securities, repurchase agreements and commercial paper. Investments are stated at fair value.

Restricted Assets – Authority has unspent proceeds from the sale of assets originally acquired with capital grant funds. The Authority has notified the federal and state granting agencies and is required to segregate those funds for future acquisitions of capital assets.

Classification of Revenue – Revenues are classified as operating revenues, nonoperating revenues and capital contributions according to the following criteria:

Operating revenues – Operating revenues, such as passenger fares and special transit fares, include activities that have the characteristics of exchange transactions, in which each party receives and gives up essentially equal values.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, in which the Authority receives value without directly giving equal value in return, such as federal and state operating grants, property tax levies, fees paid by other municipalities under purchase of service agreements, and interest income. On an accrual basis, revenue from these grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Capital contributions – Capital contributions are federal, state and local grants designated for the purchase and/or construction of land, buildings and equipment and are recognized as revenue and are included in the statement of revenues, expenses and changes in net position. On an accrual basis, revenue from these contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include expenditure requirements in which the resources are provided to the Authority on a reimbursement basis.

Property Taxes – Property taxes are levied as an enforceable lien on property on July 1 by the cities of Ann Arbor and Ypsilanti and Ypsilanti Township. Property taxes are recognized as revenue when levied, with proper allowances made for estimated adjustments and Michigan Tax Tribunal refunds.

Derivative Financial Instruments – The Authority periodically enters into ultra-low sulfur diesel fuel (ULSD) futures contracts to manage a portion of the exposure to fluctuating biodiesel fuel prices. These derivative financial instruments, which inherently contain market risk, are generally effective in reducing fluctuation in biodiesel fuel prices. The market risk is the potential adverse effect on the value of ULSD futures contracts that results from a change in fuel prices. The Authority does not enter into ULSD future contracts for trading or speculative purposes.

The Authority records the fair market value of the fuel hedge contracts in investments. The resulting realized gains and losses are recorded as an offset to the expense (gain) or an additional

expense (loss) in the statements of revenues, expenses and changes in Net Position in the fuel and lubricants expense line item.

Compensated Absences - The Authority records the expense for vacation and sick pay benefits when earned by the employees. The portion of the accrual for unused vacation and sick leave that is reported as a current liability is based on an estimate of the amount employees are expected to use in the upcoming year. The remainder of the accrual is reported as a noncurrent liability.

Inventory is stated at the lower of cost (first-in, first-out basis) or market.

Cash Flows - Cash and Investment Classification - For the purpose of the statements of cash flows, the Authority considers all cash investments with an original maturity of twenty-eight days or more when purchased to be investments, which is consistent with how investments have been classified on the balance sheet.

Capital Assets - Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets include land, buildings, vehicles and other equipment, which are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Improvements which are expected to extend the useful lives of existing assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Park and ride lot construction	10 to 40
Buildings and improvements	3 to 40
Vehicles and related equipment	3 to 12
Radio and telephone systems	5 to 10
Fare collection equipment	5 to 10
Maintenance equipment	3 to 10
Office equipment and furniture	3 to 10
Passenger shelters	5 to 10
Advanced operating system	3 to 6

Eligible depreciation expense includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the State of Michigan Department of Transportation Bureau of Passenger Transportation.

Deferred Inflows of Resources – In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as revenue until that time. The Authority reports deferred inflows of resources related to OPEB, as detailed in Note 16.

Grant Activities - The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provides financial assistance and grants directly to the Authority for operations and acquisition of property and equipment. Operating

grants are recorded as grant receivables and revenues when the qualified expenditures are recorded. Federal and state capital acquisition grants fund the purchase of capital items, including buses and related transportation equipment used by Authority. Capital grants for the acquisition of capital assets are recorded as grants receivable in the statement of net position and capital contributions in the statements of revenues, expenses, and changes in net position when the related qualified expenditures are incurred.

When assets acquired with capital grant funds are disposed, the Authority is required to notify the granting federal agency. A proportional amount of the sale proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement assets or can be remitted to the granting federal agency at its discretion.

Other Postemployment Benefit (OPEB) Costs – Until December 31, 2007, the Authority offered retire healthcare benefits to employees upon retirement. At that time, existing retirees and certain eligible active employees elected to stay in the plan. The Authority offers life insurance benefits to active employees upon retirement. The Authority records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position is displayed in two components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation.

Unrestricted – This consists of the net position that does not meet the definition of “invested in capital assets.”

Use of Estimates - The preparation of financial statements 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 results could differ from those estimates.

2. STATE OF MICHIGAN OPERATING ASSISTANCE FUNDS

Under Act 51 of the Public Acts of 1951, as amended, the State of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. As indicated in Note 1, the RTA is the designated recipient of such funds and the Authority is a subrecipient of the RTA. The Authority has recorded operating grant revenue under Act 51 based on a formula that takes into account the eligible costs incurred by the Authority and preliminary information made

available by the Michigan Department of Transportation (MDOT) as to the eligible expenses reimbursement percentage for the fiscal year ended September 30, 2018.

The latest "final" determination of State of Michigan operating assistance allocable to the Authority in accordance with the Act 51 funding formula was for the fiscal year ended September 30, 2015. The resulting increase in revenue has been finalized with the State and has been received by the Authority. Furthermore, the Authority awaits the "final" determination for the years ended September 30, 2016, 2017 and 2018 (open years). The Authority has not recorded any estimated aggregate receivable or liability as of September 30, 2018 based on management's anticipation of the results of the State's final determination of the Act 51 funding formula for the open years, other than the receivable or liability already recorded based on the MDOT's preliminary eligible expenses reimbursement percentage for each of the open years.

3. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2018 and 2017:

Statements of Position:	2018	2017
Cash	\$ 4,823,641	\$ 4,414,834
Investments	14,757,358	10,455,287
Restricted cash	<u>132,910</u>	<u>664,550</u>
Total	<u>\$19,713,909</u>	<u>\$15,534,671</u>

Deposits and Investments:	2018	2017
Bank deposits (checking, savings and certificates of deposit)	\$13,928,262	\$15,076,094
U.S. Treasury securities	4,999,880	-
Investment in government liquid asset fund accounts	5,409	5,404
Ultra-low sulfur diesel (ULSD) futures account	777,068	449,883
Cash on hand	<u>3,290</u>	<u>3,290</u>
Total	<u>\$19,713,909</u>	<u>\$15,534,671</u>

Public Act 20 of 1943, as amended, authorizes the government to deposit in the accounts of federally insured banks, credit unions and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. It has not been determined if investment in ULSD fuel futures are in compliance with applicable State statutes.

Investments – In addition to the state restrictions noted above, the Authority's policy is to limit investments to the following:

- Certificates of deposit with funds initially invested through a Federal Deposit Insurance Corporation (FDIC) financial institution that maintains a principal office or branch office

located in the State of Michigan. This financial institution, acting as custodian, may arrange the investment of funds in certificates of deposit in one or more FDIC insured depository institutions throughout the United States if the principal and any accrued interest of each certificate of deposit is insured by an agency of the United States. The total investment (exclusive of checking accounts) in any one financial institution shall not exceed the lesser of 20% of that financial institution's capital and surplus or \$4,000,000.

- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.
- Governmental Mutual Funds operated by any of the banks listed above which invest only in authorized investments for local units of Government under State Law and which offer daily liquidity.

The Authority chooses to disclose its investments by specifically identifying each. As of September 30, 2018, the Authority had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
RBC Wealth Management Money Market Fund	N/A	0.01%	\$ 777,068	Moody's Aa3
Government Liquid Assets Funds	N/A	0.1%	<u>5,409</u>	Not rated
			<u>\$ 782,477</u>	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. 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, except as noted in the Authority's investment policy above.

At September 30, 2018, the Authority had the following investments and maturities:

	<u>Carrying Value</u>	<u>0-1 Year</u>	<u>1-2 Years</u>
U.S. Treasury	\$4,999,880	\$1,986,341	\$3,013,539

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at September 30, 2018.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the

Authority does not have a policy for deposit custodial credit risk. As of September 30, 2018, \$9,239,632 of the Authority's bank balance of \$14,495,041 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy limits investments as described above.

4. 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Authority has the following recurring fair value measurements as of September 30, 2018 and 2017:

- U.S. Treasury securities are valued using quoted market prices (Level 1 inputs)
- Ultralow Sulfur Diesel fuel futures are valued using quoted market prices (Level 1 inputs)

5. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The amount remaining on each current grant is listed on the additional information – schedule of expenditures of federal and state awards - unaudited on pages 32 and 33. The following grant amounts were outstanding at September 30:

	2018	2017
Michigan Department of Transportation:		
Operating assistance	\$ 320,128	\$ (603,190)
Rideshare program	-	254,952
Capital cost of contracting	45,000	30,000
Planning	46,967	-
Preventive maintenance	329,500	220,000
Rail Feasibility Studies	-	88,139
Buses and related equipment	1,550,977	962,476
Computer hardware and software	65,553	134,246
Passenger shelters	11,914	9,393
Facilities	29,126	3,940
Transit Centers	-	7,027
Federal Transit Administration:		
Buses and related equipment	2,202,067	1,957,922
BikeShare	-	13,686
Passenger shelters	11,053	24,073
Facilities	3,718	19,223
Capital cost of contracting	165,279	-
Enhanced Mobility (Section 5310)	12,442	-
Job Access/Reverse Commute	-	9,031
New Freedom	-	49,017
Planning	843,750	-
Computer hardware and software	92,982	153,504
	<u>\$ 5,730,456</u>	<u>\$ 3,333,439</u>
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ 5,730,456</u>	<u>\$ 3,333,439</u>

The grants receivable/grant refunds payable are reported on the statements of net position as follows:

	2018	2017
Grants receivable	\$ 5,883,212	\$ 4,211,963
Grant refunds payable	<u>(152,756)</u>	<u>(878,524)</u>
Net grants receivable	<u>\$ 5,730,456</u>	<u>\$ 3,333,439</u>

6. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2018	2017
City of Ann Arbor – property tax levy	\$ 490,500	\$ 428,942
City of Ypsilanti – property tax levy	273,535	87,444
Charter Township of Ypsilanti – property tax levy	405,565	594,584
Interest receivable	<u>4,984</u>	<u>56</u>
Total	<u>\$1,174,584</u>	<u>\$1,111,026</u>

7. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2018 is as follows:

	Balance October 1 2017	Additions/ Reclassifications	Deletions/ Reclassifications	Balance September 30 2018
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>597,958</u>	<u>\$ 28,025</u>	<u>\$ 555,085</u>	<u>70,898</u>
Capital assets not being depreciated	2,868,779	28,025	555,085	2,341,719
Capital assets being depreciated:				
Park and ride lot construction	5,759,849			5,759,849
Buildings	28,048,161			28,048,161
Vehicles and related equipment	60,194,671	3,043,269	258,523	62,979,417
Radio and telephone systems	203,929	6,138		210,067
Fare collection equipment	1,009,333	26,029		1,035,362
Maintenance equipment	545,154	113,748		658,902
Office equipment and furniture	2,598,393	900,685	813,715	2,685,363
Passenger shelters	1,484,573	52,379		1,536,952
Other	783,811			783,811
Advanced operating system	<u>3,277,087</u>	<u>14,920</u>		<u>3,292,007</u>
Total capital assets being depreciated	103,904,961	4,157,168	1,072,238	106,989,891
Less accumulated depreciation:				
Park and ride lot construction	2,052,022	152,117		2,204,139
Buildings	15,451,611	724,474		16,176,085
Vehicles and related equipment	28,953,033	4,882,233	258,523	33,576,743
Radio and telephone systems	174,655	8,807		183,462
Fare collection equipment	847,087	100,145		947,232
Maintenance equipment	448,278	23,040		471,318
Office equipment and furniture	1,950,741	262,524	813,715	1,399,550
Passenger shelters	962,943	100,642		1,063,585
Other	327,619	64,883		392,502
Advanced operating system	<u>961,329</u>	<u>496,374</u>		<u>1,457,703</u>
Total accumulated depreciation	<u>52,129,318</u>	<u>6,815,239</u>	<u>1,072,238</u>	<u>57,872,319</u>
Total capital assets being depreciated, net	<u>51,775,643</u>	<u>(2,658,071)</u>		<u>49,117,572</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 54,644,422</u>	<u>\$ (2,630,046)</u>	<u>\$ 555,085</u>	<u>\$ 51,459,291</u>

7. CAPITAL ASSETS (Concluded)

Capital asset activity during the fiscal year ended September 30, 2017 is as follows:

	Balance October 1 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance September 30 2017
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>229,677</u>	<u>\$ 487,745</u>	<u>\$ 119,464</u>	<u>597,958</u>
Capital assets not being depreciated	2,500,498	487,745	119,464	2,868,779
Capital assets being depreciated:				
Park and ride lot construction	5,759,849			5,759,849
Buildings	28,048,161			28,048,161
Vehicles and related equipment	60,145,836	5,759,507	5,710,672	60,194,671
Radio and telephone systems	216,653		12,724	203,929
Fare collection equipment	1,040,833		31,500	1,009,333
Maintenance equipment	497,775	47,379		545,154
Office equipment and furniture	2,623,419	276,645	301,671	2,598,393
Passenger shelters	1,412,344	72,229		1,484,573
Other	762,860	20,951		783,811
Advanced operating system	<u>2,751,046</u>	<u>526,041</u>		<u>3,277,087</u>
Total capital assets being depreciated	103,258,776	6,702,752	6,056,567	103,904,961
Less accumulated depreciation:				
Park and ride lot construction	1,887,403	164,619		2,052,022
Buildings	14,727,137	724,474		15,451,611
Vehicles and related equipment	29,298,922	4,744,427	5,090,316	28,953,033
Radio and telephone systems	178,732	8,647	12,724	174,655
Fare collection equipment	771,866	106,721	31,500	847,087
Maintenance equipment	432,420	15,858		448,278
Office equipment and furniture	2,090,807	158,076	298,142	1,950,741
Passenger shelters	860,456	102,487		962,943
Other	263,226	64,393		327,619
Advanced operating system	<u>510,036</u>	<u>451,293</u>		<u>961,329</u>
Total accumulated depreciation	<u>51,021,005</u>	<u>6,540,995</u>	<u>5,432,682</u>	<u>52,129,318</u>
Total capital assets being depreciated, n	<u>52,237,771</u>	<u>161,757</u>	<u>623,885</u>	<u>51,775,643</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 54,738,269</u>	<u>\$ 649,502</u>	<u>\$ 743,349</u>	<u>\$ 54,644,422</u>

8. UNEARNED REVENUE

Unearned revenue represents amounts not earned, and consists of the following amounts:

	2018	2017
Federal capital	\$ 68,451	\$600,091
State capital	148,773	148,773
Ypsilanti DDA – Ypsilanti Transit Center Renovations	20,000	20,000
City of Chelsea – ExpressRide	15,000	15,000
GetDowntown Program	<u>52,238</u>	<u>100,138</u>
Total	<u>\$ 304,462</u>	<u>\$ 884,002</u>

9. EMPLOYEES’ PENSION PLAN

The Authority provides pension benefits for substantially all of its full-time employees through a defined contribution plan called the Ann Arbor Area Transportation Authority Employees’ Pension Plan (“Plan”). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority’s contributions for each employee and investment earnings allocated to the employee’s account are fully vested after five years of employment. Authority contributions for, and investment earnings forfeited by, employees who leave employment before five years of service are used to reduce the Authority’s current year contribution requirement. Employees contribute 5% of their gross earnings to the plan. Employee contributions amounted to approximately \$793,600 and \$753,300 for the years ended September 30, 2018 and 2017. The Authority’s contribution to the plan is 9% of the employees’ gross earnings, less forfeitures. Authority contributions amounted to approximately \$1,428,500 and \$1,322,300 for the years ended September 30, 2018 and 2017, respectively. Total payroll and covered payroll was approximately \$17,977,700 and \$15,872,000 for 2018 and \$17,803,900 and \$15,071,700 for 2017.

The Authority’s Board of Directors administers the Plan and also establishes contribution requirements and approves any plan amendments.

10. PROPERTY TAXES

In 1974, voters in the City of Ann Arbor approved a 2.5 mills property tax dedicated to public transportation. Through the Headlee Amendment (1978) to the State of Michigan Constitution, the property tax millage has been reduced and is currently 1.98 mills. In 2010, voters in the City of Ypsilanti approved a 0.9789 mill property tax dedicated to public transportation and is currently 0.9535 mills (Headlee). In May 2014 and May 2018, voters in the three member communities (cities of Ann Arbor and Ypsilanti and the Charter Township of Ypsilanti) approved a 0.7 mill property tax dedicated to public transportation (reduced to 0.6773 due to the Headlee Amendment).

Property tax revenues received by the Authority for the years ended September 30, 2018 and 2017 totaled approximately \$16,038,000 and \$15,515,000, respectively.

In November 2015, voters in Scio Township approved a 0.36 mill property tax dedicated to public transportation, where Scio Township will levy the property tax and purchase public transportation services from the Authority under a Purchase of Service Agreement (POSA).

11. PROPERTY TAX ABATEMENTS

The Authority receives reduced property tax revenue because of Industrial Facilities Tax Exemptions and Brownfield Redevelopment Agreements granted by the cities of Ann Arbor and Ypsilanti and the Charter Township of Ypsilanti. Industrial facilities exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities. Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. Properties qualifying for these tax exemptions, as approved by the applicable governing bodies, are taxed at 50% of the millage rate applicable to the specified property. The amounts of such abatements related to the Cities of Ann Arbor and Ypsilanti, and the Charter Township of Ypsilanti are not significant to the current property tax revenues of the Authority. The Authority is ineligible to give a tax abatement directly.

12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to vehicle liability, property loss, torts, errors and omissions, underground storage tanks and employee injuries (workers' compensation). The Authority is also a defendant in several pending personal injury lawsuits. The Authority has purchased commercial insurance for personal injury, vehicle liability, property loss, general commercial liability, public officials, employee practices liability, premises pollution liability and workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. In the opinion of management, the outcome of this litigation and other matters will not significantly affect the Authority's financial position or results of its operations.

13. SUBCONTRACT SERVICE

The Authority subcontracts with other transportation companies to provide certain services. The Authority pays the companies fees based on the level of service provided, and the companies collect and retain the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately \$1,540,000 and \$1,627,600 of fares for these services in the years ended September 30, 2018 and 2017, respectively. These amounts are disclosed as noncash transactions on the Statements of Cash Flows.

14. COST ALLOCATION PLANS

The Bus Transit Division of the Michigan Department of Transportation has approved the Authority's cost allocation plans for all material allocated expenses. The Nonurban Service Cost Allocation Plan and the Specialized Service Cost Allocation Plan have been used in the preparation of the financial statements.

15. REPORTING CHANGE (PRIOR PERIOD ADJUSTMENT)

During the current year, the Authority adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result, the financial statements now include a liability for unfunded legacy costs. Some of the changes in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to Note 16 for further details.

The beginning net position for the year ended September 30, 2018 has been restated in order to adopt GASB Statement No. 75. The effect of this new accounting standard was a decrease in net position to record the net OPEB liability at the beginning of the current fiscal year. The fiscal year 2017 financial statements have not been restated due to the lack of information available related to the net OPEB liability and the related activity for that year.

As a result of implementing this statement, the beginning net position has been restated as indicated:

Net position - September 30, 2017 - As previously reported	\$ 73,988,546
Adjustment for implementation of GASB Statement No. 75	<u>(1,523,033)</u>
Net position - September 30, 2017 - As restated	<u>\$ 72,465,513</u>

16. POSTEMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS

Plan Description. The Authority provides other postemployment benefits (OPEB) for eligible retirees and their spouses. These OPEB benefits for bargaining employees are specified by union contract while the Chief Executive Officer establishes those for non-bargaining employees. These OPEB benefits are provided by the Authority directly to the retiree and beneficiary monthly. The Authority also maintains a retiree health funding vehicle (RHFV) account with MERS of Michigan. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. This Plan was closed and active bargaining and non-bargaining employees who were eligible to retire based upon attaining age 62 with at least 15 years of service were eligible to elect to stay in this plan when they retire. Also, active employees who had over 30 years of service, regardless of their age, were also eligible to elect to stay covered by this plan when they retire.

Benefits Provided. The Authority provides contributory and noncontributory defined benefit postemployment health care insurance, prescription, and life insurance benefits to eligible employees and beneficiaries. For health insurance and prescription coverage, eligible employees include those, as of January 1, 2008, who elected to stay in the plan instead of electing to participate in the Health Care Savings Plan (HCSP). Eligible retirees have the option to select an

alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130% of that year's core HMO single-person premium. For retirees who retired between July 1, 2002 and December 31, 2007, their spouses are eligible to receive 50% of the monthly premium for the core HMO single person premium toward medical coverage.

For life insurance benefits, eligible bargaining and non-bargaining employees who retire at or after age 59-1/2 with at least 15 years of service are eligible for life insurance coverage in the amount of \$30,000 until age 65, \$20,000 from age 65 to 69, and \$10,000 age 70 and over.

Employees Covered by Benefit Terms. The health care insurance and prescription coverage plan is closed to new employees. Substantially all Authority employees are eligible for retiree life insurance.

	<u>Health</u>	<u>Life</u>
Current retirees and spouses	11	42
Current Active members	<u>1</u>	<u>288</u>
Total plan members	<u>12</u>	<u>330</u>

Contributions. The Authority contributes 100 percent of the actual monthly costs for current benefits and administrative expenses to the plan (pay-as-you-go funding). For the fiscal year ended September 30, 2018, the Authority paid postemployment health care benefit premiums and life insurance premiums of \$117,666.

Net OPEB Liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Changes in the net OPEB liability during the measurement year were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Net Position</u>	<u>Net OPEB Liability</u>
Changes in Net OPEB Liability:			
Balance at October 1, 2017	\$1,790,982	\$105,895	\$1,685,087
Changes for the year:			
Service cost	4,640	-	4,640
Interest	27,287	-	27,287
Contributions - Employer	-	117,666	(117,666)
Difference between expected and actual experience	-	-	-
Net investment earnings	-	2,757	(2,757)
Benefit payments, including refunds	(117,666)	(117,666)	-
Administrative expenses	-	(258)	258
Net Changes	<u>(85,739)</u>	<u>2,499</u>	<u>(88,238)</u>
OPEB obligation, end of year	<u>\$1,705,243</u>	<u>\$ 108,394</u>	<u>\$1,596,849</u>

The plan's fiduciary net position represents 6.36% of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended September 30, 2018, the Authority recognized an OPEB expense of \$29,942.

At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 514
Net difference between projected and actual earnings	<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ 514</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense equally over the next four fiscal years.

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Actuarial valuation date	September 30, 2018
Actuarial cost method - Individual Entry Age Normal as a Level Percent of Payroll	
Asset valuation method	Market value of assets
Discount rate	4.1%
Annual wage increases	2.5%
Price Inflation	2.5%
Investment rate of return	4.3%
Healthcare cost trend rate	7.0% for 2019, declining by 0.5% for 5 years through 2024, then 4.5% thereafter
Mortality	RP-2014 Healthy Annuitant Mortality Tables, With rates multiplied by 105%

Discount Rate. The discount rate is the single rate that reflects 1) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return, and 2) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another scale), to the extent that the conditions for use of the long-term expected rate of return are not met.

Single Equivalent Interest Rate (SEIR):	
Long-term expected rate of return	4.30%
Municipal bond index rate*	3.64%
Fiscal year in which fiduciary net position is projected to be depleted	N/A
Single Equivalent interest rate	4.1%
*(S&P Municipal Bond 20-year high grade rate index)	

Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the discount rate was determined by blending the long-term expected rate of return on OPEB plan investments of 4.3% with the current yield for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, which currently stands at 3.64%.”

Investment Rate of Return. The investment policy of the Authority is determined based on goals and objectives of the Plan and the Authority’s risk tolerance. As new information regarding the economic environment becomes available the investment policy may need to be revised. Asset allocations fluctuate due to market performance, however, the targeted OPEB asset allocation is as described below. The Employer’s objective in selecting the expected long-term rate of return on investments is to estimate the single rate of return that reflects the historical returns, future expectations for each asset class, and the mix of the plan assets. The Employer is invested in multiple portfolios administered by the Municipal Employee Retirement System (MERS) of Michigan, as shown below.

	<u>Target Allocation</u>	<u>Inflation</u>	<u>Real Rate of Return</u>	<u>Arithmetic Mean</u>
Diversified Bond (0/100)	40%	2.50%	0.50%	1.20%
Established Market (60/40)	20%	2.50%	4.20%	1.30%
Total Market	20%	2.50%	5.25%	1.60%
Short-Term Income	<u>20%</u>	<u>2.50%</u>	<u>-1.50%</u>	<u>0.20%</u>
Total	<u>100%</u>	<u>2.50%</u>	<u>1.80%</u>	<u>4.30%</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the Authority, calculated using the discount rate of 4.1%, as well as what the Authority’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current 4.1%</u>	<u>1% Increase</u>
Net OPEB liability	\$1,815,496	\$1,596,849	\$1,415,488

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend. The following presents the net OPEB liability of the Authority, calculated using the health care cost trend rate of 7.0%, as well as what the Authority’s net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current 7.0%</u>	<u>1% Increase</u>
Net OPEB liability	\$1,508,947	\$1,596,849	\$1,696,318

17. HEALTH CARE SAVINGS PLAN

Effective January 1, 2008, the Authority established a defined contribution Health Care Savings Plan (HCSP) under Internal Revenue Code. The HCSP is a public employer-sponsored program administered by the Municipal Employees Retirement System of Michigan (MERS) that allows employees to save pretax money to pay postemployment medical expenses and/or health insurance premiums. Virtually all full-time active employees participate and vested funds accumulate in the plan shall become accessible to the employee upon employee’s separation from

employment, due to retirement, resignation, termination or any other reason. Employees are vested in employer contributions after five years of service.

For each employee who was actively employed as of January 1, 2008, the Authority made a one-time lump-sum contribution on a graduated scale between \$100 and \$150 per month into each employee's HCSP account based upon their accumulated months of service. The total of this one-time contribution was approximately \$3,442,000. Of this total, approximately \$1,714,000 was funded from the accrued postretirement benefit obligation as of September 30, 2007 and the remaining amount of approximately \$1,728,000 was expensed as a fringe benefit in the year ended September 30, 2008.

Effective January 1, 2018, the Authority made pretax contributions of \$150 each month into each eligible employee's HCSP account. From January 1, 2016 to December 31, 2017, the Authority made pretax contributions of \$140 per month. The employees shall make a mandatory monthly pretax contribution of \$10 per pay period. Employees may make voluntary pre-tax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to approximately \$477,300 and \$424,100 for the years ended September 30 2018 and 2017, respectively.

18. COMMITMENTS

At September 30, 2018, the Authority had outstanding commitments relating to the purchase of eight buses for approximately \$3.75 million, scheduled for production in September 2019. Funding for this commitment is through Federal and State capital grants.

19. UPCOMING ACCOUNTING AND REPORTING CHANGES

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the fiscal year ending September 30, 2021.

Required GASB Statement No. 75
Supplementary Information
September 30, 2018

ANN ARBOR AREA TRANSPORTATION AUTHORITY

GASB STATEMENT NO. 75 REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	Year Ended September 30
	2018
Total OPEB Liability	
Service cost	\$ 4,640
Interest	27,287
Benefit payments, including refunds	(117,666)
Net Change in Total OPEB Liability	(85,739)
Total OPEB Liability - Beginning of year	1,790,982
Total OPEB Liability - End of Year	\$ 1,705,243
Plan Fiduciary Net Position	
Net investment income	\$ 2,757
Employer contributions	117,666
Benefit payments	(117,666)
Administrative expenses	(258)
Net Change in Plan Fiduciary Net Position	2,499
Plan Fiduciary Net Position - Beginning of year	105,895
Plan Fiduciary Net Position - End of year	\$ 108,394
Net OPEB Liability - End of Year	\$ 1,596,849
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	6.36%
Covered Payroll	\$ 16,567,739
Net OPEB Liability as a Percentage of Covered Payroll	9.64%

Schedule is built prospectively upon implementation of GASB 75.

The required supplemental information is intended to show information for 10 years, and additional years' information will be displayed as it becomes available.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF OPEB CONTRIBUTIONS - LAST TEN FISCAL YEARS

Fiscal Year Ending	Actuarially Determined Contribution	Historical Contribution	Contribution Excess (Deficiency)	Covered Payroll*	Contributions as a Percentage of Covered Payroll
9/30/2009	\$ 145,395	\$ 66,478	(78,917)	\$ 193,826	34.30%
9/30/2010	\$ 85,689	\$ 67,438	(18,251)	\$ 195,288	34.53%
9/30/2011	\$ 87,083	\$ 65,412	(21,671)	\$ 201,147	32.52%
9/30/2012	\$ 89,545	\$ 81,150	(8,395)	\$ 218,584	37.13%
9/30/2013	\$ 80,645	\$ 70,095	(10,550)	\$ 132,944	52.73%
9/30/2014	\$ 82,701	\$ 65,687	(17,014)	\$ 91,396	71.87%
9/30/2015	\$ 76,321	\$ 86,459	10,138	\$ 67,196	128.67%
9/30/2016	\$ 98,233	\$ 67,975	(30,258)	\$ 107,142	63.44%
9/30/2017	\$ 85,212	\$ 84,949	(263)	\$ 43,556	195.03%
9/30/2018	\$ 85,204	\$ 117,666	32,462	\$ 16,567,739	0.71%

*The increase in covered payroll for the year ended September 30, 2018 relates to the inclusion of individuals with life insurance only benefits

Additional Information for the Year Ended
September 30, 2018

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF REVENUES - UNAUDITED

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

LOCAL OPERATING REVENUES:	2018	2017
Passenger fares:		
Urban fixed route	\$ 2,087,576	\$ 2,113,760
Urban demand response	802,112	796,832
Commuter express	123,816	115,970
Interurban airport shuttle	1,002,289	1,015,255
VanRide fares	15,843	24,853
Nonurban demand response	116,282	104,910
Special Fares:		
City of Ann Arbor - DDA (go!pass)	678,137	752,248
City of Ann Arbor - DDA (NightRide)	10,308	10,626
Ann Arbor Public Schools	87,082	74,906
Eastern Michigan University	191,736	193,576
University of Michigan (MRide)	1,763,781	1,687,997
Washtenaw Community College	47,162	48,154
TOTAL LOCAL OPERATING REVENUES	<u>\$ 6,926,124</u>	<u>\$ 6,939,087</u>
LOCAL NONOPERATING REVENUES:		
Purchase of service agreements:		
Pittsfield Township	\$ 836,252	\$ 831,919
Scio Township	402,902	388,559
Superior Township	86,372	71,885
City of Chelsea (ExpressRide)	15,000	15,000
Total purchase of service agreements	1,340,526	1,307,363
City of Ann Arbor - property tax levy	14,693,327	14,193,232
City of Ypsilanti - property tax levy	486,865	506,406
Ypsilanti Township - property tax levy	857,733	815,332
City of Ann Arbor - Downtown Development Authority (GetDowntown)	89,423	70,205
City of Ann Arbor - Downtown Development Authority (Route #4 & #5 expansion)	76,600	76,600
City of Ann Arbor - Downtown Development Authority (Connector Study)	-	2,330
City of Ann Arbor (Connector Study)	-	2,330
City of Ann Arbor (GetDowntown)	7,900	7,900
University of Michigan (Connector Study)	-	11,652
North/South Rail partner contributions (provides planning grant match)	-	71,534
Job Access/Reverse Commute pass-through	226,500	185,619
Nonurban - Other governmental and local sources	553,909	493,674
Interurban airport shuttle - private contractor contribution	-	91,309
Interest income	36,369	32,298
Advertising income	283,080	251,212
Other revenue	12,421	28,096
Gain (loss) on sale of equipment	21,310	(176,474)
Total local nonoperating revenues	<u>18,685,963</u>	<u>17,970,618</u>
Total local operating and nonoperating revenues	<u>25,612,087</u>	<u>24,909,705</u>
STATE OF MICHIGAN NONOPERATING REVENUES:		
Formula operating assistance - urban (Act 51)	12,451,748	11,997,383
Formula operating assistance - nonurban (Act 51)	621,054	525,604
Prior years formula adjustments - urban and nonurban	459,011	930,898
Capital Cost of Contracting	30,000	30,000
Job Access/Reverse Commute (State Match)	90,698	-
Planning (Section 5307 - State Match)	46,967	-
Planning passed through SEMCOG (Section 5303 - State Match)	73,615	-
Preventive maintenance	220,000	220,000
Specialized services	90,328	91,709
Total state nonoperating revenues	<u>14,083,421</u>	<u>13,795,594</u>
FEDERAL NONOPERATING REVENUES:		
Operating Assistance (Section 5307)	2,400,000	1,780,000
Unified planning program passed through SEMCOG (Section 5303, w/Local Match)	50,583	25,292
Planning passed through SEMCOG (Section 5303, with Local Match)	397,277	-
Planning passed through SEMCOG (Section 5303, with State Match)	294,461	-
Planning (Sections 5307)	187,867	93,213
Federal operating assistance - nonurban (Section 5311) - passed through the State	293,359	248,113
Capital cost of contracting (Section 5307)	453,039	120,000
Job Access/Reverse Commute	-	60,710
New Freedom	15,177	90,493
Preventive maintenance (Section 5307)	880,000	880,000
Enhanced Mobility of Seniors & Individuals with Disabilities (Section 5310)	84,696	-
Transportation and Community System Preservation (passed through State of Mich.)	-	254,803
Travel Demand Management (CMAQ - passed through the State of Michigan)	-	455,000
Total federal nonoperating revenues	<u>5,056,459</u>	<u>4,007,624</u>
TOTAL NONOPERATING REVENUES	<u>\$ 37,825,843</u>	<u>\$ 35,773,836</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	Operations	Maintenance	General Administration	2018 Total	2017 Total
LABOR:					
Operators' salaries and wages	\$ 8,475,485			\$ 8,475,485	\$ 8,634,022
Other salaries and wages	1,472,819	\$ 2,571,524	\$ 2,515,689	6,560,032	6,533,640
FRINGE BENEFITS					
Fringe wages	1,877,811	482,909	581,469	2,942,189	2,636,256
Social security payroll taxes	872,119	223,251	225,775	1,321,145	1,287,663
Medical insurance	1,742,695	576,078	252,768	2,571,541	2,566,183
Pension	963,148	241,590	223,746	1,428,484	1,321,895
Health care savings plan	337,395	81,410	58,530	477,335	424,060
Postretirement medical benefits	20,728	9,214		29,942	85,212
Other fringe benefits	387,308	104,654	53,880	545,842	666,313
SERVICES:					
Advertising fees	-	-	54,792	54,792	31,852
Other services	273,771	981,848	1,220,029	2,475,648	2,431,036
Auditing fees	-	-	28,340	28,340	26,875
MATERIALS AND SUPPLIES					
CONSUMED:					
Fuel and lubricants	1,664,575	10,246	-	1,674,821	1,436,021
Tires and tubes	278,967	2,026	-	280,993	210,529
Materials and supplies	878,268	343,479	398,690	1,620,437	1,698,585
UTILITIES	38,320	-	481,857	520,177	487,126
CASUALTY AND LIABILITY					
COSTS:					
Premiums for public liability and property damage insurance	563,792	-	-	563,792	539,742
Other casualty and liability costs	-	-	245,387	245,387	220,139
PURCHASED TRANSPORTATION	9,559,800	-	-	9,559,800	7,994,794
MISCELLANEOUS EXPENSES:					
Travel and meetings	-	-	60,273	60,273	57,822
Advertising and promotion media	-	-	139,682	139,682	163,723
Association dues & subscriptions	-	-	78,286	78,286	78,947
Other	11,865	1,682	282,417	295,964	379,416
LEASES AND RENTALS	47,181	-	35,899	83,080	66,792
DEPRECIATION	<u>5,588,200</u>	<u>23,039</u>	<u>1,204,000</u>	<u>6,815,239</u>	<u>6,540,995</u>
TOTAL OPERATING EXPENSES	<u>\$ 35,054,247</u>	<u>\$ 5,652,950</u>	<u>\$ 8,141,509</u>	<u>\$ 48,848,706</u>	<u>\$ 46,519,638</u>

ADDITIONAL INFORMATION
SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS - UNAUDITED
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 46,717,058	\$ 48,307,627
Contributions - Federal and State capital grants	3,654,628	4,543,820
Gain (Loss) on Disposal of capital assets (Federal and State)	-	(373,750)
Depreciation on assets purchased with Federal and State capital grants	<u>(6,027,981)</u>	<u>(5,760,639)</u>
Balance, end of year	<u>\$ 44,343,705</u>	<u>\$ 46,717,058</u>
Detail of Federal and State interest in capital assets at September 30		
Federal government	\$ 80,639,553	\$ 78,561,851
State of Michigan	<u>16,731,376</u>	<u>16,224,789</u>
Total	97,370,929	94,786,640
Less accumulated depreciation on contributed assets	<u>53,027,224</u>	<u>48,069,582</u>
Net Federal and State interest in capital assets	44,343,705	46,717,058
Net local interest in capital assets	<u>7,115,586</u>	<u>7,927,364</u>
Net investment in capital assets	<u>\$ 51,459,291</u>	<u>\$ 54,644,422</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2018**

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures			Prior Years' Federal Expenditures	Federal Amount Remaining		
				Total	Federal	State			Local	
U. S. Department of Transportation (Federal):										
Direct assistance - Capital Grants:										
Capital (Section 5307) (FY 2011 & 2012) (80/20 or 100/0)	20.507	MI90-X641-01	\$11,800,000	\$0	\$0	\$0	\$0	\$11,679,010	\$120,990	
Capital (Section 5307) (FY 2013) (80/20)	20.507	MI90-X671	2,532,810	0	0	0	0	2,310,707	222,103	
Capital (Section 5307) (FY 2014 & 2015) (80/20)	20.507	MI90-X684	5,362,693	373,979	373,979	0	0	4,468,425	520,289	
Capital (Section 5307) (FY 2016) (80/20)	20.507	MI90-X778	1,031,725	246,335	246,335	0	0	685,630	99,760	
Capital (Section 5339) (FY 2016) (80/20)	20.526	MI34-X023	632,275	365,358	365,358	0	0	266,917	0	
Capital (Section 5307) (FY 2017) (80/20)	20.507	MI90-X778	885,035	0	0	0	0	4,490	880,545	
Capital (Section 5339) (FY 2017) (80/20)	20.526	MI34-X023	798,965	31,195	31,195	0	0	374,538	393,232	
Capital (Section 5307) (FY 2018) (80/20)	20.507	MI90-X082	2,322,400	734,022	734,022	0	0	0	1,588,378	
Capital (Section 5307-CMAQ) (FY 2018) (80/20)	20.507	MI95-X006	1,328,723	1,101,034	1,101,034	0	0	0	227,689	
Capital (Section 5339) (FY 2018) (80/20)	20.526	MI34-X053	560,000	0	0	0	0	0	560,000	
Capital (Section 5310) (FY 2015)	20.513	MI16-X011	153,600	12,658	12,658	0	0	140,942	0	
Capital (Section 5310) (FY 2016)	20.513	MI-2016-X40	174,936	52,048	52,048	0	0	40,694	82,194	
Congestion Mitigation and Air Quality (Buses FY 2013)	20.507	MI95-X103-01	2,996,320	0	0	0	0	2,439,376	556,944	
Passed Through Michigan Department of Transportation:										
Congestion Mitigation and Air Quality (BikeShare)	20.205	2014-0065	200,000	24,120	24,120	0	0	132,362	43,518	
Subtotal - Federal Capital			\$30,779,482	\$2,940,749	\$2,940,749	\$0	\$0	\$22,543,091	\$5,295,642	
Direct assistance - Operating grants:										
Unified Planning Program (Section 5303) (80/0)	20.505	18005	50,583	61,800	50,583	0	11,217	0	0	
Unified Planning Program (Section 5303) (80/0)	20.505	19005	50,583	0	0	0	0	0	50,583	
Unified Planning Program (Section 5303) (80/0)	20.505	17014	400,000	496,596	397,277	0	99,319	0	2,723	
Unified Planning Program (Section 5303) (80/20)	20.505	17015	320,000	294,461	294,461	0	0	0	25,539	
Planning (Section 5307) (FY 2017) (80/20)	20.507	MI90-X778	320,000	187,867	187,867	0	0	0	132,133	
Capital cost of contracting (Sec 5307) (FY2011)(80/20)	20.507	MI90-X641	167,760	167,760	167,760	0	0	0	0	
Capital cost of contracting (Sec 5307) (FY2013)(80/20)	20.507	MI90-X671	165,279	165,279	165,279	0	0	0	0	
Capital cost of contracting (Sec 5307) (FY2017)(80/20)	20.507	MI90-X778	664,000	120,000	120,000	0	0	0	544,000	
Capital cost of contracting (Sec 5307) (FY2018)(80/20)	20.507	MI90-X082	563,000	0	0	0	0	0	563,000	
Preventive Maintenance (Section 5307) (FY2017) (80/20)	20.507	MI90-X778	880,000	880,000	880,000	0	0	0	0	
Preventive Maintenance (Section 5307) (FY2018) (80/20)	20.507	MI90-0082	40,000	0	0	0	0	0	40,000	
Operating assistance (Section 5307) (FY 2017) (50/50)	20.507	MI90-X778	2,400,000	4,800,000	2,400,000	0	2,400,000	0	0	
Operating assistance (Section 5307) (FY 2018) (50/50)	20.507	MI90-X082	3,250,000	0	0	0	0	0	3,250,000	
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-01	608,988	0	0	0	0	463,931	145,057	
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-02	155,139	0	0	0	0	96,248	58,891	
New Freedom (Mobility Management) (Section 5317)	20.521	MI57-X016-01	216,110	0	0	0	0	208,972	7,138	
New Freedom (Mobility Management) (Section 5317)	20.521	MI57-X016-02	151,724	15,177	15,177	0	0	135,609	938	
Enhanced Mobility Seniors & Disabilities (Section 5310)	20.513	MI16-X011	179,503	83,503	83,503	0	0	0	96,000	
Enhanced Mobility Seniors & Disabilities (Section 5310)	20.513	MI16-X019	89,299	1,193	1,193	0	0	0	88,106	
Passed Through Michigan Department of Transportation:										
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2012-0033/P23	293,359	293,359	293,359	0	0	0	0	
Subtotal - Federal Operating			10,965,327	7,566,995	5,056,459	0	2,510,536	904,760	5,004,108	
TOTAL FEDERAL EXPENDITURES				\$41,744,809	\$10,507,744	\$7,997,208	\$0	\$2,510,536	\$23,447,851	\$10,299,750

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF STATE AWARDS - UNAUDITED (Continued)
YEAR ENDED SEPTEMBER 30, 2018

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Amount Remaining	
				Total	Federal	State			Local
Michigan Department of Transportation (State):									
Direct assistance - Capital grants:									
Capital (FY 2011 and FY 2012)	N/A	2007-0162/Z32 R1	\$2,920,600	\$4,574	\$0	\$4,574	\$0	\$2,914,118	\$1,908
Capital (FY 2013)	N/A	2012-0033/P9	633,203	0	0	0	0	516,270	116,933
Capital (FY 2014 and FY 2015)	N/A	2012-0033/P17 R1	1,340,673	79,716	0	79,716	0	1,018,961	241,996
Capital (FY 2016)	N/A	2012-0033/P24	514,880	157,813	0	157,813	0	337,016	20,051
Capital (FY 2017)	N/A	2012-0033/P24	811,000	0	0	0	0	484,757	326,243
Capital (Section 5310 Match) (FY 2015)	N/A	2012-0033/P18	83,276	0	0	0	0	35,236	48,040
Capital (Section 5310 Match) (FY 2016)	N/A	2012-0033/P25	43,734	13,012	0	13,012	0	10,000	20,722
Capital (FY 2014)	N/A	2012-0033/P11 R1	749,080	0	0	0	0	598,760	150,320
Capital (Section 5339 Match) (FY 2013)	N/A	2012-0033/P8 R3	542,773	0	0	0	0	519,261	23,512
Capital (FY 2018)	N/A	2017-0008/P5	1,052,781	458,764	0	458,764	0	0	594,017
Subtotal - Direct State Capital			8,692,000	713,879	0	713,879	0	6,434,379	1,543,742
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	12,451,748	12,451,748	0	12,451,748	0	0	0
Operating assistance - Act 51 Non-Urban	N/A	N/A	621,054	621,054	0	621,054	0	0	0
Prior year formula adjustments	N/A	N/A	459,011	459,011	0	459,011	0	0	0
Planning (FY 2017)	N/A	2012-0033/P24	80,000	46,967	0	46,967	0	0	33,033
Unified Planning Program - YTC Scoping	N/A	17015	80,000	73,615	0	73,615	0	0	6,385
Capital Cost of Contracting (FY 2017)	N/A	2012-0033/P24	30,000	30,000	0	30,000	0	0	0
Capital Cost of Contracting (FY 2018)	N/A	2017-0008/P5	141,000	0	0	0	0	0	141,000
Preventive Maintenance (FY 2017)	N/A	2012-0033/P24	220,000	220,000	0	220,000	0	0	0
Preventive Maintenance (FY 2018)	N/A	2017-0008/P5	10,000	0	0	0	0	0	10,000
Specialized Services (FY 2018)	N/A	2017-0008/P3	94,461	274,301	0	90,328	183,973	0	4,133
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27 R1	495,472	90,698	0	90,698	0	404,774	0
Subtotal - Direct State Operating			14,682,746	14,267,394	0	14,083,421	183,973	404,774	194,551
TOTAL STATE EXPENDITURES			\$23,374,746	\$14,981,273	\$0	\$14,797,300	\$183,973	\$6,839,153	\$1,738,293
STATE PASS-THROUGH:									
Specialized Services (FY 2018)		2017-0008/P3	\$82,379	\$36,728	\$0	\$36,728	\$0	\$0	45,651
Specialized Services (FY 2017)		2017-0008/P2	81,345	19,408	0	19,408	0	58,292	3,645
Total -State Pass-through Special Services			\$163,724	\$56,136	\$0	\$56,136	\$0	\$58,292	\$49,296

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2018, WITH COMPARATIVE TOTALS FOR 2017**

	Specialized	Job Access/ Reverse Commute	New Freedom	Nonurban Operations	Urban Operations		2018 Total	2017 Total
	Services 2017-0008/P2 2017-0008/P3	MI37-0044 MI37-4044 2007-0162/Z27		(Sec. 5311: 2017-0008/P4 FY 2018	Demand-response	Fixed-route		
OPERATING EXPENSES:								
Labor		\$ 68,444		\$ 50,240	\$ 493,341	\$ 14,423,492	\$ 15,035,517	\$ 15,167,662
Fringe benefits		39,979		18,337	307,829	8,950,333	9,316,478	8,987,582
Services		-		7,649		2,551,131	2,558,780	2,489,763
Materials and supplies		2,476		4,423	40,665	3,528,687	3,576,251	3,345,135
Utilities		-		-	23,460	496,717	520,177	487,126
Casualty and liability costs		-		5,962	64,734	738,483	809,179	759,881
Purchased transportation	\$ 274,301	206,299	\$ 15,177	1,496,660	5,499,338	2,068,025	9,559,800	7,994,794
Other	-	-	-	1,127	1,300	571,778	574,205	679,908
Leases and rentals	-	-	-	-	-	83,080	83,080	66,792
Depreciation	-	-	-	-	117,168	6,698,071	6,815,239	6,540,995
TOTAL OPERATING EXPENSES	\$ 274,301	\$ 317,198	\$ 15,177	\$ 1,584,398	\$ 6,547,835	\$ 40,109,797	\$ 48,848,706	\$ 46,519,638

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2018

Code	Description	Fixed-route	Demand-response	Total Urban
401 :	Farebox Revenue			
40100	Passenger Fares	\$ 3,229,524	\$ 802,112	\$ 4,031,636
40200	Contract Fares	2,778,206		2,778,206
406 :	Auxiliary Transit Revenue			
40615	Advertising Revenue	283,080	-	283,080
407 :	NonTransit Revenue			
40799	Gain on Sale/Disposal of Equipment	21,310	-	21,310
40799	Other Revenue	12,421	-	12,421
408 :	Local Revenue			
40800	Taxes Levied Directly for Transit Agency	13,085,256	2,952,669	16,037,925
409 :	Local Revenue			
40910	Local Operating Assistance	1,133,604	206,922	1,340,526
40999	Other Local - Local Match	174,129	-	174,129
411 :	State Formua and Contracts			
41101	State Operating Assistance	10,465,823	1,985,925	12,451,748
41101	Prior Year Formula Adjustments	459,011	-	459,011
41111	Preventive Maintenance	220,000	-	220,000
41112	Capital Cost of Contracting	-	30,000	30,000
11112	Planning	120,582		120,582
413 :	Federal Contracts			
41302	Operating Assistance (Sec 5307)	2,400,000	-	2,400,000
41311	Preventive Maintenance (Sec 5307)	880,000	-	880,000
41312	Capital Cost of Contracting (Sec 5307)	-	453,039	453,039
41312	Planning (Sec 5307)	187,867	-	187,867
41312	Unified Planning (Sec 5303)	50,583	-	50,583
41399	Planning (Sec 5303)	691,738	-	691,738
41399	Enhanced Mobility (Section 5310)	-	84,696	84,696
414 :	Other Revenue			
41400	Interest Revenue	36,369	-	36,369
Total		\$ 36,229,503	\$ 6,515,363	\$ 42,744,866

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2018**

Code	Description	Operations		Maintenance		General Administration		Total
		Fixed-route	Demand-response	Fixed-route	Demand-response	Fixed-route	Demand-response	
501: Labor								
50101	Operators Salaries & Wages	\$ 8,475,485						\$ 8,475,485
50102	Other Salaries & Wages	1,337,202	240,762	\$ 2,334,738	\$ 83,389	\$ 2,276,067	\$ 169,190	6,441,348
502: Fringe Benefits								
50200	Other Fringe Benefits	4,826,904	122,996	1,375,095	42,600	878,440	86,433	7,332,468
50210	Defined Contribution Pension	951,128	22,742	239,936	7,877	180,753	15,981	1,418,417
50240	Defined Contribution OPEB	356,462	4,490	90,795	1,555	50,820	3,155	507,277
503: Services								
50302	Advertising Fees	-	-	-	-	54,792		54,792
50305	Audit Costs	-	-	-	-	28,340		28,340
50399	Other Services	274,328	-	982,775	-	1,210,896	-	2,467,999
504: Materials and Supplies								
50401	Fuel & Lubricants	1,664,575	-	10,246	-	-	-	1,674,821
50402	Tires & Tubes	278,967	-	2,026	-	-	-	280,993
50499	Other Materials & Supplies	862,982	22,040	338,619	8,620	371,272	10,005	1,613,538
505: Utilities								
50500	Utilities	38,187	-	-	-	458,530	23,460	520,177
506: Insurance								
50603	Liability Insurance	563,792	-	-	-	-	-	563,792
50699	Other Insurance	-	-	-	-	174,691	64,734	239,425
508: Purchased Transportation								
50800	Purchased Transportation	2,068,025	5,499,338	-	-	-	-	7,567,363
509: Miscellaneous Expenses								
50902	Travel, Meeting & Training	-	-	-	-	60,273	-	60,273
50903	Association Dues & Subscriptions	-	-	-	-	78,286	-	78,286
50999	Other Misc Expenses	12,440	35	3,067	5	417,712	1,260	434,519
512: Operating Leases & Rentals								
51200	Operating Leases & Rentals	47,181	-	-	-	35,899	-	83,080
513: Depreciation								
51300	Depreciation	5,492,127	117,168	22,643	-	1,183,301	-	6,815,239
Total Urban Expenses		27,249,785	6,029,571	5,399,940	144,046	7,460,072	374,218	46,657,632
550: Ineligible Expenses								
55007	Ineligible Depreciation	4,814,436	117,168	19,090	-	1,077,287	-	6,027,981
55009	Ineligible Association Dues	-	-	-	-	11,285	-	11,285
55010	Ineligible Nontransportation Revenue	-	-	-	-	12,421	-	12,421
55011	Ineligible Preventive Maintenance (5307)	-	-	1,100,000	-	-	-	1,100,000
570: Ineligible Expenses								
57099	Ineligible - Planning (Sec 5307)	-	-	-	-	234,834	-	234,834
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	63,229	-	63,229
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	496,596	-	496,596
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	368,076	-	368,076
57602	Ineligible - Capital Cost of Contracting	167,760	315,279	-	-	-	-	483,039
57604	Ineligible - Enhanced Mobility (Sec 5310)	-	84,696	-	-	-	-	84,696
580: Ineligible Expenses								
58007	Ineligible - Postretirement Benefit Accru	20,728	-	9,214	-	-	-	29,942
58007	Ineligible - Postretirement Benefits Paid	(46,313)	-	(20,587)	-	-	-	(66,900)
						Fixed-route	Demand-response	Total
	Total Expenses					\$ 40,109,797	\$ 6,547,835	\$ 46,657,632
	Total Ineligible Expenses					(8,328,056)	(517,143)	(8,845,199)
	Total Eligible Expenses					\$ 31,781,741	\$ 6,030,692	\$ 37,812,433

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2018

Code	Description	Total Nonurban
401 :	Farebox Revenue	
40100	Passenger Fares	\$ 116,282
40200	Contract Fares	-
406 :	Auxiliary Transit Revenue	
40615	Advertising	-
407 :	NonTransit Revenue	
40799	Gain (Loss) on Sale of Equipment	-
40799	Other Revenue	-
408 :	Local Revenue	
40800	Taxes Levied Directly for Transit Agency	-
409 :	Local Revenue	
40910	Local Operating Assistance	553,703
40999	Other Local	-
411 :	State Formua and Contracts	
41101	State Operating Assistance	621,054
411	Prior Year Formula Adjustments	-
413 :	Federal Contracts	
41301	Federal Section 5311	293,359
414 :	Other Revenue	
41400	Interest Revenue	-
	Other	-
Total		\$ 1,584,398

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2018

Code	Description	DEMAND-RESPONSE			Total
		Operations	Maintenance	General Administration	
501: Labor					
50102	Other Salaries & Wages			\$ 40,810	\$ 40,810
502: Fringe Benefits					
50200	Other Fringe Benefits			23,526	23,526
50210	Defined Contribution Pension			4,241	4,241
503: Services					
50305	Other Services	\$ 1,104	\$ 3,114	3,431	7,649
504: Materials and Supplies					
50499	Other Materials & Supplies	2,248	910	1,265	4,423
506: Insurance					
50699	Other Insurance	-	-	5,962	5,962
508: Purchased Transportation					
50800	Purchased Transportation	1,496,660	-	-	1,496,660
509: Miscellaneous Expenses					
50999	Other Misc Expenses	7	15	1,105	1,127
550: Ineligible Expenses					
570: Ineligible Expenses					
				Total Expenses	\$ 1,584,398
				Total Ineligible Expenses	-
				Total Eligible Expenses	<u>\$ 1,584,398</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - URBAN AND NONURBAN SERVICE NONFINANCIAL INFORMATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2018**

PUBLIC SERVICE - URBAN FIXED-ROUTE

Code	Description	Total
610	Vehicle Hours	288,491
611	Vehicle Miles	4,065,134

PUBLIC SERVICE - URBAN DEMAND-RESPONSE

Code	Description	Total
610	Vehicle Hours	127,677
611	Vehicle Miles	1,550,332

PUBLIC SERVICE - NONURBAN DEMAND-RESPONSE

Code	Description	Total
610	Vehicle Hours	31,714
611	Vehicle Miles	504,713

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2018

	Urban		Nonurban
	Line-haul	Demand Response	
Total Expenses	\$ 40,109,797	\$ 6,547,835	\$ 1,584,398
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	\$ 880,000		
Federal Planning (Section 5307)	187,867		
Federal Unified Planning (Section 5303)	63,229		
Federal Planning (Section 5303, w/Local Match)	496,596		
Federal Planning (Section 5303, w/State Match)	294,461		
Federal Capital Cost of Contracting (Sec 5307)	167,760	\$ 285,279	
Federal and State Depreciation Expense	5,910,813	117,168	
Federal Enhanced Mobility (Section 5310)	-	84,696	
State Preventive Maintenance	220,000	-	
State Planning (Section 5307 Match)	46,967	-	
State Planning and Research (Section 5303)	73,615	-	
State Capital Cost of Contracting	-	30,000	
Post-Retirement Medical Benefits Accrual	29,942	-	
Post-Retirement Medical Benefits Paid	(66,900)	-	
Other revenue	12,421	-	
Other expenses (bad debts, ineligible interest)	-	-	
Association Dues (Ineligible Portion)	11,285	-	\$ -
Total Ineligible Expenses	\$ 8,328,056	\$ 517,143	\$ -
Total State Eligible Expenses	\$ 31,781,741	\$ 6,030,692	\$ 1,584,398

Eligible Expenses for State Reimbursement	\$ 31,781,741	\$ 6,030,692	\$ 1,584,398
x Reimbursement Percentage	32.9303%	32.9303%	39.1981%
State Operating Assistance	\$ 10,465,823	\$ 1,985,925	\$ 621,054
Total Operating Assistance - Urban		\$ 12,451,748	

Total Federal Eligible Expenses

Total Eligible Expenses for State Reimbursement	\$ 1,584,398
Less: Ineligible Auditing Expenses	6,353
Eligible Expenses for Federal Reimbursement	\$ 1,578,045
x Reimbursement Percentage	18.5900%
Federal Operating Assistance (Section 5311)	\$ 293,359

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2018

A. ITEMS REIMBURSED BY FEDERAL GRANTS

Items reimbursed directly by federal operating and capital grants, including Sections 5303, 5304, 5307, 5310 and 5339, are deducted from total expenses in arriving at the net eligible expense total.

B. FEDERAL AND STATE DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization incurred on assets funded with state and federal grants is an ineligible expense pursuant to State of Michigan regulations. The depreciation expense included to be reimbursed with State Formula Assistance Funds only includes assets purchased with local funds where the useful life of the asset has been approved by the Michigan Department of Transportation, Bureau of Passenger Transportation.

C. POSTRETIREMENT MEDICAL BENEFITS PLAN EXPENSE

The amount of postretirement medical benefits accrued under the provisions of GASB No. 75 are ineligible expenses. The amount paid for postretirement medical benefits during the current year are eligible and are therefore subtracted out from the ineligible expenses.

D. OTHER REVENUES AND ADVERTISING REVENUES

Other income includes other miscellaneous income. These items are subtracted out as ineligible expenses. Advertising revenues are earned from displaying advertising materials on Authority vehicles and are recorded net of expenses associated with equipping the vehicles with advertising media by a third party. Therefore, advertising revenues are not subtracted as ineligible expenses.

E. ASSOCIATION DUES

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 19.0% and 22.7%, respectively, to influencing legislation which is not eligible for reimbursement according to the Uniform Guidance issued by the Office of Management and Budget.

F. MILEAGE INFORMATION

The methodology used for compiling mileage and other nonfinancial information used to allocate costs has been reviewed and found to be an adequate and reliable method.

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*

Independent Auditor's Report

To Management and the Board of Directors
Ann Arbor Area Transportation Authority

We have audited, 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, the financial statements of Ann Arbor Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 24, 2019.

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.

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

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

Compliance and Other Matters

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

To Management and the Board of Directors
Ann Arbor Area Transportation Authority

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

January 24, 2019

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Ann Arbor Area Transportation Authority

Report on Compliance for Each Major Federal Program

We have audited Ann Arbor Area Transportation Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the major federal program for the year ended September 30, 2018. The Authority's major federal program is 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 program.

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* (the "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 its major federal program for the year ended September 30, 2018.

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.

To the Board of Directors
Ann Arbor Area Transportation Authority

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 a 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.

Plante & Moran, PLLC

January 24, 2019

Ann Arbor Area Transportation Authority

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Project Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Transportation:					
Federal Transit Cluster - Direct programs:					
Investment Grant - Surface Transportation Program	20.526		MI34-X023	\$ -	\$ 396,553
Investment Grant - FHWA transfer to CMAQ	20.507		MI95-0006	-	1,101,034
Total Federal Transit - Investment Grants				-	1,497,587
Urbanized Area Formula Grants:					
Capital, Planning, and Operating Grant	20.507		MI90-X641	-	167,760
Capital, Planning, and Operating Grant	20.507		MI90-X671	-	165,279
Capital, Planning, and Operating Grant	20.507		MI90-X684	-	373,979
Capital, Planning, and Operating Grant	20.507		MI90-X778	-	3,834,202
Capital, Planning, and Operating Grant	20.507		MI90-X082	-	734,022
Total Federal Transit - Formula Grants				-	5,275,242
Total Federal Transit Cluster				-	6,772,829
Michigan Department of Transportation - Pass-through - Congestion Mitigation and Air Quality Grants	20.205	N/A	2014-0065	-	24,120
Transit Services Program Cluster - Direct Programs:					
Section 5310 Enhanced Mobility of Srs & Ind w/Disabilities	20.513		MI16-X011	96,161	96,161
Section 5310 Enhanced Mobility of Srs & Ind w/Disabilities	20.513		MI16-X019	53,241	53,241
Section 5317 New Freedom	20.521		MI57-4016	-	15,177
Total Transit Services Program Cluster				149,402	164,579
Public Transportation for Nonurbanized Areas - Passed through Michigan Department of Transportation Operating Assistance (Section 5311)	20.509	2017-0008/P4	MI-2017-030-02	-	293,359
Federal Transit Technical Studies Grant - Passed through Southeastern Michigan Council of Governments (SEMCOG):					
Planning Grant (Section 5303)	20.505	17014		-	397,277
Planning Grant (Section 5303)	20.505	17015		-	294,461
Planning Grant (Section 5303)	20.505	18005		-	50,583
Total expenditures of federal awards				\$ 149,402	\$ 7,997,208

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Ann Arbor Area Transportation Authority (the "Authority") under programs of the federal government for the year ended September 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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

Ann Arbor Area Transportation Authority

Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
20.507, 20.526	Federal Transit Cluster	Unmodified

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Audit Findings

Current Year None

Section III - Federal Program Audit Findings

Current Year None