

# ***Ann Arbor Area Transportation Authority***

*Financial Statements as of and for the  
Years Ended September 30, 2017 and 2016 and  
Additional Information for the Year Ended  
September 30, 2017, 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, 2017, and  
Independent Auditor's Reports*

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

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## 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, 2017 and 2016 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, 2017 and 2016 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.

To the Board of Directors  
Ann Arbor Area Transportation Authority

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for retired employees healthcare plan, as noted 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 management's discussion and analysis 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 supplementary 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* and additional information schedules, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The supplementary 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 supplementary 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 and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018 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.

*Plante & Moran, PLLC*

January 25, 2018

# **ANN ARBOR AREA TRANSPORTATION AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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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 years ended September 30, 2017, 2016 and 2015. 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, Michigan. Funding for this plan includes a five-year property tax millage, which was approved by the voters of the cities of Ann Arbor and Ypsilanti, Michigan and Ypsilanti Township on May 6, 2014. The first 0.7 mill property tax was levied on July 1, 2014, which raises 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 is scheduled to be completed in January 2018.

### **Governance of the Authority**

In 2013, the Authority and the City of Ann Arbor, Michigan approved the City of Ypsilanti, Michigan'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 10 director, by adding one director each from of the City of Ann Arbor, Michigan, the City of Ypsilanti, Michigan 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, 2017 and 2016 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 statements 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.

### **Financial Highlights**

The Authority's total assets increased from the prior year by \$1.2 million (1.6%), primarily due to an increase of \$2.6 million (51.0%) in receivables.

Total net position increased by \$737,000 million (1.0%). The Authority used \$2.4 million of the unrestricted net position to pay for five new buses in 2017.

Total operating revenues are comprised of passenger fares and special fares, where someone other than the passenger pays the fare. These increased \$752,000 (12.2%), primarily due to an increase in the go!pass program and the University of Michigan’s MRide program, while other fare categories remained flat or decreased.

Total operating expenses increased \$2.78 million (6.4%) due to expanded service from the implementation of the 5YTIP in August 2014, August 2015 and May 2016, higher depreciation expense from the recent purchases of buses and higher personnel costs to support the additional services.

**Statements of Net Position (formerly known as the Balance Sheet)**

The statements of net position include all assets and liabilities. They are 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, 2017, 2016 and 2015 is as follows (in thousands):

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Assets:			
Current assets	\$25,026	\$23,705	\$24,866
Capital assets, net	<u>54,644</u>	<u>54,738</u>	<u>46,869</u>
<b>Total assets</b>	<b><u>\$79,670</u></b>	<b><u>\$78,443</u></b>	<b><u>\$71,735</u></b>
Liabilities:			
Current liabilities	\$3,969	\$3,521	\$3,321
Noncurrent liabilities	<u>1,713</u>	<u>1,671</u>	<u>1,531</u>
Total liabilities	5,682	5,192	4,852
Net Position:			
Invested in capital assets	54,644	54,738	46,869
Unrestricted	<u>19,344</u>	<u>18,513</u>	<u>20,014</u>
Total net position	<u>73,988</u>	<u>73,251</u>	<u>66,883</u>
<b>Total liabilities and net position</b>	<b><u>\$79,670</u></b>	<b><u>\$78,443</u></b>	<b><u>\$71,735</u></b>

At September 30, 2017, the Authority’s total assets were \$79.7 million, compared to \$78.4 million at September 30, 2016.

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

The Authority maintains a closed postretirement healthcare and life insurance plan (the "Plan") and follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers 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 \$1,421,000 as of September 30, 2017, based on the most recent available valuation. See Note 16 for more information.

The total assets of the Authority exceeded its total liabilities by \$74.0 million (net position) as of September 30, 2017. Of this amount, \$19.3 million (unrestricted net position) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2017 property tax levies of \$15.5 million have been included in nonoperating revenues for the year ended September 30, 2017, even though three quarters of them will be needed to help fund operations from October 1, 2017 to June 30, 2018. The Authority designated \$1.1 million of the \$4.5 million raised in the July 1, 2016 property tax levy and \$2.4 million of the July 1, 2015 property tax levy and \$3.85 million of the July 1, 2014 property levy toward the purchase of 15 buses to provide additional transit services under the 5YTIP. The purchase of these buses is now complete.

### 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, 2017, 2016 and 2015 is as follows (in thousands):

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operating revenues	\$6,939	\$6,187	\$6,004
Operating expenses	<u>(46,520)</u>	<u>(43,739)</u>	<u>(40,979)</u>
Operating loss	(39,581)	(37,552)	(34,975)
Nonoperating revenues	<u>35,774</u>	<u>34,434</u>	<u>32,329</u>
Change in net position before capital contributions	(3,807)	(3,118)	(2,646)
Net capital contributions	<u>4,544</u>	<u>9,486</u>	<u>4,731</u>
Change in net position	737	6,368	2,085
Net position, beginning of year	<u>73,251</u>	<u>66,883</u>	<u>64,798</u>
<b>Net position, end of year</b>	<b><u>\$73,988</u></b>	<b><u>\$73,251</u></b>	<b><u>\$66,883</u></b>

The Authority's primary sources of operating revenues are passenger fares collected in the farebox in each bus and 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, Michigan.

Total operating expenses of \$46.5 million include operations (\$33.0 million), vehicle and facility maintenance (\$5.5 million) and general administration (\$8.0 million). The largest portion of all expenses is for employee wages and fringe benefits of \$24.2 million, which is 51.9% of all expenses.

Nonoperating 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 2017, the Authority purchased 10 fixed-route buses, six vehicles for VanRide and seven vehicles for local nonprofit agencies for \$5.66 million. The purchase of all but five of the buses 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 2017 and 2016, the Authority used \$2,780,000 and \$3,734,000, respectively for operating assistance, such as operating assistance, planning, preventive maintenance, and capital cost of contracting.

## **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 2017, the Authority purchased 23 vehicles: 10 buses for fixed route, six vehicles for the VanRide program, and seven vans for local nonprofit agencies. In 2016, the Authority purchased 49 vehicles; 21 buses for fixed route, nine paratransit buses, 14 vehicles for the VanRide program and five service vehicles. The Authority's largest capital investments include buses and related equipment, net of depreciation, of \$33.7 million in 2017 and \$33.4 million in 2016 and the land and buildings, net of depreciation, of \$19.2 million in 2017 and \$19.7 million in 2016.

### **Economic Factors and Next Year's Budget (Fiscal Year 2018)**

For fiscal year 2018, the Board of Directors adopted a \$43.26 million operating budget with an operating surplus of \$778,800 and a \$4.2 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, Michigan and the Charter Townships of Pittsfield, Scio, Superior and Ypsilanti.

The 0.7 mill property tax levy, which funds the additional 5YTIP service, is levied from July 1, 2014 to July 1, 2018, inclusive. The Authority will need to have the voters of the cities of Ann Arbor and Ypsilanti, Michigan and Ypsilanti Township approve another five-year property tax levy, sometime between July 1, 2018 and May 15, 2019, to continue to fund the continuation of the services added since August 2014, after July 1, 2019.

### **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 Controller/Manager of Finance, Ann Arbor Area Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104. The Authority's website at [www.theride.org](http://www.theride.org) contains copies of the annual operating budgets, annual audits and monthly 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 the county, select the year "2017" (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, 2017 AND 2016

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
CURRENT ASSETS:		
Cash (Note 3)	\$ 4,414,834	\$ 5,147,654
Investments (Note 3 and 4)	10,455,287	11,583,425
Accounts receivable, less allowance of \$0 in 2017 and 2016	2,320,431	732,709
Grants receivable (Notes 2 and 5)	4,211,963	3,560,470
Other receivables (Note 6)	1,111,026	767,969
Inventory	762,199	854,715
Prepaid expenses	1,085,486	1,057,826
Total current assets	<u>24,361,226</u>	<u>23,704,768</u>
NONCURRENT ASSETS:		
Restricted cash (Note 3)	<u>664,550</u>	<u>                    </u>
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	70,096,951	69,450,766
Construction in progress	597,958	229,677
Total capital assets	<u>106,773,740</u>	<u>105,759,274</u>
Less accumulated depreciation	<u>52,129,318</u>	<u>51,021,005</u>
Net capital assets	<u>54,644,422</u>	<u>54,738,269</u>
TOTAL ASSETS	<u>\$ 79,670,198</u>	<u>\$ 78,443,037</u>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,243,675	\$ 1,157,287
Grant refunds payable (Notes 2 and 5)	878,524	1,230,899
Accrued payroll	656,320	650,934
Accrued compensated absences, current portion	172,342	156,514
Other accrued expenses	133,660	104,351
Unearned revenue (Note 8)	884,002	221,261
Total current liabilities	<u>3,968,523</u>	<u>3,521,246</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	1,551,075	1,408,622
Postretirement benefit obligation (Note 15)	162,054	261,728
Total noncurrent liabilities	<u>1,713,129</u>	<u>1,670,350</u>
Total liabilities	<u>5,681,652</u>	<u>5,191,596</u>
NET POSITION:		
Net investment in capital assets	54,644,422	54,738,269
Unrestricted	19,344,124	18,513,172
Total net position	<u>73,988,546</u>	<u>73,251,441</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 79,670,198</u>	<u>\$ 78,443,037</u>

See notes to financial statements.

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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	2017	2016
OPERATING REVENUES (Note 13)	\$ 6,939,087	\$ 6,187,166
OPERATING EXPENSES (Notes 9, 13, 15 and 16):		
Operations	32,962,420	30,681,719
Maintenance	5,548,948	5,178,015
General administration	<u>8,008,270</u>	<u>7,878,848</u>
Total operating expenses	<u>46,519,638</u>	<u>43,738,582</u>
OPERATING LOSS	(39,580,551)	(37,551,416)
NONOPERATING REVENUES:		
Local (Note 10)	17,970,618	17,201,434
State (Note 2)	13,795,594	12,201,178
Federal	<u>4,007,624</u>	<u>5,031,338</u>
Total nonoperating revenues	<u>35,773,836</u>	<u>34,433,950</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(3,806,715)	(3,117,466)
CAPITAL CONTRIBUTIONS - FEDERAL, STATE AND LOCAL	<u>4,543,820</u>	<u>9,485,908</u>
CHANGE IN NET POSITION	737,105	6,368,442
TOTAL NET POSITION, BEGINNING OF YEAR	<u>73,251,441</u>	<u>66,882,999</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 73,988,546</u>	<u>\$ 73,251,441</u>
UNRESTRICTED NET POSITION, END OF YEAR	<u>\$ 19,344,124</u>	<u>\$ 18,513,172</u>

See notes to financial statements.

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<b>2017</b>	<b>2016</b>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 4,313,598	\$ 3,964,822
Payments for salaries and wages and fringe benefits	(24,188,592)	(22,695,068)
Payments to suppliers	(7,205,329)	(6,986,052)
Payments for claims and insurance	(802,647)	(1,241,636)
Payments for purchased transportation	<u>(5,750,507)</u>	<u>(4,678,609)</u>
Net cash used in operating activities	<u>(33,633,477)</u>	<u>(31,636,543)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenues:		
Local	17,753,533	17,236,486
State	13,803,187	12,630,482
Federal	<u>4,703,650</u>	<u>5,431,088</u>
Net cash provided by noncapital financing activities	<u>36,260,370</u>	<u>35,298,056</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(6,744,989)	(14,096,529)
Capital contributed by state and federal grants	2,881,655	9,683,146
Proceeds from sales of equipment	<u>35,500</u>	<u>17,113</u>
Net cash used in capital and related financing activities	<u>(3,827,834)</u>	<u>(4,396,270)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(47,490,462)	(24,866,759)
Proceeds from sale and maturities of investment securities	48,590,462	27,406,491
Interest income	<u>32,671</u>	<u>34,368</u>
Net cash provided by investing activities	<u>1,132,671</u>	<u>2,574,100</u>
NET (DECREASE)INCREASE IN CASH	(68,270)	1,839,343
CASH AT BEGINNING OF YEAR	<u>5,147,654</u>	<u>3,308,311</u>
CASH AT END OF YEAR	<u>\$ 5,079,384</u>	<u>\$ 5,147,654</u>
STATEMENTS OF NET POSITION CLASSIFICATION OF CASH:		
Unrestricted cash	\$ 4,414,834	\$ 5,147,654
Restricted cash	664,550	
Total cash	<u>\$ 5,079,384</u>	<u>\$ 5,147,654</u>

See notes to financial statements.

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (39,580,551)	\$ (37,551,416)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,540,995	5,964,564
Changes in assets and liabilities which (used) provided cash:		
Receivables	(512,422)	117,856
Inventory	92,516	(39,450)
Prepaid expenses	(27,660)	(370,955)
Payables	(239,657)	(46,471)
Accrued payroll	5,386	178,778
Other accrued expenses	87,916	110,551
Total adjustments	<u>5,947,074</u>	<u>5,914,873</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (33,633,477)</u>	<u>\$ (31,636,543)</u>
NONCASH TRANSACTIONS:		
Subcontracted revenue - Urban demand response (Note 13)	\$ 612,360	\$ 535,611
Subcontracted revenue - Interurban airport shuttle (Note 13)	1,015,255	1,048,721
Nonurban - Passenger fares and other governmental sources	<u>598,584</u>	<u>755,868</u>
Total noncash transactions	<u>\$ 2,226,199</u>	<u>\$ 2,340,200</u>

See notes to financial statements.

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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### 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, Michigan. In 2013, the City of Ypsilanti, Michigan 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, Michigan 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, Michigan 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, Michigan 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 granting agency and is required to segregate those funds for future acquisitions of capital assets.

**Classification of Revenues** - 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, Michigan 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 28 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.

**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 statements 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.

**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, 2017.

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, 2014. 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, 2015, 2016 and 2017 (open years). The Authority has not recorded any estimated aggregate receivable or liability as of September 30, 2017 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 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, 2017 and 2016:

<b>Statements of Net Position:</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 4,414,834	\$ 5,147,654
Investments	10,455,287	11,583,425
Restricted cash	<u>664,550</u>	<u>-</u>
Total	<u>\$15,534,671</u>	<u>\$16,731,079</u>
	<b>2017</b>	<b>2016</b>
<b>Deposits and Investments:</b>		
Bank deposits (checking, savings and certificates of deposit)	\$15,076,094	\$16,344,575
Investment in government liquid asset fund accounts	5,404	5,399
Ultra-low sulfur diesel futures account	449,883	378,285
Cash on hand	<u>3,290</u>	<u>2,820</u>
Total	<u>\$15,534,671</u>	<u>\$16,731,079</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 is 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, depository receipts and repurchases agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the State of Michigan. 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
- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than \$500,000 may be invested in a single corporation.
- Governmental mutual funds 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, 2017, the Authority had the following investments.

<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Interest Rate</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
RBC Wealth Management Money Market Fund	N/A	0.01%	\$ 449,883	Moody's Aa3
Government Liquid Assets Funds	N/A	0.1%	<u>5,404</u>	Not rated
			<u>\$ 455,287</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.

*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, 2017.

*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, 2017, \$6,140,601 of the Authority's bank balance of \$16,398,505 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 or 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 MEASUREMENTS**

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 or liability. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. 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, 2017 and 2016:

- Ultra-low 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 represents 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 33 and 34. The following grant amounts were outstanding at September 30:

	<b>2017</b>	<b>2016</b>
Michigan Department of Transportation:		
Rideshare program	\$ 254,952	\$ 321,954
Operating assistance	(603,190)	(575,414)
Capital cost of contracting	30,000	22,500
Planning		63,475
Preventive maintenance	220,000	158,500
Rail Feasibility Studies	88,139	73,480
Buses and related equipment	962,476	811,067
BikeShare		19,802
Computer hardware and software	134,246	13,238
Passenger shelters	9,393	963
Facilities	3,940	12,797
Transit Centers	7,027	7,027
Job Access/Reverse Commute (State match)		-
Federal Transit Administration:		
Buses and related equipment	1,957,922	699,869
BikeShare	13,686	1,282
Passenger shelters	24,073	2,500
Facilities	19,223	9,458
Job Access/Reverse Commute	9,031	60,045
New Freedom	49,017	119,879
Planning		191,149
Preventive maintenance		316,000
Computer hardware and software	153,504	-
	<u>                    </u>	<u>                    </u>
NET GRANTS RECEIVABLE	<u>\$ 3,333,439</u>	<u>\$ 2,329,571</u>

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

	<b>2017</b>	<b>2016</b>
Grants receivable	\$ 4,211,963	\$ 3,560,470
Grant refunds payable	<u>(878,524)</u>	<u>(1,230,899)</u>
Net grants receivable	<u>\$ 3,333,439</u>	<u>\$ 2,329,571</u>

**6. OTHER RECEIVABLES**

Other receivables consist of the following amounts:

	<b>2017</b>	<b>2016</b>
City of Ann Arbor, Michigan - Property tax levy	\$ 428,942	\$ 257,671
City of Ypsilanti, Michigan - Property tax levy	87,444	401,283
Charter Township of Ypsilanti - Property tax levy	594,584	108,586
Interest receivable	<u>56</u>	<u>429</u>
Total	<u>\$1,111,026</u>	<u>\$ 767,969</u>

## 7. CAPITAL ASSETS

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

	<b>Balance October 1 2016</b>	<b>Additions/ Reclassifications</b>	<b>Deletions/ Reclassifications</b>	<b>Balance September 30 2017</b>
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, net	<u>52,237,771</u>	<u>161,757</u>	<u>623,885</u>	<u>51,775,643</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u><u>\$ 54,738,269</u></u>	<u><u>\$ 649,502</u></u>	<u><u>\$ 743,349</u></u>	<u><u>\$ 54,644,422</u></u>

## 7. CAPITAL ASSETS (Concluded)

Capital asset activity during the fiscal year ended September 30, 2016 is as follows:

	Balance October 1 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance September 30 2016
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>504,849</u>	\$ 135,821	\$ 410,993	<u>229,677</u>
Capital assets not being depreciated	2,775,670	135,821	410,993	2,500,498
Capital assets being depreciated:				
Park and ride lot construction	5,759,849			5,759,849
Buildings	27,567,921	480,240		28,048,161
Vehicles and related equipment	49,428,531	10,812,835	95,530	60,145,836
Radio and telephone systems	248,657	18,996	51,000	216,653
Fare collection equipment	1,058,716		17,883	1,040,833
Maintenance equipment	497,196	66,966	66,387	497,775
Office equipment and furniture	2,527,615	132,764	36,960	2,623,419
Passenger shelters	1,329,203	83,141		1,412,344
Other	688,096	74,764		762,860
Advanced operating system	<u>3,264,265</u>	<u>2,444,737</u>	<u>2,957,956</u>	<u>2,751,046</u>
Total capital assets being depreciated	92,370,049	14,114,443	3,225,716	103,258,776
Less accumulated depreciation:				
Park and ride lot construction	1,715,910	171,493		1,887,403
Buildings	14,015,753	711,384		14,727,137
Vehicles and related equipment	24,934,245	4,454,866	90,189	29,298,922
Radio and telephone systems	221,138	8,594	51,000	178,732
Fare collection equipment	687,753	101,996	17,883	771,866
Maintenance equipment	490,253	8,554	66,387	432,420
Office equipment and furniture	1,978,144	149,623	36,960	2,090,807
Passenger shelters	765,737	94,719		860,456
Other	203,619	59,607		263,226
Advanced operating system	<u>3,264,264</u>	<u>203,728</u>	<u>2,957,956</u>	<u>510,036</u>
Total accumulated depreciation	<u>48,276,816</u>	<u>5,964,564</u>	<u>3,220,375</u>	<u>51,021,005</u>
Total capital assets being depreciated, net	<u>44,093,233</u>	<u>8,149,879</u>	<u>5,341</u>	<u>52,237,771</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 46,868,903</u>	<u>\$ 8,285,700</u>	<u>\$ 416,334</u>	<u>\$ 54,738,269</u>

## 8. UNEARNED REVENUE

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

	<b>2017</b>	<b>2016</b>
Federal capital	\$ 600,091	\$ 62,991
State capital	148,773	14,498
Ypsilanti DDA - Ypsilanti Transit Center Renovations	20,000	20,000
Local share of North/South Rail intergovernmental revenues	-	71,534
City of Chelsea - ExpressRide	15,000	-
GetDowntown Program	<u>100,138</u>	<u>52,238</u>
Total	<u>\$ 884,002</u>	<u>\$ 221,261</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 (the "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 \$753,300 and \$667,200 for the years ended September 30, 2017 and 2016, respectively. The Authority's contribution to the plan is 9% of the employees' gross earnings, less forfeitures. Authority contributions amounted to approximately \$1,322,300 and \$1,156,400 for the years ended September 30, 2017 and 2016, respectively. Total payroll and covered payroll was approximately \$17,803,900 and \$15,071,700, respectively, for 2017 and \$16,551,800 and \$13,389,800, respectively, for 2016.

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, Michigan 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 2.011 mills. In 2010, voters in the City of Ypsilanti, Michigan approved a 0.9789 mill property tax dedicated to public transportation. In 2014, voters in the three member communities (the cities of Ann Arbor and Ypsilanti, Michigan and the Charter Township of Ypsilanti) approved a 0.7 mill property tax dedicated to public transportation (reduced to 0.686 due to the Headlee Amendment). 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).

Property tax revenues received by the Authority for the years ended September 30, 2017 and 2016 totaled approximately \$15,515,000 and \$15,131,000, respectively.

## **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, Michigan 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. At the time of this report being published, the Charter Township of Ypsilanti could not provide a Public Act 328 abatement amount for the 2016 tax year levy. The amount of such abatements related to the cities of Ann Arbor and Ypsilanti, Michigan is 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, 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 \$1,627,600 and \$1,584,300 of fares for these services in the years ended September 30, 2017 and 2016, 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. POSTEMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

**Plan Description.** The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. The benefits for bargaining employees are specified by union contract while the Board of Directors establishes those for nonbargaining employees. This Plan was closed and active bargaining and nonbargaining 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. 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.

Eligible bargaining and nonbargaining 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 from age 70 and over.

**Funding Policy and Annual OPEB Cost.** For this plan, contribution requirements of the plan members and the Authority are established and may be amended by union contract for bargaining employees and for nonbargaining employees by the Board of Directors. The Authority has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The Authority's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* using the Alternative Measurement Method (AMM) as permitted for employers in plans with fewer than 100 total plan members.

**Funding Progress.** The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 20 years, as of the most recent valuation date. The following schedule shows the components of the Authority's annual OPEB cost for the current year, the amount actually contributed to the plan and the changes in the net OPEB obligation:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Annual required contribution (recommended)	\$ 85,212	\$ 98,233	\$ 76,321
Interest on net OPEB obligation	4,595	4,764	5,107
Adjustment to annual required contribution	<u>(104,532)</u>	<u>(11,909)</u>	<u>(11,728)</u>
Total annual OPEB cost	(14,725)	91,088	69,700
Employer contributions made -			
Payment of current healthcare premiums	<u>(84,949)</u>	<u>(67,975)</u>	<u>(86,459)</u>
(Decrease) increase) in net OPEB obligation	(99,674)	23,113	(16,759)
OPEB obligation, beginning of year	<u>261,728</u>	<u>238,615</u>	<u>255,374</u>
<b>OPEB obligation, end of year</b>	<b><u>\$ 162,054</u></b>	<b><u>\$ 261,728</u></b>	<b><u>\$ 238,615</u></b>



The Authority's annual OPEB cost, the percentage contributed to the plan and the net OPEB obligation for the years ended September 30 for the plan are as follows:

<u>Years Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2013	\$ 79,845	87.8%	\$ 244,586
9/30/2014	\$ 76,475	85.9%	\$ 255,374
9/30/2015	\$ 69,700	124.0%	\$ 238,615
9/30/2016	\$ 91,088	81.6%	\$ 261,728
9/30/2017	\$ 85,212	99.7%	\$ 162,054

**Funded Status and Funding Progress** - The funded status of the plan as of September 30, 2017, the most recent available actuarial valuation, is as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Actuarial accrued liabilities (a)	\$ 1,420,888	\$ 1,810,713	\$ 1,453,730
Actuarial value of plan assets (b)	<u>105,895</u>	<u>-</u>	<u>-</u>
<b>Unfunded actuarial accrued liability (a) – (b)</b>	<b><u>\$ 1,314,993</u></b>	<b><u>\$ 1,810,713</u></b>	<b><u>\$ 1,453,730</u></b>
Funded ratio (b) / (a)	7.5%	0%	0%
Covered payroll (c)	\$ 126,638	\$ 107,142	\$ 67,196
Unfunded actuarial accrued liability (funding excess) as a Percentage of covered payroll $\left(\frac{(a) - (b)}{(c)}\right)$	1,038%	1,690%	2,163%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation date and the historical pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. As permitted by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC. The Plan currently covers one active employee, 10 retirees and one retiree's spouse. The following simplifying assumptions were made pursuant to the Alternative Measurement Method:

Actuarial valuation date	September 30, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Remaining amortization period	18 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	2.0%
Projected salary increases	2.0%
Healthcare cost trend rate	5.9% through 2021
Inflation rate	1.0%
Payroll growth rate	2.0%
Retirement age	65
Marital status	Marital status to continue throughout retirement
Mortality	2002 United States for males and females life tables
Turnover	0%

## 16. 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 accumulated 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, 2016, the Authority made pretax contributions of \$140 each month into each eligible employee's HCSP account. From January 1, 2015 to December 31, 2015, the Authority made pretax contributions of \$135 per month. The employees shall make a mandatory monthly pretax contribution of \$10 per pay period. Employees may make voluntary pretax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to approximately \$424,100 and \$390,400 for the years ended September 30 2017 and 2016, respectively.

## **17. COMMITMENTS**

At September 30, 2017, the Authority had outstanding commitments relating to the purchase of four buses for approximately \$1.9 million, the purchase of a computer aided dispatch/automated vehicle location (CAD/AVL) intelligent transportation system for approximately \$833,000 and the purchase of a purchasing, maintenance, inventory, work order and asset management software system for approximately \$129,000.

Funding for these commitments is through federal and state capital grants.

## **18. CHANGE IN ACCOUNTING**

During the year ended September 30, 2016, the Ann Arbor Area Transportation Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. As a result, the notes to the financial statements now include enhanced disclosures about fair value measurement, the level of fair value hierarchy and valuation techniques.

## **19. UPCOMING ACCOUNTING AND REPORTING CHANGES**

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). 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, 2018.

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 were previously 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.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments.

This OPEB standard will require the Authority to recognize on the face of the financial statements its net OPEB liability related to its participation in the Authority's Retirement Health Care and Life Insurance Plan. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). 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, 2018.

Required GASB Statement No. 45  
Supplementary Information  
September 30, 2017

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## GASB STATEMENT NO. 45 REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS FOR RETIRED EMPLOYEES HEALTHCARE PLAN

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<b>Fiscal Year Ending</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
9/30/2012	9/30/2010	\$ -	\$ 1,656,087	\$ 1,656,087	0.0%	\$ 218,584	757.6%
9/30/2013	9/30/2013	\$ -	\$ 1,682,715	\$ 1,682,715	0.0%	\$ 132,944	1265.7%
9/30/2014	9/30/2014	\$ -	\$ 1,643,567	\$ 1,643,567	0.0%	\$ 91,396	1798.3%
9/30/2015	9/30/2015	\$ -	\$ 1,453,730	\$ 1,453,730	0.0%	\$ 67,196	2163.4%
9/30/2016	9/30/2016	\$ -	\$ 1,810,713	\$ 1,810,713	0.0%	\$ 107,142	1690.0%
9/30/2017	9/30/2017	\$ 105,895	\$ 1,420,888	\$ 1,314,993	7.5%	\$ 126,638	1038.4%

Additional Information for the Year Ended  
September 30, 2017

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2017 WITH COMPARATIVE TOTALS FOR 2016

LOCAL OPERATING REVENUES:	2017	2016
Passenger fares:		
Urban fixed route	\$ 2,113,760	\$ 2,038,936
Urban demand response	796,832	735,244
Commuter express	115,970	119,249
Interurban airport shuttle	1,015,255	1,048,721
VanRide fares	24,853	56,791
Nonurban demand response	104,910	122,402
Special Fares:		
City of Ann Arbor, Michigan - DDA (go!pass)	752,248	666,023
City of Ann Arbor, Michigan - DDA (NightRide)	10,626	12,354
Ann Arbor Public Schools	74,906	80,418
Eastern Michigan University	193,576	192,312
University of Michigan (MRide)	1,687,997	1,062,601
Washtenaw Community College	48,154	52,115
Total local operating revenues	<u>\$ 6,939,087</u>	<u>\$ 6,187,166</u>
LOCAL NONOPERATING REVENUES:		
Purchase of service agreements:		
Pittsfield Township	\$ 831,919	\$ 611,282
Scio Township	388,559	93,752
Superior Township	71,885	69,234
City of Chelsea, Michigan (ExpressRide)	<u>15,000</u>	<u>15,000</u>
Total purchase of service agreements	1,307,363	789,268
City of Ann Arbor, Michigan - Property tax levy	14,193,232	13,831,843
City of Ypsilanti, Michigan - Property tax levy	506,406	502,702
Ypsilanti Township - Property tax levy	815,332	796,283
City of Ann Arbor, Michigan - Downtown Development Authority (GetDowntown)	70,205	23,426
City of Ann Arbor, Michigan - Downtown Development Authority (Route #4 & #5 expansion)	76,600	76,600
City of Ann Arbor, Michigan - Downtown Development Authority (Connector Study)	2,330	3,439
City of Ann Arbor, Michigan (Connector Study)	2,330	3,439
City of Ann Arbor, Michigan (GetDowntown)	7,900	7,900
University of Michigan (Connector Study)	11,652	17,198
North/South Rail partner contributions (provides planning grant match)	71,534	32,665
Michigan Environmental Council (Coast to Coast Rail Study)		13,800
Job Access/Reverse Commute pass-through	185,619	158,348
Nonurban - Other governmental and local sources	493,674	506,090
Interurban airport shuttle - Private contractor contribution	91,309	127,376
Interest income	32,298	34,356
Advertising income	251,212	221,126
Other revenue	28,096	53,802
(Loss) gain on sale of equipment	<u>(176,474)</u>	<u>1,773</u>
Total local nonoperating revenues	<u>17,970,618</u>	<u>17,201,434</u>
Total local operating and nonoperating revenues	24,909,705	23,388,600
STATE OF MICHIGAN NONOPERATING REVENUES:		
Formula operating assistance - Urban (Act 51)	11,997,383	9,619,792
Formula operating assistance - Nonurban (Act 51)	525,604	454,011
Prior years formula adjustments - Urban and nonurban	930,898	1,510,646
Capital Cost of Contracting	30,000	30,000
Job Access/Reverse Commute (State Match)		81,194
Planning		92,540
Preventive maintenance	220,000	317,500
Specialized services	91,709	95,495
Total state nonoperating revenues	<u>13,795,594</u>	<u>12,201,178</u>
FEDERAL NONOPERATING REVENUES:		
Operating Assistance (Section 5307)	1,780,000	1,980,000
Unified planning program passed through SEMCOG (Section 5303)	25,292	26,434
Planning (Sections 5307 and 5336)	93,213	498,984
Federal operating assistance - Nonurban (Section 5311) - Passed through the State	248,113	233,657
Capital cost of contracting (Section 5307)	120,000	120,000
Job Access/Reverse Commute	60,710	115,518
New Freedom	90,493	155,247
Preventive maintenance (Section 5307)	880,000	1,272,245
Transportation and Community System Preservation Grant (passed through State of Mich.)	254,803	151,053
State planning and research (Section 5304 - Passed through the State of Michigan)		23,200
Travel Demand Management (CMAQ - Passed through the State of Michigan)	455,000	455,000
Total federal nonoperating revenues	<u>4,007,624</u>	<u>5,031,338</u>
TOTAL NONOPERATING REVENUES	<u>\$ 35,773,836</u>	<u>\$ 34,433,950</u>



**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017, WITH COMPARATIVE TOTALS FOR 2016**

	<b>Operations</b>	<b>Maintenance</b>	<b>General Administration</b>	<b>2017 Total</b>	<b>2016 Total</b>
<b>LABOR:</b>					
Operators' salaries and wages	\$ 8,634,022			\$ 8,634,022	\$ 7,866,530
Other salaries and wages	1,513,045	\$ 2,517,985	\$ 2,502,610	6,533,640	6,289,708
<b>FRINGE BENEFITS</b>					
Fringe wages	1,628,270	418,268	589,718	2,636,256	2,395,599
Social security payroll taxes	849,823	211,432	226,408	1,287,663	1,187,397
Medical insurance	1,750,767	584,550	230,866	2,566,183	2,664,689
Pension	862,127	233,079	226,689	1,321,895	1,156,422
Health Care Savings Plan	290,080	77,560	56,420	424,060	390,425
Postretirement medical benefits	59,052	26,160		85,212	91,088
Other fringe benefits	486,856	110,524	68,933	666,313	957,853
<b>SERVICES:</b>					
Advertising fees	-	-	31,852	31,852	77,060
Other services	350,568	989,737	1,090,731	2,431,036	2,063,408
Auditing fees	-	-	26,875	26,875	22,010
<b>MATERIALS AND SUPPLIES</b>					
<b>CONSUMED:</b>					
Fuel and lubricants	1,429,538	6,483	-	1,436,021	1,479,579
Tires and tubes	209,357	1,172	-	210,529	134,087
Materials and supplies	863,209	349,140	486,236	1,698,585	1,910,393
<b>UTILITIES</b>	35,621	-	451,505	487,126	418,268
<b>CASUALTY AND LIABILITY COSTS:</b>					
Premiums for public liability and property damage insurance	539,742	-	-	539,742	567,186
Other casualty and liability costs	-	-	220,139	220,139	221,267
<b>PURCHASED TRANSPORTATION</b>	7,994,794	-	-	7,994,794	7,142,619
<b>MISCELLANEOUS EXPENSES:</b>					
Travel and meetings	-	-	57,822	57,822	60,788
Advertising and promotion media	-	-	163,723	163,723	175,388
Association dues & subscriptions	-	-	78,947	78,947	85,138
Other	3,218	7,000	369,198	379,416	251,196
<b>LEASES AND RENTALS</b>	48,755	-	18,037	66,792	165,920
<b>DEPRECIATION</b>	5,413,576	15,858	1,111,561	6,540,995	5,964,564
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 32,962,420</u>	<u>\$ 5,548,948</u>	<u>\$ 8,008,270</u>	<u>\$ 46,519,638</u>	<u>\$ 43,738,582</u>

**ADDITIONAL INFORMATION**  
**SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS - UNAUDITED**  
**YEAR ENDED SEPTEMBER 30, 2017 WITH COMPARATIVE TOTALS FOR 2016**

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	2017	2016
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 48,307,627	\$ 44,200,209
Contributions - Federal and state capital grants	4,543,820	9,485,908
Loss on disposal of capital assets (federal and state)	(373,750)	(5,340)
Depreciation on assets purchased with federal and state capital grants	<u>(5,760,639)</u>	<u>(5,373,150)</u>
Balance, end of year	<u>\$ 46,717,058</u>	<u>\$ 48,307,627</u>
Detail of federal and state interest in capital assets at September 30:		
Federal government	\$ 78,561,851	\$ 79,110,779
State of Michigan	<u>16,224,789</u>	<u>16,334,210</u>
Total	94,786,640	95,444,989
Less accumulated depreciation on contributed assets	<u>48,069,582</u>	<u>47,137,362</u>
Net federal and state interest in capital assets	46,717,058	48,307,627
Net local interest in capital assets	<u>7,927,364</u>	<u>6,430,642</u>
Net investment in capital assets	<u>\$ 54,644,422</u>	<u>\$ 54,738,269</u>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017**

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
<b>U. S. Department of Transportation (Federal):</b>									
<b>Direct assistance - Capital Grants:</b>									
Capital (Section 5307) (FY 2011 & 2012) (80/20 or 100/0)	20.507	MI90-X641-01	\$11,800,000	\$200	\$200	\$0	\$0	\$11,678,810	\$120,990
Capital (Section 5307) (FY 2013) (80/20)	20.507	MI90-X671	2,532,810	68,693	68,693	0	0	2,242,014	222,103
Capital (Section 5307) (FY 2014 & 2015) (80/20)	20.507	MI90-X684	5,362,693	775,907	775,907	0	0	3,692,518	894,268
Capital (Section 5307) (FY 2016) (80/20)	20.507	MI90-X778	1,031,725	115,405	115,405	0	0	570,225	346,095
Capital (Section 5307) (FY 2016) (80/20)	20.507	MI95-X123	395,519	343,000	343,000	0	0	52,519	0
Capital (Section 5339) (FY 2016) (80/20)	20.526	MI34-0023	632,275	223,257	223,257	0	0	43,660	365,358
Capital (Section 5339) (FY 2017) (80/20)	20.507	MI90-X778	885,035	4,490	4,490	0	0	0	880,545
Capital (Section 5339) (FY 2017) (80/20)	20.507	MI95-X123	1,560,000	1,560,000	1,560,000	0	0	0	0
Capital (Section 5339) (FY 2017) (80/20)	20.526	MI34-0023	798,965	374,538	374,538	0	0	0	424,427
Federal Highway - Capital Grant - Section 330 (BikeShare)	20.507	MI95-X106	500,000	13,686	13,686	0	0	486,314	0
Capital (Section 5310) (FY 2015)	20.513	MI16-X011	153,600	140,942	140,942	0	0	0	12,658
Capital (Section 5310) (FY 2016)	20.513	MI-2016-X40	174,936	40,694	40,694	0	0	0	134,242
Congestion Mitigation and Air Quality (Buses FY 2013)	20.507	MI95-X103-01	2,996,320	44,335	44,335	0	0	2,395,041	556,944
Capital (Section 5339) (FY 2013 & FY 2014)	20.526	MI34-0004-01	2,171,091	0	0	0	0	2,171,091	0
<b>Passed Through Michigan Department of Transportation:</b>									
Congestion Mitigation and Air Quality (BikeShare)	20.205	2014-0065	200,000	0	0	0	0	132,362	67,638
Subtotal - Federal Capital			\$31,194,969	\$3,705,147	\$3,705,147	\$0	\$0	\$23,464,554	\$4,025,268
<b>Direct assistance - Operating grants:</b>									
Unified Planning Program (Section 5303) (80/0)	20.505	17005	50,583	31,615	25,292	0	6,323	25,291	0
Unified Planning Program (Section 5303) (80/0)	20.505	17014	400,000	0	0	0	0	0	400,000
Unified Planning Program (Section 5303) (80/0)	20.505	17015	320,000	0	0	0	0	0	320,000
Planning (Section 5307) (FY 2017) (80/20)	20.507	MI90-X778	320,000	0	0	0	0	320,000	0
Planning (Section 5339) Connector Study Alternatives (80/0)	20.522	MI39-0004	1,200,000	93,213	93,213	0	0	1,106,787	0
Capital cost of contracting (Section 5307) (FY2016)(80/20)	20.507	MI90-X778	120,000	120,000	120,000	0	0	0	0
Capital cost of contracting (Section 5307) (FY2017)(80/20)	20.507	MI90-X778	664,000	0	0	0	0	0	664,000
Preventive Maintenance (Section 5307) (FY2016) (80/20)	20.507	MI90-X778	880,000	880,000	880,000	0	0	0	0
Preventive Maintenance (Section 5307) (FY2017) (80/20)	20.507	MI90-X778	880,000	0	0	0	0	0	880,000
Operating assistance (Section 5307) (FY 2016) (50/50)	20.507	MI90-X778	2,400,000	1,780,000	1,780,000	0	0	620,000	0
Operating assistance (Section 5307) (FY 2017) (50/50)	20.507	MI90-X778	2,400,000	0	0	0	0	0	2,400,000
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-01	608,988	42,455	42,455	0	0	421,476	145,057
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-02	155,139	18,255	18,255	0	0	77,993	58,891
New Freedom (Mobility Management) (Section 5317)	20.521	MI57-X016-01	216,110	69,657	69,657	0	0	139,315	7,138
New Freedom (Mobility Management) (Section 5317)	20.521	MI57-X016-02	151,724	20,836	20,836	0	0	114,773	16,115
Enhanced Mobility Seniors & Disabilities (Section 5310)	20.513	MI16-X011	179,503	0	0	0	0	0	179,503
Enhanced Mobility Seniors & Disabilities (Section 5310)	20.513	MI16-X019	89,299	0	0	0	0	0	89,299
<b>Passed Through Michigan Department of Transportation:</b>									
Congestion Mitigation and Air Quality, Rideshare	20.507	2016-0396	455,000	455,000	455,000	0	0	0	0
Planning: North/South Rail Feasibility Study (TCSP)	20.205	2012-0033/P20	624,937	318,504	254,803	0	63,701	338,507	31,627
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2012-0033/P23	248,113	248,113	248,113	0	0	0	0
Subtotal - Federal Operating			12,363,396	4,077,648	4,007,624	0	70,024	3,164,142	5,191,630
<b>TOTAL FEDERAL EXPENDITURES</b>			<b>\$43,558,365</b>	<b>\$7,782,795</b>	<b>\$7,712,771</b>	<b>\$0</b>	<b>\$70,024</b>	<b>\$26,628,696</b>	<b>\$9,216,898</b>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF STATE AWARDS - UNAUDITED (Continued)**  
**YEAR ENDED SEPTEMBER 30, 2017**

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
<b>Michigan Department of Transportation (State):</b>									
<b>Direct assistance - Capital grants:</b>									
Capital (FY 2011 and FY 2012)	N/A	2007-0162/Z32 R1	\$2,920,600	\$50	\$0	\$50	\$0	\$2,914,068	\$6,482
Capital (FY 2013)	N/A	2012-0033/P9	633,203	14,656	0	14,656	0	501,614	116,933
Capital (FY 2014 and FY 2015)	N/A	2012-0033/P17 R1	1,340,673	123,559	0	123,559	0	895,402	321,712
Capital (FY 2016)	N/A	2012-0033/P24	514,880	170,415	0	170,415	0	166,601	177,864
Capital (FY 2017)	N/A	2012-0033/P24	811,000	484,757	0	484,757	0	0	326,243
Capital (Livability FY 2012)	N/A	2012-0033/P16 R1	216,877	0	0	0	0	216,877	0
Capital (Section 5310 Match) (FY 2015)	N/A	2012-0033/P18	83,276	35,236	0	35,236	0	0	48,040
Capital (Section 5310 Match) (FY 2016)	N/A	2012-0033/P25	43,734	10,000	0	10,000	0	0	33,734
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
Subtotal - Direct State Capital			7,856,096	838,673	0	838,673	0	5,812,583	1,204,840
<b>Direct assistance - Operating grants:</b>									
Operating assistance - Act 51 Urban	N/A	N/A	11,997,383	11,997,383	0	11,997,383	0	0	0
Operating assistance - Act 51 Nonurban	N/A	N/A	525,604	525,604	0	525,604	0	0	0
Prior year formula adjustments	N/A	N/A	930,898	930,898	0	930,898	0	0	0
Planning (FY 2017)	N/A	2012-0033/P24	80,000	0	0	0	0	0	80,000
Capital Cost of Contracting (FY 2016)	N/A	2012-0033/P24	30,000	30,000	0	30,000	0	0	0
Capital Cost of Contracting (FY 2017)	N/A	2012-0033/P24	30,000	0	0	0	0	0	30,000
Preventive Maintenance (FY 2016)	N/A	2012-0033/P24	220,000	220,000	0	220,000	0	0	0
Preventive Maintenance (FY 2017)	N/A	2012-0033/P24	220,000	0	0	0	0	0	220,000
Specialized Services (FY 2017)	N/A	2017-0008/P2	95,495	279,780	0	91,709	188,071	0	3,786
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27 R1	452,367	0	0	0	0	404,774	47,593
Subtotal - Direct State Operating			14,581,747	13,983,665	0	13,795,594	188,071	404,774	381,379
<b>TOTAL STATE EXPENDITURES</b>			<b>\$22,437,843</b>	<b>\$14,822,338</b>	<b>\$0</b>	<b>\$14,634,267</b>	<b>\$188,071</b>	<b>\$6,217,357</b>	<b>\$1,586,219</b>
STATE PASS-THROUGH:									
Specialized Services (FY 2017)		2017-0008/P2	\$81,345	\$58,292	\$0	\$58,292	\$0	\$0	\$23,053
Specialized Services (FY 2016)		2012-0033/P22	85,441	20,639	0	20,639	0	61,729	3,073
Total - State Pass-through Special Services			\$166,786	\$78,931	\$0	\$78,931	\$0	\$61,729	\$26,126

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017, WITH COMPARATIVE TOTALS FOR 2016**

	Specialized Services 2017-0008/P2 FY 2017	Job Access/ Reverse Commute	New Freedom MI57-0016 MI57-4016	Rideshare Program 2016-0396 FY 2017	Nonurban Operations (Sec. 5311: 2012-0033/P23 FY 2016	Urban Operations		2017 Total	2016 Total
		MI37-0044 MI37-4044 2007-0162/Z27				Demand-response	Fixed-route		
OPERATING EXPENSES:									
Labor		\$ 71,823		\$ 166,806	\$ 53,805	\$ 502,826	\$ 14,372,402	\$ 15,167,662	\$ 14,156,238
Fringe benefits		41,952		113,556	19,138	293,616	8,519,320	8,987,582	8,843,473
Services		-		41,366	5,725	1,649	2,441,023	2,489,763	2,162,478
Materials and supplies		2,418		22,987	3,807	45,179	3,270,744	3,345,135	3,524,059
Utilities		-		-	-	21,813	465,313	487,126	418,268
Casualty and liability costs		-		-	5,230	60,790	693,861	759,881	788,453
Purchased transportation	\$ 279,780	130,136	\$ 90,493	-	1,255,755	4,809,838	1,428,792	7,994,794	7,142,619
Other	-	-	-	110,285	4,399	7,633	557,591	679,908	572,510
Leases and rentals	-	-	-	-	-	-	66,792	66,792	165,920
Depreciation	-	-	-	-	-	93,734	6,447,261	6,540,995	5,964,564
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 279,780</b>	<b>\$ 246,329</b>	<b>\$ 90,493</b>	<b>\$ 455,000</b>	<b>\$ 1,347,859</b>	<b>\$ 5,837,078</b>	<b>\$ 38,263,099</b>	<b>\$ 46,519,638</b>	<b>\$ 43,738,582</b>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017**

<b>Code</b>	<b>Description</b>	<b>Fixed-route</b>	<b>Demand-response</b>	<b>Total Urban</b>
<b>401 :</b>	<b>Farebox Revenue</b>			
40100	Passenger Fares	\$ 3,269,838	\$ 796,832	\$ 4,066,670
40200	Contract Fares	2,767,507		2,767,507
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>			
40615	Advertising Revenue	251,212	-	251,212
<b>407 :</b>	<b>Nontransit Revenue</b>			
40799	Loss on Sale/Disposal of Equipment	(176,474)	-	(176,474)
40799	Other Revenue	28,096	-	28,096
<b>408 :</b>	<b>Local Revenue</b>			
40800	Taxes Levied Directly for Transit Agency	12,733,151	2,781,819	15,514,970
<b>409 :</b>	<b>Local Revenue</b>			
40910	Local Operating Assistance	1,107,266	200,097	1,307,363
40999	Other Local - Local Match	358,302	-	358,302
<b>411 :</b>	<b>State Formula and Contracts</b>			
41101	State Operating Assistance	10,163,941	1,833,442	11,997,383
41101	Prior Year Formula Adjustments	930,898	-	930,898
41111	Preventive Maintenance	220,000	-	220,000
41112	Capital Cost of Contracting	-	30,000	30,000
<b>413 :</b>	<b>Federal Contracts</b>			
41302	Operating Assistance (Sec 5307)	1,780,000	-	1,780,000
41311	Preventive Maintenance (Sec 5307)	880,000	-	880,000
41312	Capital Cost of Contracting (Sec 5307)	-	120,000	120,000
41312	Planning (Sec 5307)	93,213	-	93,213
41312	Unified Planning (Sec 5303)	25,292	-	25,292
41399	State Planning & Research - North/South Rail	254,803	-	254,803
<b>414 :</b>	<b>Other Revenue</b>			
41400	Interest Revenue	32,298	-	32,298
<b>Total</b>		<b>\$ 34,719,343</b>	<b>\$ 5,762,190</b>	<b>\$ 40,481,533</b>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017**

Code	Description	Operations		Maintenance		General Administration		Total
		Fixed-route	Demand-response	Fixed-route	Demand-response	Fixed-route	Demand-response	
<b>501: Labor</b>								
50101	Operators' Salaries & Wages	\$ 8,634,022						\$ 8,634,022
50102	Other Salaries & Wages	1,190,042	\$ 251,180	\$ 2,436,394	\$ 81,591	\$ 2,111,944	\$ 170,055	6,241,206
<b>502: Fringe Benefits</b>								
50200	Other Fringe Benefits	4,914,495	117,951	1,390,180	38,314	978,404	79,856	7,519,200
50210	Defined Contribution Pension	823,857	28,721	223,750	9,329	188,634	19,445	1,293,736
<b>503: Services</b>								
50302	Advertising Fees	-	-	-	-	215	-	215
50305	Audit Costs	-	-	-	-	26,875	-	26,875
50399	Other Services	349,505	238	986,735	671	1,077,693	740	2,415,582
<b>504: Materials and Supplies</b>								
50401	Fuel & Lubricants	1,429,538	-	6,483	-	-	-	1,436,021
50402	Tires & Tubes	209,357	-	1,172	-	-	-	210,529
50499	Other Materials & Supplies	835,896	22,960	339,071	9,286	449,227	12,933	1,669,373
<b>505: Utilities</b>								
50500	Utilities	35,621	-	-	-	429,692	21,813	487,126
<b>506: Insurance</b>								
50603	Liability Insurance	539,742	-	-	-	-	-	539,742
50699	Other Insurance	-	-	-	-	154,119	60,790	214,909
<b>508: Purchased Transportation</b>								
50800	Purchased Transportation	1,428,792	4,809,838	-	-	-	-	6,238,630
<b>509: Miscellaneous Expenses</b>								
50902	Travel, Meeting & Training	-	-	-	-	56,659	-	56,659
50903	Association Dues & Subscriptions	-	-	-	-	78,002	-	78,002
50999	Other Misc Expenses	3,147	45	6,845	98	412,938	7,490	430,563
<b>512: Operating Leases &amp; Rentals</b>								
51200	Operating Leases & Rentals	48,755	-	-	-	18,037	-	66,792
<b>513: Depreciation</b>								
51300	Depreciation	5,319,842	93,734	15,858	-	1,111,561	-	6,540,995
<b>Total Urban Expenses</b>		<b>25,762,611</b>	<b>5,324,667</b>	<b>5,406,488</b>	<b>139,289</b>	<b>7,094,000</b>	<b>373,122</b>	<b>44,100,177</b>
<b>550: Ineligible Expenses</b>								
55007	Ineligible Depreciation	4,666,115	93,734	13,134	-	987,656	-	5,760,639
55009	Ineligible Association Dues	-	-	-	-	11,060	-	11,060
55010	Ineligible Nontransportation Revenue	-	-	-	-	28,096	-	28,096
55011	Ineligible Preventive Maintenance (5307)	-	-	1,100,000	-	-	-	1,100,000
<b>570: Ineligible Expenses</b>								
57099	Ineligible - Planning (Sec 5307)	-	-	-	-	93,213	-	93,213
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	31,615	-	31,615
57602	Ineligible - Capital Cost of Contracting	-	150,000	-	-	-	-	150,000
57604	Ineligible - Federal TCSP	-	-	-	-	318,504	-	318,504
57604	Ineligible - State Planning and Research (Sec 5304)	-	-	-	-	-	-	-
<b>580: Ineligible Expenses</b>								
58007	Ineligible - Postretirement Benefit Accrual	59,052	-	26,160	-	-	-	85,212
58007	Ineligible - Postretirement Benefits Paid	(54,735)	-	(24,248)	-	-	-	(78,983)
						<b>Fixed-route</b>	<b>Demand-response</b>	<b>Total</b>
Total Expenses						\$ 38,263,099	\$ 5,837,078	\$ 44,100,177
Total Ineligible Expenses						(7,255,622)	(243,734)	(7,499,356)
Total Eligible Expenses						\$ 31,007,477	\$ 5,593,344	\$ 36,600,821

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2017

Code	Description	Total Nonurban
<b>401 :</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 104,910
40200	Contract Fares	-
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>	
40615	Advertising	-
<b>407 :</b>	<b>Nontransit Revenue</b>	
40799	Gain (Loss) on Sale of Equipment	-
40799	Other Revenue	-
<b>408 :</b>	<b>Local Revenue</b>	
40800	Taxes Levied Directly for Transit Agency	-
<b>409 :</b>	<b>Local Revenue</b>	
40910	Local Operating Assistance	469,232
40999	Other Local	-
<b>411 :</b>	<b>State Formula and Contracts</b>	
41101	State Operating Assistance	525,604
411	Prior Year Formula Adjustments	-
<b>413 :</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311	248,113
<b>414 :</b>	<b>Other Revenue</b>	
41400	Interest Revenue	-
	Other	-
<b>Total</b>		<b>\$ 1,347,859</b>



**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017**

Code	Description	DEMAND-RESPONSE			Total
		Operations	Maintenance	General Administration	
<b>501: Labor</b>					
50102	Other Salaries & Wages			\$ 53,805	\$ 53,805
<b>502: Fringe Benefits</b>					
50200	Other Fringe Benefits			14,433	14,433
50201	Pensions			4,705	4,705
<b>503: Services</b>					
50305	Other Services	\$ 826	\$ 2,331	2,568	5,725
<b>504: Materials and Supplies</b>					
50499	Other Materials & Supplies	1,935	783	1,089	3,807
<b>506: Insurance</b>					
50699	Other Insurance	-	-	5,230	5,230
<b>508: Purchased Transportation</b>					
50800	Purchased Transportation	1,255,755	-	-	1,255,755
<b>509: Miscellaneous Expenses</b>					
50999	Other Misc Expenses	26	57	4,316	4,399
<b>550: Ineligible Expenses</b>					
<b>570: Ineligible Expenses</b>					
				Total Expenses	\$ 1,347,859
				Total Ineligible Expenses	-
				Total Eligible Expenses	<u>\$ 1,347,859</u>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - URBAN AND NONURBAN SERVICE NONFINANCIAL INFORMATION - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2017**

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**PUBLIC SERVICE - URBAN FIXED-ROUTE**

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<b>Code</b>	<b>Description</b>	<b>Total</b>
610	Vehicle Hours	291,967
611	Vehicle Miles	4,110,822

**PUBLIC SERVICE - URBAN DEMAND-RESPONSE**

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<b>Code</b>	<b>Description</b>	<b>Total</b>
610	Vehicle Hours	122,027
611	Vehicle Miles	1,202,150

**PUBLIC SERVICE - NONURBAN DEMAND-RESPONSE**

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<b>Code</b>	<b>Description</b>	<b>Total</b>
610	Vehicle Hours	34,003
611	Vehicle Miles	381,154

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2017

	Urban		Nonurban
	Line-haul	Demand Response	
Total Expenses	<u>\$ 38,263,099</u>	<u>\$ 5,837,078</u>	<u>\$ 1,347,859</u>
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	\$ 880,000		
Federal Planning (Section 5307 and 5336)	93,213		
Federal Unified Planning (Section 5303)	31,615		
Federal Capital Cost of Contracting (Sec 5307)	-	\$ 120,000	
Federal and State Depreciation Expense	5,666,905	93,734	
Federal TCSP	318,504	-	
State Preventive Maintenance	220,000	-	
State Planning	-	-	
State Planning and Research (Section 5304)	-	-	
State Capital Cost of Contracting	-	30,000	
Postretirement Medical Benefits Accrual	85,212	-	
Postretirement Medical Benefits Paid	(78,983)	-	
Other revenue	28,096	-	
Other expenses (bad debts, ineligible interest)	-	-	
Association Dues (Ineligible Portion)	11,060	-	\$ -
Total Ineligible Expenses	<u>\$ 7,255,622</u>	<u>\$ 243,734</u>	<u>\$ -</u>
<b>Total State Eligible Expenses</b>	<b>\$ 31,007,477</b>	<b>\$ 5,593,344</b>	<b>\$ 1,347,859</b>
Eligible Expenses for State Reimbursement	\$ 31,007,477	\$ 5,593,344	\$ 1,347,859
x Reimbursement Percentage	<u>32.7790%</u>	<u>32.7790%</u>	<u>38.9955%</u>
State Operating Assistance	<u>\$ 10,163,941</u>	<u>\$ 1,833,442</u>	<u>\$ 525,604</u>
Total Operating Assistance - Urban		<u>\$ 11,997,383</u>	
<b>Total Federal Eligible Expenses</b>			
Total Eligible Expenses for State Reimbursement			\$ 1,347,859
Less: Ineligible Auditing Expenses			<u>6,708</u>
Eligible Expenses for Federal Reimbursement			1,341,151
x Reimbursement Percentage			<u>18.5000%</u>
Federal Operating Assistance (Section 5311)			<u>\$ 248,113</u>

# **ANN ARBOR AREA TRANSPORTATION AUTHORITY**

## **ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2017**

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### **A. ITEMS REIMBURSED BY FEDERAL GRANTS**

Items reimbursed directly by federal operating and capital grants, including Sections 5303, 5304, 5307 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. 45 are ineligible expenses. The amount paid for postretirement medical benefits during the current year is 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, 18.9% and 22.2%, 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, 2017 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 25, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Ann Arbor Area Transportation 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.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

January 25, 2018

**Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance**

**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 its major federal program for the year ended September 30, 2017. Ann Arbor Area Transportation 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 Ann Arbor Area Transportation Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Ann Arbor Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Directors  
Ann Arbor Area Transportation Authority

**Opinion on Each Major Federal Program**

In our opinion, Ann Arbor Area Transportation Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

**Report on Internal Control Over Compliance**

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

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

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

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

*Plante & Moran, PLLC*

January 25, 2018



# Ann Arbor Area Transportation Authority

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2017

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Project Number</u>	<u>Provided to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation:					
Federal Transit Cluster - Direct programs:					
Investment Grant - Capital Assistance (CMAQ)	20.507		MI95-0103	\$ -	\$ 44,335
Investment Grant - Capital Assistance (CMAQ)	20.507		MI95-0106	-	13,686
Investment Grant - Surface Transportation Program	20.526		MI34-X023	-	374,538
Investment Grant - FHWA transfer to CMAQ	20.507		MI95-X123	-	2,126,256
Total Federal Transit - Investment Grants				-	2,558,815
Urbanized Area Formula Grants:					
Capital, Planning, and Operating Grant	20.507		MI90-X641	-	200
Capital, Planning, and Operating Grant	20.507		MI90-X671	-	68,693
Capital, Planning, and Operating Grant	20.507		MI90-X684	-	775,907
Capital, Planning, and Operating Grant	20.507		MI90-X778	-	2,899,896
Total Federal Transit - Formula Grants				-	3,744,696
Total Federal Transit Cluster				-	6,303,511
Michigan Department of Transportation - Pass-through - Congestion Mitigation and Air Quality Grants					
	20.205	N/A	2016-0396	-	455,000
Federal Highway - Transportation, Community and System Preservation Program (TCSP)					
	20.205	2012-0033/P20	TCSP-1482	-	254,803
Total Highway Planning and Construction Cluster				-	709,803
Transit Services Program Cluster - Direct Programs:					
Section 5310 Enhanced Mobility of Srs & Ind w/Disabilities	20.513		MI16-X011	140,942	140,942
Section 5310 Enhanced Mobility of Srs & Ind w/Disabilities	20.513		MI16-X019	40,694	40,694
Section 5316 Job Access and Reverse Commute	20.516		MI37-0044	-	18,255
Section 5316 Job Access and Reverse Commute	20.516		MI37-4044	-	42,455
Section 5317 New Freedom	20.521		MI57-0012	-	20,836
Section 5317 New Freedom	20.521		MI57-4016	-	69,657
Total Transit Services Program Cluster				181,636	332,839
FTA Alternatives Analysis Grant (Section 5339) - Direct program					
	20.522		MI39-0004	-	93,213
Public Transportation for Nonurbanized Areas - Passed through Michigan Department of Transportation Operating Assistance (Section 5311)					
	20.509	2012-0033/P23	MI80-X055-07	-	248,113
Federal Transit Technical Studies Grant - Passed through Southeastern Michigan Council of Governments (SEMCOG) - Planning Grant (Section 5303)					
	20.505	17005		-	25,292
Total expenditures of federal awards				\$ 181,636	\$ 7,712,771

See Notes to Schedule of Expenditures  
of Federal Awards.

# **Ann Arbor Area Transportation Authority**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2017**

### **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, 2017. 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 Ann Arbor Area Transportation Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Ann Arbor Area Transportation Authority.

### **Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on 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. Pass-through entity identifying numbers are presented where available.

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

# Ann Arbor Area Transportation Authority

## Schedule of Findings and Questioned Costs Year Ended September 30, 2017

### 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  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)?  Yes  No

Identification of major program:

CFDA Numbers	Name of Federal Program or Cluster
20.507, 20.526	Federal Transit Cluster

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

Auditee qualified as low-risk auditee?  Yes  No

### Section II - Financial Statement Audit Findings

None

### Section III - Federal Program Audit Findings

None