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

*Financial Statements as of and for the  
Years Ended September 30, 2015 and 2014 and  
Additional Information for the Year Ended  
September 30, 2015, Independent Auditor's Reports  
Required by the Office of Management and Budget  
Circular A-133 and Supplemental Schedule of  
Expenditures of Federal Awards for the  
Year Ended September 30, 2015, 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, 2015 and 2014 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, 2015 and 2014 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 Supplemental 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 opinions on the financial statements that collectively comprise Ann Arbor Area Transportation Authority's basic financial statements. The supplemental schedule of expenditures of 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 supplemental schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The additional information schedules, as identified in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, 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 13, 2016 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 13, 2016

# **ANN ARBOR AREA TRANSPORTATION AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

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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 year ended September 30, 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. 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 and Ypsilanti Township on May 6, 2014. The first 0.7 mill property tax was levied on July 1, 2014, which raised \$4.5 million. These funds will be used to provide 44% more local transit service and buy fifteen buses to provide the service. The complete rollout of the services is scheduled to be accomplished by May 2017.

### **Governance of the Authority**

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

### **Overview of the Financial Statements and Financial Analysis**

The discussion is intended to present an overview of the Authority's financial performance for the years ended September 30, 2015 and 2014 and does not purport to make any statement regarding the future operations of the organization. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

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

The basic financial statements for the year ended September 30, 2014 have been audited and are included herein for comparative purposes.

## Financial Highlights

The Authority's total assets increased from the prior year by \$2.96 million (4.3%), primarily due to an increase in grants receivable by \$2.1 million due to timing of grant billings and the increase of \$295,000 (0.6%) in capital assets due to the purchase of eight buses for \$3.46 million, and 12 minivans for VanRide service for \$256,000, net of current year depreciation expense of \$5.5 million.

Total net position increased by \$2.1 million (3.2%), primarily because unrestricted net position increased by \$1.8 million due to the property tax millage of 0.7 mills. The Authority has ordered 15 expansion buses and will use \$3.85 million of the July 2014 property tax millage and \$2.4 million of the July 2015 property millage to pay for the buses.

Total operating revenue is comprised of passenger fares and special fares, where someone other than the passenger pays the fare. These increased \$26,500 (0.4%) primarily due to increase in the AirRide shuttle service fares compared to 2014, while other fare categories remained flat or decreased.

Total operating expenses increased \$2.56 million (6.7%) due to expanded service from the implementation of the 5YTIP in August 2014 and August 2015, higher depreciation expense from the recent purchases of buses and building expansion 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. It is prepared under the "full accrual" basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when they occur, regardless of the timing of the related cash flows. Assets and liabilities are measured using the economic resources measurement focus. Capital assets are reported at historical cost less an allowance for depreciation.

A summary of the Authority's assets, liabilities and net position at September 30, 2015, 2014 and 2013 follows (in thousands):

	2015	2014	2013
Assets:			
Current assets	\$24,866	\$22,205	\$19,172
Capital assets, net	<u>46,869</u>	<u>46,574</u>	<u>47,015</u>
<b>Total assets</b>	<b><u>\$71,735</u></b>	<b><u>\$68,779</u></b>	<b><u>\$66,187</u></b>
Liabilities:			
Current liabilities	\$3,321	\$2,465	\$3,102
Noncurrent liabilities	<u>1,531</u>	<u>1,516</u>	<u>1,376</u>
Total liabilities	4,852	3,981	4,478
Net Position:			
Invested in capital assets	46,869	46,574	47,015
Unrestricted	<u>20,014</u>	<u>18,224</u>	<u>14,694</u>
Total net position	<u>66,883</u>	<u>64,798</u>	<u>61,709</u>
<b>Total liabilities and net position</b>	<b><u>\$71,735</u></b>	<b><u>\$68,779</u></b>	<b><u>\$66,187</u></b>

At September 30, 2015, the Authority's total assets were \$71.7 million, compared to \$68.8 million at September 30, 2014.

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

The Authority maintains a closed post-retirement health care and life insurance plan (Plan) and follows the provisions of the 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 \$1,453,730 as of September 30, 2015 based on the most recent available valuation. See Note 12 for more information.

In 2008, the Authority implemented a defined contribution healthcare savings plan using a trust under the applicable Internal Revenue Code sections. The Authority contributed a one-time contribution to each individual employee account based on months of service, totaling \$3.4 million, using \$1.7 million from the accrued liability at September 30, 2007 and expensing \$1.7 million in 2008.

The total assets of the Authority exceeded its total liabilities by \$66.9 million (net position) as of September 30, 2015. Of this amount, \$20.0 million (unrestricted net position) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2015 property tax levies of \$14.8 million have been included in nonoperating revenue for the year ended September 30, 2015 even though three quarters of them will be needed to help fund operations from October 1, 2015 to June 30, 2016. The Authority has also designated \$2.4 million of the \$4.5 million raised in the July 1, 2015 and \$3.85 million of the \$4.5 million raised in the July 1, 2014 property levy toward the purchase of 15 buses to provide additional transit services under the 5YTIP. Under GASB rules, the designation of \$6.25 million for future bus purchases is not allowed to be shown as a reduction or designation of unrestricted net position on the face of the statements of net position.

### Statements 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, 2015, 2014 and 2013 follows (in \$1,000s):

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Operating revenues	\$6,004	\$5,977	\$5,933
Operating expenses	<u>(40,979)</u>	<u>(38,418)</u>	<u>(35,747)</u>
Operating loss	(34,975)	(32,441)	(29,814)
Non-operating revenues	<u>32,329</u>	<u>31,120</u>	<u>25,149</u>
Change in net position before capital contributions	(2,646)	(1,321)	(4,665)
Net Capital contributions	<u>4,731</u>	<u>4,410</u>	<u>15,023</u>
Change in net position	2,085	3,089	10,358
Net position, beginning of year	<u>64,798</u>	<u>61,709</u>	<u>51,351</u>
<b>Net position, end of year</b>	<b><u>\$66,883</u></b>	<b><u>\$64,798</u></b>	<b><u>\$61,709</u></b>

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

Total operating expenses of \$40,979,000 include operations (\$28,141,000), vehicle and facility maintenance (\$4,600,500) and general administration (\$8,237,500). The largest portion of all expenses is for employee wages and fringe benefits of \$20,697,000 or 50.5% of all expenses.

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

Capital contributions represent Federal, State and local grants for the purchase of new capital assets. In 2015, the Authority purchased eight buses for \$3.46 million. The purchase of the buses was funded by Federal grants administered by the Federal Transportation Administration (FTA). The State of Michigan Department of Transportation (MDOT) provided matching grants for the purchases. A portion of Federal formula dollars (Section 5307) can be used as operating assistance. In 2014 and 2013, the Authority used \$3,594,000 and \$4,275,000, respectively, for operating assistance, such as operating assistance, preventive maintenance, planning 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 2015, the Authority purchased eight buses for fixed route and 12 minivans for the VanRide program. The Authority's largest capital investments include buses and related equipment, net of depreciation, of \$24.9 million in 2015 and 2014 and the land and buildings, net of depreciation, of \$20.4 million in 2015 and \$20.3 million in 2014.

### **Economic Factors and Next Year's Budget (Fiscal Year 2016)**

For fiscal year 2016, the Board of Directors adopted a \$40.0 million budget with a surplus of \$12,500. 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.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor, the City of Ypsilanti and the Charter Township of Ypsilanti. The July 1, 2015 property tax levy increased 3.5% from the July 1, 2014 levy due to the increase in taxable property.

### **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 website at [www.theride.org](http://www.theride.org) contains copies of the annual operating budgets, annual audits and monthly financial operating reports. This information is located under About Us >> Dashboard Facts >> Financial Information.

This year and prior year audited financial statements are also available on the State of Michigan website at <https://treas-secure.state.mi.us/LAFDocSearch/>. Once there, select "Washtenaw County" for County, select "2015" (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

## STATEMENT OF NET POSITION SEPTEMBER 30, 2015 AND 2014

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
CURRENT ASSETS:		
Cash (Note 3)	\$ 3,308,311	\$ 7,628,677
Investments (Note 3)	14,123,157	9,820,985
Accounts receivable, less allowance of \$0 in 2015 and 2014	850,565	761,975
Grants receivable (Notes 2 and 4)	4,196,423	2,121,175
Other receivables (Note 5)	885,680	518,967
Inventory	815,265	759,982
Prepaid expenses	686,871	593,398
Total current assets	<u>24,866,272</u>	<u>22,205,159</u>
CAPITAL ASSETS: (Note 6)		
Land and improvements	2,270,821	2,270,821
Park and Ride lot construction	5,759,849	5,759,849
Buildings and improvements	27,567,921	26,967,835
Equipment and other	59,042,279	54,549,737
Construction in progress	504,849	37,561
Total capital assets	<u>95,145,719</u>	<u>89,585,803</u>
Less accumulated depreciation	48,276,816	43,011,896
Net capital assets	<u>46,868,903</u>	<u>46,573,907</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 71,735,175</u></b>	<b><u>\$ 68,779,066</u></b>
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,466,357	\$ 1,448,054
Grant refunds payable (Notes 2 and 4)	840,560	121,960
Accrued payroll	472,156	365,138
Accrued compensated absences, current portion	143,593	140,055
Other accrued expenses	146,122	106,771
Unearned revenue (Note 7)	252,439	282,976
Total current liabilities	<u>3,321,227</u>	<u>2,464,954</u>
NON-CURRENT LIABILITIES:		
Accrued compensated absences	1,292,334	1,260,498
Post-retirement benefit obligation (Note 14)	238,615	255,374
Total non-current liabilities	<u>1,530,949</u>	<u>1,515,872</u>
Total liabilities	<u>4,852,176</u>	<u>3,980,826</u>
NET POSITION:		
Net investment in capital assets	46,868,903	46,573,907
Unrestricted	20,014,096	18,224,333
Total net position	<u>66,882,999</u>	<u>64,798,240</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 71,735,175</u></b>	<b><u>\$ 68,779,066</u></b>

See notes to financial statements.

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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	2015	2014
OPERATING REVENUES (Note 11)	\$ 6,003,725	\$ 5,977,174
OPERATING EXPENSES (Notes 8, 11, 14 and 15):		
Operations	28,141,031	26,153,314
Maintenance	4,600,561	4,240,370
General administration	<u>8,237,470</u>	<u>8,023,895</u>
Total operating expenses	<u>40,979,062</u>	<u>38,417,579</u>
OPERATING LOSS	(34,975,337)	(32,440,405)
NONOPERATING REVENUES:		
Local (Note 9)	16,425,506	15,800,972
State (Note 2)	11,152,690	9,714,823
Federal	<u>4,751,082</u>	<u>5,603,758</u>
Total nonoperating revenues	<u>32,329,278</u>	<u>31,119,553</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(2,646,059)	(1,320,852)
CAPITAL CONTRIBUTIONS - FEDERAL, STATE AND LOCAL	<u>4,730,818</u>	<u>4,410,014</u>
CHANGE IN NET POSITION	2,084,759	3,089,162
TOTAL NET POSITION, BEGINNING OF YEAR	<u>64,798,240</u>	<u>61,709,078</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 66,882,999</u>	<u>\$ 64,798,240</u>
UNRESTRICTED NET POSITION, END OF YEAR	<u>\$ 20,014,096</u>	<u>\$ 18,224,333</u>

See notes to financial statements.

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## STATEMENT OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 3,897,311	\$ 3,980,992
Payments for salaries and wages and fringe benefits	(20,545,685)	(18,282,940)
Payments to suppliers	(7,687,161)	(7,859,976)
Payments for claims and insurance	(545,031)	(348,954)
Payments for purchased transportation	(4,455,083)	(4,323,705)
Net cash used in operating activities	<u>(29,335,649)</u>	<u>(26,834,583)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenue:		
Local	15,992,618	15,715,078
State	11,469,818	9,579,739
Federal	3,961,177	6,925,663
Net cash provided by noncapital financing activities	<u>31,423,613</u>	<u>32,220,480</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(5,994,132)	(5,599,383)
Capital contributed by state and federal grants	3,846,947	4,791,301
Proceeds from sales of equipment	10,000	17,825
Net cash used in capital and related financing activities	<u>(2,137,185)</u>	<u>(790,257)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(29,131,778)	(17,448,139)
Proceeds from sale and maturities of investment securities	24,829,606	14,782,921
Interest income	31,027	26,535
Net cash used in investing activities	<u>(4,271,145)</u>	<u>(2,638,683)</u>
NET (DECREASE) INCREASE IN CASH	(4,320,366)	1,956,957
CASH AT BEGINNING OF YEAR	<u>7,628,677</u>	<u>5,671,720</u>
CASH AT END OF YEAR	<u>\$ 3,308,311</u>	<u>\$ 7,628,677</u>

See notes to financial statements.

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## STATEMENT OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (34,975,337)	\$ (32,440,405)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,501,447	5,267,033
Changes in assets and liabilities which (used) provided cash:		
Receivables	(88,590)	21,642
Inventory	(55,283)	15,405
Prepaid expenses	(93,473)	263,925
Payables	210,603	(177,164)
Accrued payroll	107,018	86,585
Other accrued expenses	57,966	128,396
Total adjustments	<u>5,639,688</u>	<u>5,605,822</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (29,335,649)</u>	<u>\$ (26,834,583)</u>
NONCASH TRANSACTIONS:		
Subcontracted revenue - urban demand response (Note 11)	\$ 558,490	\$ 636,695
Subcontracted revenue - interurban airport shuttle (Note 11)	998,231	901,806
Nonurban - passenger fares and other governmental sources	<u>569,251</u>	<u>473,580</u>
Total noncash transactions	<u>\$ 2,125,972</u>	<u>\$ 2,012,081</u>

See notes to financial statements.

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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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. In 2013, the City of Ypsilanti and the Charter Township of Ypsilanti became members of the Authority.

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

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

In December 2012, the passage of Michigan Public Act (PA) 387 created the Regional Transit Authority (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. Revenue from operations, investments, and other sources is 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** – 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.

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

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

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

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

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

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

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

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

**Cash Flows – Cash and Investment Classification** – For purposes 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 statements of net position.

**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 estimated fair 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 revenue 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 the 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 revenue, 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, 2015.



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, 2012. 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, 2013, 2014, and 2015 (open years). The Authority has not recorded any estimated aggregate receivable or liability as of September 30, 2015, based on management's anticipation of the results of the State's final determination of the Act 51 funding formula for the open years, other than the receivable or liability already recorded based on the MDOT's preliminary eligible expenses reimbursement percentage for each of the open years.

### 3. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2015 and 2014:

Statements of Net Position:	<b>2015</b>	<b>2014</b>
Cash	\$ 3,308,311	\$ 7,628,677
Investments	<u>14,123,157</u>	<u>9,820,985</u>
Total	<u>\$17,431,468</u>	<u>\$17,449,662</u>

	<b>2015</b>	<b>2014</b>
<b>Deposits and Investments:</b>		
Bank deposits (checking, savings and certificates of deposit)	\$17,155,490	\$17,277,716
Investment in government liquid asset fund accounts	5,393	30,675
Money market fund	93,360	107,166
Ultra-low sulfur diesel futures account	174,405	31,285
Cash on hand	<u>2,820</u>	<u>2,820</u>
Total	<u>\$17,431,468</u>	<u>\$17,449,662</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 repurchase 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 percent 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, 2015, 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%	\$ 174,405	Moody's Aa3
Government Liquid Assets Funds	N/A	0.1%	<u>5,393</u>	Not rated
			<u>\$ 179,798</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, 2015.

*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, 2015, \$3,303,524 of the Authority's bank balance of \$17,410,371 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

#### 4. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The amount remaining on each current grant is listed on the Additional Information – Schedule of Expenditures of Federal, State, and Local Awards (unaudited) on pages 33 and 34. The following grant amounts were outstanding at September 30:

	<b>2015</b>	<b>2014</b>
Michigan Department of Transportation:		
Rideshare program	\$ 139,499	\$ 364,475
Operating assistance	(152,675)	215,110
Capital cost of contracting	15,000	30,000
Planning	35,882	39,224
Preventive maintenance	97,500	175,000
Rail Feasibility Studies	169,965	-
Buses and related equipment	635,110	15
BikeShare	16,080	-
Computer hardware and software	20,470	4,353
Passenger shelters	9,864	2,873
Facilities	-	11,780
Transit Centers	-	119,525
Job Access/Reverse Commute (State match)	6,174	29,640
Federal Transit Administration:	-	-
Buses and related equipment	995,964	12,952
BikeShare	-	54,132
Passenger shelters	39,456	8,004
Transit Centers	-	673,216
Job Access/Reverse Commute	87,711	56,877
New Freedom	-	1,787
Operating assistance	1,040,000	-
Planning	141,567	195,732
Computer hardware and software	58,296	4,520
	<u>\$ 3,355,863</u>	<u>\$ 1,999,215</u>
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ 3,355,863</u>	<u>\$ 1,999,215</u>

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

	<b>2015</b>	<b>2014</b>
Grants receivable	\$ 4,196,423	\$ 2,121,175
Grant refunds payable	<u>(840,560)</u>	<u>(121,960)</u>
Net grants receivable	<u>\$ 3,355,863</u>	<u>\$ 1,999,215</u>

## 5. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	<b>2015</b>	<b>2014</b>
City of Ann Arbor – property tax levy	\$ 225,555	\$ 320,218
City of Ypsilanti – property tax levy	370,490	87,912
Charter Township of Ypsilanti – property tax levy	289,194	110,561
Interest receivable	<u>441</u>	<u>276</u>
 Total	 <u>\$ 885,680</u>	 <u>\$ 518,967</u>

## 6. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2015 is as follows:

	<b>Balance October 1 2014</b>	<b>Additions/ Reclassifications</b>	<b>Deletions/ Reclassifications</b>	<b>Balance September 30 2015</b>
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>37,561</u>	\$ 499,879	\$ 32,591	<u>504,849</u>
Capital assets not being depreciated	2,308,382	499,879	32,591	2,775,670
Capital assets being depreciated:				
Park and ride lot construction	5,759,849			5,759,849
Buildings	26,967,835	600,086		27,567,921
Vehicles and related equipment	45,335,957	4,114,130	21,556	49,428,531
Radio and telephone systems	222,793	25,864		248,657
Fare collection equipment	1,035,416	23,300		1,058,716
Maintenance equipment	497,196			497,196
Office equipment and furniture	2,315,360	299,780	87,525	2,527,615
Passenger shelters	1,310,879	108,589	90,265	1,329,203
Other	525,301	162,795		688,096
Advanced operating system	<u>3,306,835</u>		<u>42,570</u>	<u>3,264,265</u>
Total capital assets being depreciated	87,277,421	5,334,544	241,916	92,370,049
Less accumulated depreciation:				
Park and ride lot construction	1,537,541	178,369		1,715,910
Buildings	13,173,827	841,926		14,015,753
Vehicles and related equipment	20,900,009	4,050,403	16,167	24,934,245
Radio and telephone systems	207,355	13,783		221,138
Fare collection equipment	586,922	100,831		687,753
Maintenance equipment	486,980	3,273		490,253
Office equipment and furniture	1,896,499	169,170	87,525	1,978,144
Passenger shelters	768,972	87,030	90,265	765,737
Other	155,889	47,730		203,619
Advanced operating system	<u>3,297,902</u>	<u>8,932</u>	<u>42,570</u>	<u>3,264,264</u>
Total accumulated depreciation	43,011,896	5,501,447	236,527	48,276,816
Total capital assets being depreciated, net	<u>44,265,525</u>	<u>(166,903)</u>	<u>5,389</u>	<u>44,093,233</u>
 TOTAL CAPITAL ASSETS, NET	 <u>\$ 46,573,907</u>	 <u>\$ 332,976</u>	 <u>\$ 37,980</u>	 <u>\$ 46,868,903</u>

Capital asset activity during the fiscal year ended September 30, 2014 is as follows:

	<b>Balance October 1 2013</b>	<b>Additions/ Reclassifications</b>	<b>Deletions/ Reclassifications</b>	<b>Balance September 30 2014</b>
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>4,127,969</u>	<u>\$ 32,962</u>	<u>\$ 4,123,370</u>	<u>37,561</u>
Capital assets not being depreciated	6,398,790	32,962	4,123,370	2,308,382
Capital assets being depreciated:				
Park and ride lot construction	5,722,594	37,255		5,759,849
Buildings	20,653,299	7,538,980	1,224,444	26,967,835
Vehicles and related equipment	44,566,259	813,901	44,203	45,335,957
Radio and telephone systems	222,793			222,793
Fare collection equipment	1,035,416			1,035,416
Maintenance equipment	497,196			497,196
Office equipment and furniture	2,305,597	243,845	234,082	2,315,360
Passenger shelters	1,245,668	83,152	17,941	1,310,879
Other	136,095	389,206		525,301
Advanced operating system	<u>3,319,841</u>		<u>13,006</u>	<u>3,306,835</u>
Total capital assets being depreciated	79,704,758	9,106,339	1,533,676	87,277,421
Less accumulated depreciation:				
Park and ride lot construction	1,357,768	179,773		1,537,541
Buildings	13,317,928	900,887	1,044,988	13,173,827
Vehicles and related equipment	17,164,609	3,768,820	33,420	20,900,009
Radio and telephone systems	181,739	25,616		207,355
Fare collection equipment	483,380	103,542		586,922
Maintenance equipment	482,907	4,073		486,980
Office equipment and furniture	1,972,179	158,194	233,874	1,896,499
Passenger shelters	707,445	79,468	17,941	768,972
Other	136,094	19,795		155,889
Advanced operating system	<u>3,284,043</u>	<u>26,865</u>	<u>13,006</u>	<u>3,297,902</u>
Total accumulated depreciation	39,088,092	5,267,033	1,343,229	43,011,896
Total capital assets being depreciated, net	<u>40,616,666</u>	<u>3,839,306</u>	<u>190,447</u>	<u>44,265,525</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u><b>\$ 47,015,456</b></u>	<u><b>\$ 3,872,268</b></u>	<u><b>\$ 4,313,817</b></u>	<u><b>\$ 46,573,907</b></u>

## 7. UNEARNED REVENUE

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

	<b>2015</b>	<b>2014</b>
Federal Capital	\$ 51,991	\$ 41,991
State Capital	10,498	10,498
Ypsilanti DDA – Ypsilanti Transit Center Renovations	20,000	20,000
Local share of North/South Rail intergovernmental revenues	104,199	144,736
GetDowntown Program	<u>65,751</u>	<u>65,751</u>
Total	<u>\$ 252,439</u>	<u>\$ 282,976</u>

## 8. EMPLOYEES PENSION PLAN

The Authority provides pension benefits for substantially all of its full-time employees through a defined contribution plan called the Ann Arbor Area Transportation Authority Employees' Pension Plan ("Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority's contributions for each employee and investment earnings allocated to the employee's account are fully vested after five years of employment. Authority contributions for, and investment earnings forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current year contribution requirement. Employees contribute 5% of their gross earnings to the Plan, effective January 1, 2015. Previously, employees contributed 4% of their gross earnings. Employee contributions amounted to \$586,300 and \$452,600 for the years ended September 30, 2015 and 2014, respectively. The Authority's contribution to the Plan is 9% of the employee's gross earnings, less forfeitures, effective January 1, 2015. Authority contributions amounted to \$1,089,000 and \$905,000 for the years ended September 30, 2015 and 2014, respectively. Total payroll and covered payroll was approximately \$14,830,000 and \$12,608,000 for 2015 and \$13,146,000 and \$11,315,000 for 2014.

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

## **9. PROPERTY TAXES**

In 1974, voters in the City of Ann Arbor approved a 2.5 mills property tax dedicated to public transportation. Through the Headlee Amendment (1978) to the State of Michigan Constitution, the property tax millage has been reduced and is currently 2.056 mills. In 2010, voters in the City of Ypsilanti approved a 0.9789 mill property tax dedicated to public transportation. In 2014, voters in the three member communities (Cities of Ann Arbor and Ypsilanti and the Charter Township of Ypsilanti) approved a 0.7 mill property tax dedicated to public transportation. Subsequent to September 30, 2015, voters in Scio Township approved a 0.36 mill property tax dedicated to public transportation, whereby Scio Township will levy the property tax and purchase public transportation services from the Authority under a Purchase of Service Agreement (POSA).

Property tax revenue received by the Authority for the years ended September 30, 2015 and 2014 totaled \$14,827,700 and \$14,327,600, respectively.

## **10. 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.

## **11. 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 \$1,556,700 and \$1,538,500 of fares for these services in the years ended September 30, 2015 and 2014, respectively. These amounts are disclosed as noncash transactions on the statements of cash flows.

## **12. 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.

### **13. INFORMATIONAL SUMMARY OF PROJECTED REVENUES, EXPENDITURES AND METHOD OF FINANCING CAPITAL PROJECTS**

The Authority has prepared and made available for inspection the informational summary of projected revenues, expenses and capital project costs recommended in Section 15, subsection 1(h), Act 621, PA 1978, as amended, (MCLA 141.435) (MSA 5.3228 (35)) and as required in Act 51, 10e (1) (d) (vii).

### **14. POST EMPLOYMENT 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 non-bargaining employees. This Plan was closed and active bargaining and non-bargaining employees, who were eligible to retire based upon attaining age 62 with at least 15 years of service, were eligible to elect to stay in this plan when they retire. Also, active employees who had over 30 years of service, regardless of their age, were also eligible to elect to stay covered by this plan when they retire. 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 non-bargaining employees who retire at or after age 59-1/2 with at least 15 years of service are eligible for life insurance coverage in the amount of \$30,000 until age 65, \$20,000 from age 65 to 69, and \$10,000 age 70 and over.

**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 non-bargaining 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 No. 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>2015</b>	<b>2014</b>	<b>2013</b>
Annual required contribution (recommended)	\$ 76,321	\$ 82,701	\$ 80,645
Interest on net OPEB obligation	5,107	4,892	7,454
Adjustment to annual required contribution	<u>(11,728)</u>	<u>(11,118)</u>	<u>(8,254)</u>
Total annual OPEB cost	69,700	76,475	79,845
Employer contributions made:			
Payment of current health care premiums	<u>(86,459)</u>	<u>(65,687)</u>	<u>(70,095)</u>
Increase (decrease) in net OPEB obligation	(16,759)	10,788	9,750
OPEB obligation – beginning of year	255,374	244,586	208,178
Adjustment to beginning balance	-	-	<u>26,658</u>
<b>OPEB obligation – end of year</b>	<b><u>\$ 238,615</u></b>	<b><u>\$ 255,374</u></b>	<b><u>\$ 244,586</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:

<b><u>Year</u></b> <b><u>Ended</u></b>	<b><u>Annual</u></b> <b><u>OPEB Cost</u></b>	<b><u>Percentage</u></b> <b><u>Contributed</u></b>	<b><u>Net OPEB</u></b> <b><u>Obligation</u></b>
9/30/2011	\$ 86,310	75.8%	\$ 200,583
9/30/2012	\$ 88,745	91.4%	\$ 208,178
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

**Funded Status and Funding Progress.** The funded status of the plan as of September 30, 2015, the most recent available actuarial valuation, is as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
Actuarial accrued liabilities (a)	\$ 1,453,730	\$ 1,643,567	\$ 1,682,715
Actuarial value of plan assets (b)	<u>-</u>	<u>-</u>	<u>-</u>
<b>Unfunded actuarial accrued liability (a) – (b)</b>	<b><u>\$1,453,730</u></b>	<b><u>\$1,643,567</u></b>	<b><u>\$1,682,715</u></b>
Funded ratio (b) / (a)	0%	0%	0%
Covered payroll (c)	\$ 67,196	\$ 91,396	\$ 132,944
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b)) / (c)	2,163%	1,798%	1,266%

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 multiyear 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 multiyear 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, 11 retirees and two retirees' spouses. The following simplifying assumptions were made pursuant to the Alternative Measurement Method:

Actuarial valuation date	September 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Remaining amortization period	20 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%

## **15. HEALTH CARE SAVINGS PLAN**

Effective January 1, 2008, the Authority established a defined contribution Health Care Savings Plan (HCSP) under the 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 pre-tax money to pay post-employment 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 the 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. One-time lump-sum contributions are subject to the same 10 years of continuous vesting requirement as monthly contributions. The total of this one-time contribution was \$3,442,000. Of this total, \$1,714,000 was funded from the accrued post-retirement benefit obligation as of September 30, 2007 and the remaining amount of \$1,728,000 was expensed as a fringe benefit in the year ended September 30, 2008.

Effective January 1, 2015, the Authority made pre-tax contributions of \$135 each month into each eligible employee's HCSP account. From January 1, 2013 to December 31, 2014, the Authority made pre-tax contributions of \$130 per month. The employees shall make a mandatory monthly pre-tax contribution of \$10 per pay period. Employees may make voluntary pre-tax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to \$338,200 and \$292,440 for the years ended September 30, 2015 and 2014, respectively.

## **16. COMMITMENTS**

At September 30, 2015, the Authority had outstanding commitments relating to the purchase of 30 buses for \$10.7 million, the purchase of a computer-aided dispatch/automated vehicle location (CAD/AVL) intelligent transportation system for \$3.65 million and the purchase of a purchasing, maintenance, inventory, work order and asset management software system for \$643,000.

Funding for these commitments is through Federal and State capital grants, except for eight buses, which will be purchased using local funds.

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

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted, during the Authority's fiscal year ending September 30, 2016.

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, 2015

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**GASB STATEMENT 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>
9/30/2011	9/30/2010	\$ -	\$ 1,656,087	\$ 1,656,087	\$ -	\$ 201,147	823.3%
9/30/2012	9/30/2010	\$ -	\$ 1,656,087	\$ 1,656,087	\$ -	\$ 218,584	757.6%
9/30/2013	9/30/2013	\$ -	\$ 1,682,715	\$ 1,682,715	\$ -	\$ 132,944	1265.7%
9/30/2014	9/30/2014	\$ -	\$ 1,643,567	\$ 1,643,567	\$ -	\$ 91,396	1798.3%
9/30/2015	9/30/2015	\$ -	\$ 1,453,730	\$ 1,453,730	\$ -	\$ 67,196	2163.4%

Additional Information for the Year Ended  
September 30, 2015

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF REVENUES - UNAUDITED

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

LOCAL OPERATING REVENUES:	2015	2014
Passenger fares:		
Urban fixed route	\$ 2,071,704	\$ 2,183,989
Urban demand response	736,822	623,483
Commuter express	150,059	159,670
Interurban airport shuttle	998,231	901,806
Mobility Management demand response	-	13,212
VanRide fares	53,446	57,320
Nonurban demand response	123,911	93,458
Special Fares:		
City of Ann Arbor DDA (go!pass)	579,905	546,742
City of Ann Arbor - Downtown Development Authority (NightRide)	13,882	17,809
Ann Arbor Public Schools	45,424	34,362
Eastern Michigan University	191,574	202,218
University of Michigan (MRide)	977,870	1,078,448
Washtenaw Community College	60,897	64,657
TOTAL LOCAL OPERATING REVENUE	<u>\$ 6,003,725</u>	<u>\$ 5,977,174</u>
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
Pittsfield Township	\$ 242,173	\$ 168,273
Superior Township	40,947	37,277
Ypsilanti Township	-	164,755
City of Chelsea (ExpressRide)	15,000	15,000
Total purchase of service agreements	<u>298,120</u>	<u>385,305</u>
City of Ann Arbor - property tax levy	13,556,384	13,056,992
City of Ypsilanti - property tax levy	475,299	489,200
Ypsilanti Township - property tax levy	796,047	779,435
City of Ann Arbor - Downtown Development Authority (GetDowntown)	39,286	36,908
City of Ann Arbor - Downtown Development Authority (Route #4 & #5 expansion)	74,764	72,941
City of Ann Arbor - Downtown Development Authority (Downtown Commuter Study)	5,000	-
City of Ann Arbor - Downtown Development Authority (Connector Study)	2,751	10,808
City of Ann Arbor (Connector Study)	2,751	10,808
City of Ann Arbor (GetDowntown)	7,900	7,900
Scio Township (Transit Demand Study)	6,000	-
University of Michigan (Connector Study)	13,758	54,040
North/South Rail partner contributions (provides planning grant match)	40,537	6,190
Michigan Environmental Council (Coast to Coast Rail Study)	6,200	-
Job Access/Reverse Commute pass-through	210,456	209,277
Nonurban - Other governmental and local sources	445,340	380,122
Interurban airport shuttle - private contractor contribution	140,263	175,550
Interest income	31,192	26,582
Advertising income	245,875	250,958
Other revenue	32,972	38,404
Loss on sale of equipment	(5,389)	(190,448)
Total local nonoperating revenue	<u>16,425,506</u>	<u>15,800,972</u>
Total local operating and nonoperating revenue	<u>22,429,231</u>	<u>21,778,146</u>
STATE OF MICHIGAN NONOPERATING REVENUE:		
Formula operating assistance - urban (Act 51)	9,194,271	8,384,292
Formula operating assistance - nonurban (Act 51)	415,180	407,746
Prior years formula adjustments - urban and nonurban	967,228	94,920
Capital Cost of Contracting	30,000	60,000
Job Access/Reverse Commute (State Match)	104,572	71,696
Planning	57,540	81,355
Preventive maintenance	292,500	525,000
Specialized services	91,399	89,814
Total state nonoperating revenue	<u>11,152,690</u>	<u>9,714,823</u>
FEDERAL NONOPERATING REVENUE:		
Operating Assistance (Section 5307)	1,900,000	1,540,000
Unified planning program passed through SEMCOG (Section 5303)	98,880	49,440
Planning (Sections 5307 and 5336)	379,275	826,797
Federal operating assistance - nonurban (Section 5311) - passed through the State	211,345	166,003
Capital cost of contracting (Section 5307)	120,000	240,000
Job Access/Reverse Commute	137,057	148,201
New Freedom	6,171	49,692
Preventive maintenance (Section 5307)	1,170,000	2,100,000
Transportation and Community System Preservation Grant (passed through State of Mich.)	187,454	-
State planning and research (Section 5304 - passed through the State of Michigan)	56,800	28,625
Travel Demand Management (CMAQ - passed through the State of Michigan)	484,100	455,000
Total federal nonoperating revenue	<u>4,751,082</u>	<u>5,603,758</u>
TOTAL NONOPERATING REVENUES	<u>\$ 32,329,278</u>	<u>\$ 31,119,553</u>



## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Operations	Maintenance	General Administration	2015 Total	2014 Total
LABOR:					
Operators' salaries and wages	\$ 6,912,305			\$ 6,912,305	\$ 6,136,269
Other salaries and wages	1,208,486	\$ 2,038,138	\$ 2,386,553	5,633,177	5,000,550
FRINGE BENEFITS					
Fringe wages	1,373,075	364,083	547,485	2,284,643	2,008,896
Social security payroll taxes	694,243	171,697	209,624	1,075,564	947,792
Medical insurance	1,661,925	525,482	249,020	2,436,427	2,395,869
Pension	692,741	185,988	210,345	1,089,074	905,184
Health care savings plan	223,400	57,525	57,275	338,200	292,440
Post-retirement medical benefits	55,410	14,290	-	69,700	76,475
Other fringe benefits	575,897	134,972	147,024	857,893	740,103
SERVICES:					
Advertising fees	-	-	96,388	96,388	141,644
Other services	301,924	791,484	1,086,914	2,180,322	2,395,475
Auditing fees	-	-	29,372	29,372	21,195
MATERIALS AND SUPPLIES					
CONSUMED:					
Fuel and lubricants	2,382,935	7,292	-	2,390,227	2,261,107
Tires and tubes	113,625	520	-	114,145	62,023
Materials and supplies	806,100	299,816	604,555	1,710,471	1,537,613
UTILITIES	-	-	562,449	562,449	510,019
CASUALTY AND LIABILITY					
COSTS:					
Premiums for public liability and property damage insurance	394,596	-	-	394,596	520,595
Other casualty and liability costs	-	-	142,534	142,534	146,304
PURCHASED TRANSPORTATION	6,445,932	-	-	6,445,932	6,341,529
MISCELLANEOUS EXPENSES:					
Travel and meetings	-	-	51,003	51,003	44,868
Advertising and promotion medi:	-	-	203,220	203,220	226,048
Association dues and subscriptio	-	-	78,461	78,461	86,923
Other	-	6,000	327,964	333,964	303,405
LEASES AND RENTALS	37,458	-	10,090	47,548	48,220
DEPRECIATION	<u>4,260,979</u>	<u>3,274</u>	<u>1,237,194</u>	<u>5,501,447</u>	<u>5,267,033</u>
TOTAL OPERATING EXPENSES	<u>\$ 28,141,031</u>	<u>\$ 4,600,561</u>	<u>\$ 8,237,470</u>	<u>\$ 40,979,062</u>	<u>\$ 38,417,579</u>

**ADDITIONAL INFORMATION**  
**SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS - UNAUDITED**  
**YEARS ENDED SEPTEMBER 30, 2015 AND 2014**

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	2015	2014
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 44,653,731	\$ 45,386,041
Contributions - Federal and State capital grants	4,709,750	4,410,014
Loss on disposal of capital assets (Federal and State)	(5,389)	(93,295)
Depreciation on assets purchased with Federal and State capital grants	<u>(5,157,883)</u>	<u>(5,049,029)</u>
Balance, end of year	<u>\$ 44,200,209</u>	<u>\$ 44,653,731</u>
Detail of Federal and State interest in capital assets at September 30:		
Federal government	\$ 73,914,906	\$ 70,238,000
State of Michigan	<u>14,663,400</u>	<u>13,840,715</u>
Total	88,578,306	84,078,715
Less accumulated depreciation on contributed assets	<u>44,378,097</u>	<u>39,424,984</u>
Net Federal and State interest in capital assets	44,200,209	44,653,731
Net local interest in capital assets	<u>2,668,694</u>	<u>1,920,176</u>
Net investment in capital assets	<u>\$ 46,868,903</u>	<u>\$ 46,573,907</u>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2015**

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	\$170,901	\$170,901	\$0	\$0	\$11,457,179	\$171,920
Capital (Section 5307) (FY 2013) (80/20)	20.507	MI90-X671	2,532,810	688,325	688,325	0	0	991,249	853,236
Capital (Section 5307) (FY 2014 & 2015) (80/20)	20.507	MI90-X684	5,362,693	588,584	588,584	0	0	0	4,774,109
Surface Transportation Program (CCTC) (80/0)	20.507	MI95-X052-01	906,193	0	0	0	0	853,674	52,519
Federal Highway - Capital Grant - Section 330 (BikeShare)	20.507	MI95-X106	500,000	93,975	93,975	0	0	337,426	68,599
Livability (FY 2014) (80/0)	20.500	MI04-X095	867,508	867,508	867,508	0	0	0	0
Congestion Mitigation and Air Quality (Buses FY 2013)	20.507	MI95-X103	1,021,056	695,061	695,061	0	0	0	325,995
Capital (Section 5339) (FY 2013)	20.526	MI34-0004	2,171,091	693,590	693,590	0	0	0	1,477,501
<b>Passed Through Michigan Department of Transportation:</b>									
Congestion Mitigation and Air Quality (BikeShare)	20.205	2014-0065	200,000	60,780	60,780	0	0	51,780	87,440
Subtotal - Federal Capital			\$25,361,351	\$3,858,724	\$3,858,724	\$0	\$0	\$13,691,308	\$7,811,319
<b>Direct assistance - Operating grants:</b>									
Unified Planning Program (Section 5303) (80/0)	20.505	15005	49,440	61,800	49,440	0	12,360	0	0
Unified Planning Program (Section 5303) (80/0)	20.505	16005	49,440	61,800	49,440	0	12,360	0	0
Planning (Section 5307) (FY 2011) (80/20)	20.507	MI90-X641-01	320,000	30,302	30,302	0	0	289,698	0
Planning (Section 5307) (FY 2012) (80/20)	20.507	MI90-X671	320,000	80,855	80,855	0	0	237,144	0
Planning (Section 5307) (FY 2013) (80/20)	20.507	MI90-X684	320,000	158,060	158,060	0	0	17,004	144,936
Planning (Section 5307) (FY 2014) (80/20)	20.507	MI90-X684-01	136,470	0	0	0	0	0	136,470
Planning (Section 5339) Connector Study Alternatives (80/0)	20.522	MI39-0004	1,200,000	137,573	110,058	0	27,515	432,322	230,791
Capital cost of contracting (Section 5307) (80/20)	20.507	MI90-X684	120,000	120,000	120,000	0	0	0	0
Capital cost of contracting (Section 5307) (80/20)	20.507	MI90-X684-01	120,000	0	0	0	0	0	120,000
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X684	1,560,000	1,170,000	1,170,000	0	0	0	390,000
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X684-01	880,000	0	0	0	0	0	0
Operating assistance (Section 5307) (50/50)	20.507	MI90-X684	2,400,000	860,000	860,000	0	0	1,540,000	860,000
Operating assistance (Section 5307) (50/50)	20.507	MI90-X684-01	2,400,000	1,040,000	1,040,000	0	0	0	1,360,000
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-01	452,367	137,057	137,057	0	0	246,894	68,416
New Freedom (Mobility Management)	20.521	MI57-X016	151,110	6,171	6,171	0	0	92,670	52,269
<b>Passed Through Michigan Department of Transportation:</b>									
Congestion Mitigation and Air Quality, Rideshare FY 2015	20.507	2014-0795	484,100	484,100	484,100	0	0	0	0
Planning (Coast to Coast Rail) (Section 5304)	20.515	2012-0033/P15	80,000	71,000	56,800	0	14,200	0	23,200
Planning: North/South Rail Feasibility Study (TCSP)	20.205	2012-0033/P20	572,757	234,317	187,454	0	46,863	0	385,303
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2012-0033/P21	211,345	211,345	211,345	0	0	0	0
Subtotal - Federal Operating			11,827,029	4,864,380	4,751,082	0	113,298	2,855,732	3,771,385
<b>Transfer - Capital (Insurance proceeds)</b>	20.507	MI90-X380	90,708	0	0	0	0	62,977	27,731
<b>TOTAL FEDERAL EXPENDITURES</b>			\$37,279,088	\$8,723,104	\$8,609,806	\$0	\$113,298	\$16,610,017	\$11,610,435

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED (Continued) YEAR ENDED SEPTEMBER 30, 2015

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 2007)	N/A	2007-0162/Z5	\$911,831	\$0	\$0	\$0	\$0	\$866,508	\$45,323
Capital (FY 2011 and FY 2012)	N/A	2007-0162/Z32 R1	2,920,600	8,009	0	8,009	0	2,863,540	49,051
Capital (FY 2013)	N/A	2012-0033/P9	633,203	131,832	0	131,832	0	247,812	253,559
Capital (FY 2014 and FY 2015)	N/A	2012-0033/P17 R1	1,340,673	147,146	0	147,146	0	0	1,193,527
Capital (Livability FY 2012)	N/A	2012-0033/P16 R1	216,877	216,877	0	216,877	0	0	0
Capital (FY 2014)	N/A	2012-0033/P11	255,264	173,765	0	173,765	0	0	81,499
Capital (FY 2013)	N/A	2012-0033/P8 R3	542,774	173,398	0	173,398	0	0	369,376
Subtotal - Direct State Capital			6,821,222	851,027	0	851,027	0	3,977,860	1,992,335
<b>Direct assistance - Operating grants:</b>									
Operating assistance - Act 51 Urban	N/A	N/A	9,194,271	9,194,271	0	9,194,271	0	0	0
Operating assistance - Act 51 Non-Urban	N/A	N/A	415,180	415,180	0	415,180	0	0	0
Prior year formula adjustments	N/A	N/A	967,228	967,228	0	967,228	0	0	0
Planning (FY 2013)	N/A	2012-0033/P9	80,000	20,214	0	20,214	0	59,786	0
Planning (FY 2014 & FY 2015)	N/A	2012-0033/P17	114,118	37,326	0	37,326	0	4,251	72,541
Capital Cost of Contracting (FY 2014 & 2015)	N/A	2012-0033/P17	60,000	30,000	0	30,000	0	0	30,000
Preventive Maintenance (FY 2014 & FY 2015)	N/A	2012-0033/P17	610,000	292,500	0	292,500	0	0	317,500
Specialized Services (FY 2014)	N/A	2012-0033/P12	91,399	307,431	0	91,399	216,032	0	0
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27 R1	452,367	104,572	0	104,572	0	219,008	128,787
Subtotal - Direct State Operating			11,984,563	11,368,722	0	11,152,690	216,032	283,045	548,828
<b>Transfer - Capital grants:</b>									
Capital (Insurance proceeds)	N/A	2002-0007/Z4	22,677	0	0	0	0	15,744	6,933
Subtotal - Transfer			22,677	0	0	0	0	15,744	6,933
<b>TOTAL STATE EXPENDITURES</b>			<b>\$18,828,462</b>	<b>\$12,219,749</b>	<b>\$0</b>	<b>\$12,003,717</b>	<b>\$216,032</b>	<b>\$4,276,649</b>	<b>\$2,548,096</b>
STATE PASS-THROUGH:									
Specialized Services (FY 2015)		2012-0033/P19	\$85,441	\$61,729	\$0	\$61,726	\$0	\$0	\$23,685
Specialized Services (FY 2014)		2012-0033/P12	87,026	23,186	0	23,186	0	65,270	0
Total -State Pass-Through Special Services			\$172,467	\$84,915	\$0	\$84,912	\$0	\$65,270	\$23,685

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2015, WITH COMPARATIVE TOTALS FOR 2014**

	Specialized	Job Access/ Reverse Commute	New Freedom MI57-0016	Rideshare Program 2014-0795	Non Urban Operations (Sec. 5311: 2012-0033/P14	Urban Operations		2015	2014
	2012-0033/P19 FY 2015	MI37-X044 2007-0162/Z27		FY 2015	2012-0033/P14 FY 2014	Demand-Response	Fixed-Route	Total	Total
TOTAL OPERATING EXPENSES:									
Labor		\$ 25,794		\$ 229,038	\$ 16,646	\$ 577,242	\$ 11,696,762	\$ 12,545,482	\$ 11,136,819
Fringe benefits		16,928		110,433	7,109	337,442	7,679,589	8,151,501	7,366,759
Services		-		20,714	5,189	1,138	2,279,041	2,306,082	2,558,314
Materials and supplies		349		68,048	2,922	72,684	4,070,840	4,214,843	3,860,743
Utilities		-		-	-	25,310	537,139	562,449	510,019
Casualty and liability costs		-		-	2,481	42,970	491,679	537,130	666,899
Purchased transportation	\$ 307,431	409,014	\$ 6,171	-	1,105,494	3,404,135	1,213,687	6,445,932	6,341,529
Other	-	-	-	55,867	2,564	45,359	562,858	666,648	661,244
Leases and rentals	-	-	-	-	-	-	47,548	47,548	48,220
Depreciation	-	-	-	-	-	60,612	5,440,835	5,501,447	5,267,033
TOTAL EXPENSES	<u>\$ 307,431</u>	<u>\$ 452,085</u>	<u>\$ 6,171</u>	<u>\$ 484,100</u>	<u>\$ 1,142,405</u>	<u>\$ 4,566,892</u>	<u>\$ 34,019,978</u>	<u>\$ 40,979,062</u>	<u>\$ 38,417,579</u>

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2015

Code	Description	Fixed-Route	Demand Response	Total Urban
<b>401 :</b>	<b>Farebox Revenue</b>			
40100	Passenger Fares	\$ 3,273,440	\$ 736,822	\$ 4,010,262
40200	Contract Fares	1,869,552		1,869,552
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>			
40615	Advertising Revenue	245,875	-	245,875
<b>407 :</b>	<b>NonTransit Revenue</b>			
40799	Gain (Loss) on Sale/Disposal of Equipment	(5,389)	-	(5,389)
40799	Other Revenue	32,972	-	32,972
<b>408 :</b>	<b>Local Revenue</b>			
40800	Taxes Levied Directly for Transit Agency	12,813,081	2,014,649	14,827,730
<b>409 :</b>	<b>Local Revenue</b>			
40910	Local Operating Assistance	181,090	117,030	298,120
40999	Other Local - Local Match	339,210	-	339,210
<b>411 :</b>	<b>State Formua and Contracts</b>			
41101	State Operating Assistance	7,897,544	1,296,727	9,194,271
41101	Prior Year Formula Adjustments	967,228	-	967,228
41111	Preventive Maintenance	292,500	-	292,500
41112	Capital Cost of Contracting	-	30,000	30,000
41112	Planning	57,540	-	57,540
<b>413 :</b>	<b>Federal Contracts</b>			
41302	Operating Assistance (Sec 5307)	1,675,128	224,872	1,900,000
41311	Preventive Maintenance (Sec 5307)	1,170,000	-	1,170,000
41312	Capital Cost of Contracting (Sec 5307)	-	120,000	120,000
41312	Planning (Sec 5307)	379,275	-	379,275
41312	Unified Planning (Sec 5303)	98,880	-	98,880
41399	State Planning & Research - North/South Rail	187,454	-	187,454
41399	State Planning & Research - Coast to Coast Rail	56,800	-	56,800
<b>414 :</b>	<b>Other Revenue</b>			
41400	Interest Revenue	31,192	-	31,192
<b>Total</b>		<b>\$ 31,563,372</b>	<b>\$ 4,540,100</b>	<b>\$ 36,103,472</b>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2015**

Code	Description	Operations		Maintenance		General Administration		Total
		Fixed-Route	Demand Response	Fixed-Route	Demand Response	Fixed-Route	Demand Response	
<b>501:</b>	<b>Labor</b>							
50101	Operators Salaries & Wages	\$ 6,912,305						\$ 6,912,305
50102	Other Salaries & Wages	1,026,410	\$ 188,836	\$ 1,731,063	\$ 143,852	\$ 2,026,984	\$ 244,554	5,361,699
<b>502:</b>	<b>Fringe Benefits</b>							
50200	Other Fringe Benefits	4,326,341	93,199	1,196,644	70,998	1,141,964	120,698	6,949,844
50201	Pensions	645,396	17,190	173,277	13,095	195,969	22,262	1,067,189
<b>503:</b>	<b>Services</b>							
50302	Advertising Fees	-	-	-	-	96,050	338	96,388
50305	Audit Costs	-	-	-	-	28,572	800	29,372
50399	Other Services	298,337	-	782,081	-	1,074,001	-	2,154,419
<b>504:</b>	<b>Materials and Supplies</b>							
50401	Fuel & Lubricants	2,358,883	24,125	7,218	-	-	-	2,390,226
50402	Tires & Tubes	111,821	1,812	512	-	-	-	114,145
50499	Other Materials & Supplies	750,460	22,031	279,121	8,194	562,825	16,522	1,639,153
<b>505:</b>	<b>Utilities</b>							
50500	Utilities	-	-	-	-	537,139	25,310	562,449
<b>506:</b>	<b>Insurance</b>							
50603	Liability Insurance	394,596	-	-	-	-	-	394,596
50699	Other Insurance	-	-	-	-	97,083	42,970	140,053
<b>508:</b>	<b>Purchased Transportation</b>							
50800	Purchased Transportation	1,213,687	3,404,135	-	-	-	-	4,617,822
<b>509:</b>	<b>Miscellaneous Expenses</b>							
50902	Travel, Meeting & Training	-	-	-	-	47,330	-	47,330
50903	Association Dues & Subscriptions	-	-	-	-	77,706	-	77,706
50999	Other Misc Expenses	-	-	4,891	507	432,930	44,852	483,180
<b>512:</b>	<b>Operating Leases &amp; Rentals</b>							
51200	Operating Leases & Rentals	37,458	-	-	-	10,090	-	47,548
<b>513:</b>	<b>Depreciation</b>							
51300	Depreciation	4,200,367	60,612	3,274	-	1,237,194	-	5,501,447
	<b>Total Urban Expenses</b>	<b>22,276,061</b>	<b>3,811,940</b>	<b>4,178,081</b>	<b>236,646</b>	<b>7,565,837</b>	<b>518,306</b>	<b>38,586,871</b>
<b>550:</b>	<b>Ineligible Expenses</b>							
55007	Ineligible Depreciation	3,984,400	55,198	1,325	-	1,116,960	-	5,157,883
55009	Ineligible Association Dues	-	-	-	-	8,533	-	8,533
55010	Ineligible Nontransportation Revenue	-	-	-	-	32,972	-	32,972
55011	Ineligible Preventive Maintenance (5307)	-	-	1,462,500	-	-	-	1,462,500
<b>570:</b>	<b>Ineligible Expenses</b>							
57099	Ineligible - Planning (Sec 5307)	-	-	-	-	436,815	-	436,815
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	123,600	-	123,600
57602	Ineligible - Capital Cost of Contracting	-	150,000	-	-	-	-	150,000
57604	Ineligible - Federal TCSP	-	-	-	-	234,318	-	234,318
57604	Ineligible - State Planning and Research (Sec 5304)	-	-	-	-	71,000	-	71,000
<b>580:</b>	<b>Ineligible Expenses</b>							
58007	Ineligible - Post-retirement Benefit Accrued	55,410	-	14,290	-	-	-	69,700
58007	Ineligible - Post-retirement Benefits Paid	(68,733)	-	(17,726)	-	-	-	(86,459)
						<b>Fixed-Route</b>	<b>Demand</b>	<b>Total</b>
	Total Expenses					\$ 34,019,979	\$ 4,566,892	\$ 38,586,871
	Total Ineligible Expenses					(7,455,664)	(205,198)	(7,660,862)
	Total Eligible Expenses					\$ 26,564,316	\$ 4,361,694	\$ 30,926,010

## ANN ARBOR AREA TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2015

Code	Description	Total Nonurban
<b>401 :</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 123,911
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	391,969
40999	Other Local	-
<b>411 :</b>	<b>State Formua and Contracts</b>	
41101	State Operating Assistance	415,180
411	Prior Year Formula Adjustments	-
<b>413 :</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311	211,345
<b>414 :</b>	<b>Other Revenue</b>	
41400	Interest Revenue	-
	Other	-
<b>Total</b>		<b>\$ 1,142,405</b>



**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2015**

Code	Description	DEMAND-RESPONSE			Total
		Operations	Maintenance	General Administration	
<b>501: Labor</b>					
50102	Other Salaries & Wages			\$ 16,646	\$ 16,646
<b>502: Fringe Benefits</b>					
50200	Other Fringe Benefits			5,611	5,611
50201	Pensions			1,498	1,498
<b>503: Services</b>					
50305	Other Services	\$ 719	\$ 1,884	2,586	5,189
<b>504: Materials and Supplies</b>					
50499	Other Materials & Supplies	1,377	512	1,033	2,922
<b>506: Insurance</b>					
50699	Other Insurance	-	-	2,481	2,481
<b>508: Purchased Transportation</b>					
50800	Purchased Transportation	1,105,494	-	-	1,105,494
<b>509: Miscellaneous Expenses</b>					
50999	Other Misc Expenses	-	-	2,564	2,564
<b>550: Ineligible Expenses</b>					
<b>570: Ineligible Expenses</b>					
				Total Expenses	\$ 1,142,405
				Total Ineligible Expenses	-
				Total Eligible Expenses	<u>\$ 1,142,405</u>

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - URBAN AND NONURBAN SERVICE NONFINANCIAL INFORMATION - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2015**

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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	230,314
611	Vehicle Miles	3,305,239

**PUBLIC SERVICE - URBAN DEMAND-RESPONSE**

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<b>Code</b>	<b>Description</b>	<b>Total</b>
610	Vehicle Hours	89,714
611	Vehicle Miles	1,332,453

**PUBLIC SERVICE - NONURBAN DEMAND-RESPONSE**

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<b>Code</b>	<b>Description</b>	<b>Total</b>
610	Vehicle Hours	31,209
611	Vehicle Miles	504,647

**ANN ARBOR AREA TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED  
YEAR ENDED SEPTEMBER 30, 2015**

	<u>Urban</u>		
	<u>Line-Haul</u>	<u>Demand Response</u>	<u>Nonurban</u>
Total Expenses	\$ 34,019,978	\$ 4,566,892	\$ 1,142,405
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	\$ 1,170,000		
Federal Planning (Section 5307 and 5336)	379,275		
Federal Unified Planning (Section 5303)	123,600		
Federal Capital Cost of Contracting (Sec 5307)	-	\$ 120,000	
Federal and State Depreciation Expense	5,102,685	55,198	
Federal TCSP	234,318	-	
State Preventive Maintenance	292,500	-	
State Planning	57,540	-	
State Planning and Research (Section 5304)	71,000	-	
State Capital Cost of Contracting	-	30,000	
Post-Retirement Medical Benefits Accrual	69,700	-	
Post-Retirement Medical Benefits Paid	(86,459)	-	
Other revenue	32,972	-	
Association Dues (Ineligible Portion)	8,533	-	
Total Ineligible Expenses	<u>7,455,664</u>	<u>205,198</u>	
<b>Total State Eligible Expenses</b>	<b>26,564,314</b>	<b>4,361,694</b>	<b>1,142,405</b>

Eligible Expenses for State Reimbursement	\$ 26,564,314	\$ 4,361,694	\$ 1,142,405
x Reimbursement Percentage	<u>29.7299%</u>	<u>29.7299%</u>	<u>36.3426%</u>
State Operating Assistance	<u>\$ 7,897,544</u>	<u>\$ 1,296,727</u>	<u>\$ 415,180</u>
Total Operating Assistance - Urban		<u>\$ 9,194,271</u>	

**Total Federal Eligible Expenses**

Eligible Expenses for Federal Reimbursement	\$ 1,142,405
x Reimbursement Percentage	<u>18.5000%</u>
Federal Operating Assistance (Section 5311)	<u>\$ 211,345</u>

# ANN ARBOR AREA TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2015

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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 5336, 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. HEALTH CARE SAVINGS PLAN CONTRIBUTIONS AND POST-RETIREMENT MEDICAL BENEFITS PLAN EXPENSE

In 2014, the ineligible amounts represent a portion of the health care savings plan contributions that were paid during the year. The Authority recorded expenses in previous years for the postretirement medical benefits under SFAS Financial Accounting Standards Board (FASB) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, totaling \$3,768,804 from 1991 to 2005 and received State funding for them. The Authority will carry forward the remainder of these expenses as ineligible expenses to future years until the total reaches \$3,768,804. The amount remaining from 2013 of \$85,611 was reflected as an ineligible expense in 2014 and there is currently none remaining after 2014. The amount paid for post-retirement medical benefits is eligible and 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, 11.8% and 22.0%, respectively, to influencing legislation which is not eligible for reimbursement according to Office of Management and Budget, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, issued on December 26, 2013.

### 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Ann Arbor Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 13, 2016.

**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 13, 2016

Report on Compliance for the 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 the Major Federal Program**

We have audited Ann Arbor Area Transportation Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended September 30, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Ann Arbor Area Transportation Authority's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the 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 the 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, 2015.

**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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

Ann Arbor Area Transportation Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Ann Arbor Area Transportation Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.



To the Board of Directors  
Ann Arbor Area Transportation Authority

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

*Plante & Morse, PLLC*

January 13, 2016

# Ann Arbor Area Transportation Authority

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2015

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Project Number	Federal Expenditures
U.S. Department of Transportation:				
Federal Transit Cluster - Direct programs:				
Investment Grant - Capital Assistance (Sec 5339)	20.526		MI34-0004	\$ 693,590
Investment Grant - Livability (Sec 5309)	20.500		MI04-0095	867,508
Investment Grant - Capital Assistance (CMAQ)	20.507		MI95-0103	695,061
Investment Grant - Capital Assistance	20.507		MI95-0106	93,975
Total Federal Transit - Investment Grants				<u>2,350,134</u>
Urbanized Area Formula Grants:				
Capital, Planning and Operating Grant	20.507		MI90-X641	201,203
Capital, Planning and Operating Grant	20.507		MI90-X671	769,180
Capital, Planning and Operating Grant	20.507		MI90-X684	3,936,644
Total Federal Transit - Formula Grants				<u>4,907,027</u>
Total Federal Transit Cluster				7,257,161
Michigan Department of Transportation - Pass-through:				
Congestion Mitigation and Air Quality Grants	20.205		2014-0795	484,100
Congestion Mitigation and Air Quality Grants	20.205		2014-0065	60,780
Federal Highway - Transportation, Community and System Preservation Program (TCSP)				
	20.205	2012-0033/P20	TCSP-1482	<u>187,454</u>
Total Highway Planning and Construction Cluster				732,334
Transit Services Program Cluster - Direct Programs:				
Section 5316 Job Access and Reverse Commute	20.516		MI37-0044	137,057
Section 5317 New Freedom	20.521		MI57-4016	6,171
Total Transit Services Program Cluster				<u>143,228</u>
FTA Alternatives Analysis Grant (Section 5336) - Direct program	20.522		MI39-0004	110,058
Passed through Michigan Department of Transportation				
FTA State Planning and Research Program (Sec. 5304)	20.515	2012-0033/P15	MI80-0004-06	56,800
Public Transportation for Nonurbanized Areas -				
Passed through Michigan Department of Transportation				
Operating Assistance (Section 5311)	20.509	2012-0033/P14	MI80-X050-06	211,345
Federal Transit Technical Studies Grant - Passed through Southeastern Michigan Council of Governments (SEMCOG):				
Planning Grant (Section 5303)	20.505	15005		49,440
Planning Grant (Section 5303)	20.505	16005		49,440
Total Expenditures of Federal Awards				<u><u>\$ 8,609,806</u></u>

# Ann Arbor Area Transportation Authority

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## Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2015

### 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, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following, as applicable, the cost principles in OMB Circular A-133, Cost Principles for OMB Circular A-87, 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. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Pass-through entity identifying numbers are presented where available.

# Ann Arbor Area Transportation Authority

## Schedule of Findings and Questioned Costs Year Ended September 30, 2015

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?        Yes   X   No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   X   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 510(a) of Circular A-133?   X   Yes        No

Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.500, 20.507, 20.526	Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?        Yes   X   No

### Section II - Financial Statement Audit Findings

None

# Ann Arbor Area Transportation Authority

## Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2015

### Section III - Federal Program Audit Findings

Reference Number	Finding
2015-001	<p><b>Program Name</b> - Federal Transit Cluster (CFDA 20.500, 20.507, 20.526)</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Significant Deficiency</p> <p><b>Criteria</b> - OMB circular A-133 requires organizations to properly reflect federal expenditures in the schedule of expenditures of federal awards (SEFA).</p> <p><b>Condition</b> - The SEFA required adjustments related to expenditures at year end, resulting in revisions to correct the SEFA. Grant 2014-0065 was improperly recorded as a state grant on the fixed asset rollforward, since the federal grant was passed through the State of Michigan Department of Transportation. Therefore, this grant was not recorded on the SEFA. The SEFA was adjusted by approximately \$61,000. The adjustment was made as a result of capital transaction testing performed.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The adjustments that have been made to the expenditures reported on the schedule of expenditures of federal awards required updating of grant amounts used for major program determination. The changes to the schedule of expenditures of federal awards did not impact major program determination.</p> <p><b>Cause and Effect</b> - Internal control procedures relative to the identification of federal expenditures to be reported on the SEFA did not operate effectively. This resulted in the Authority providing an inaccurate schedule of expenditures of federal awards to the auditors both on a program and total expenditure basis.</p> <p><b>Recommendation</b> - Internal control procedures should be initiated and enforced to ensure proper expenditures are reported in the schedule of expenditures of federal awards.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Additional review of expenditures reported in the schedule of expenditures of federal awards will be put in place.</p>