



Ann Arbor Area Transportation Authority

*Financial Statements as of and for the
Years Ended September 30, 2016 and 2015 and
Additional Information for the Year Ended
September 30, 2016, Independent Auditor's Reports
Required by the Office of Management and Budget
Uniform Grant Guidance at 2 CFR Part 200 and
Supplementary Schedule of Expenditures of Federal
Awards for the Year Ended September 30, 2016, 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, 2016 and 2015 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, 2016 and 2015 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Ann Arbor Area Transportation Authority

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress for retired employees healthcare plan, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ann Arbor Area Transportation Authority's basic financial statements. The supplementary schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and additional information schedules, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The supplementary schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The additional information schedules, as identified in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017 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 19, 2017

ANN ARBOR AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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, 2016. 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 15 buses to provide the service, of which 10 have already been purchased by September 30, 2016. The complete rollout of the services is ongoing and is scheduled to be accomplished by August 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 requests to become members of the Authority, creating a three-member authority. The Board of Directors expanded from seven directors to 10 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, 2016 and 2015 and does not purport to make any statement regarding the future operations of the Authority. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

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

The basic financial statements for the year ended September 30, 2015 have been audited and are included herein for comparative purposes.

Financial Highlights

The Authority's total assets increased from the prior year by \$6.7 million (9.4%), primarily due to an increase of \$7.9 million (16.8%) in net capital assets due to the purchase of 21 buses for \$9.4 million, nine paratransit buses for \$820,000, 14 vehicles for VanRide service for \$330,000 and five service vehicles, net of current year depreciation expense of \$5.96 million.

Total net position increased by \$6.4 million (9.5%), primarily because net investment in capital assets increased by \$7.9 million due to the purchase of 49 vehicles mentioned above, with funding for all but nine of the buses coming from federal and state capital grants. The Authority has ordered 10 more buses for delivery in June 2017 and will use \$2.4 million of the unrestricted net position to pay for five of them.

Total operating revenues are comprised of passenger fares and special fares, where someone other than the passenger pays the fare. These increased \$183,000 (3.1%), primarily due to increase in the go!pass program, University of Michigan's MRide program and AirRide shuttle service fares compared to 2015, while other fare categories remained flat or decreased.

Total operating expenses increased \$2.76 million (6.7%) due to expanded service from the implementation of the 5YTIP in August 2014, August 2015 and May 2016, higher depreciation expense from the recent purchases of buses and 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, 2016, 2015 and 2014 is as follows (in thousands):

	2016	2015	2014
Assets:			
Current assets	\$23,705	\$24,866	\$22,205
Capital assets, net	<u>54,738</u>	<u>46,869</u>	<u>46,574</u>
Total assets	<u>\$78,443</u>	<u>\$71,735</u>	<u>\$68,779</u>
Liabilities:			
Current liabilities	\$3,521	\$3,321	\$2,465
Noncurrent liabilities	<u>1,671</u>	<u>1,531</u>	<u>1,516</u>
Total liabilities	5,192	4,852	3,981
Net Position:			
Invested in capital assets	54,738	46,869	46,574
Unrestricted	<u>18,513</u>	<u>20,014</u>	<u>18,224</u>
Total net position	<u>73,251</u>	<u>66,883</u>	<u>64,798</u>
Total liabilities and net position	<u>\$78,443</u>	<u>\$71,735</u>	<u>\$68,779</u>

At September 30, 2016, the Authority's total assets were \$78.4 million, compared to \$71.7 million at September 30, 2015.

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

The Authority maintains a closed postretirement healthcare and life insurance plan (the "Plan") and follows the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. 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 \$1,811,000 as of September 30, 2016, based on the most recent available valuation. See Note 15 for more information.

The total assets of the Authority exceeded its total liabilities by \$73.25 million (net position) as of September 30, 2016. Of this amount, \$18.5 million (unrestricted net position) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2016 property tax levies of \$15.1 million have been included in nonoperating revenues for the year ended September 30, 2016, even though three quarters of them will be needed to help fund operations from October 1, 2016 to June 30, 2017. The Authority designated \$1.1 million of the \$4.5 million raised in the July 1, 2016 property tax levy and \$2.4 million of the July 1, 2015 property tax levy and \$3.85 million of the July 1, 2014 property levy toward the purchase of 15 buses to provide additional transit services under the 5YTIP. The Authority used \$4.95 million to purchase 10 buses during FY 2015 and FY 2016. Under GASB rules, the designation of the remaining \$2.4 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 statement of net position.

Statement of Revenues, Expenses and Changes in Net Position

A summary of the Authority's revenues, expenses and changes in net position for the years ended September 30, 2016, 2015 and 2014 is as follows (in \$1,000s):

	2016	2015	2014
Operating revenues	\$6,187	\$6,004	\$5,977
Operating expenses	<u>(43,739)</u>	<u>(40,979)</u>	<u>(38,418)</u>
Operating loss	(37,552)	(34,975)	(32,441)
Nonoperating revenues	<u>34,434</u>	<u>32,329</u>	<u>31,120</u>
Change in net position before capital contributions	(3,118)	(2,646)	(1,321)
Net capital contributions	<u>9,486</u>	<u>4,731</u>	<u>4,410</u>
Change in net position	6,368	2,085	3,089
Net position, beginning of year	<u>66,883</u>	<u>64,798</u>	<u>61,709</u>
Net position, end of year	<u>\$73,251</u>	<u>\$66,883</u>	<u>\$64,798</u>

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

Total operating expenses of \$43.7 million include operations (\$30.7 million), vehicle and facility maintenance (\$5.2 million) and general administration (\$7.8 million). The largest portion of all expenses is for employee wages and fringe benefits of \$22.9 million, or 52.6%, of all expenses.

Nonoperating revenues include federal and state grants. Local operating assistance includes local property taxes, purchase of service agreements, other governmental agreements and bus advertising.

Capital contributions represent federal, state and local grants for the purchase of new capital assets. In 2016, the Authority purchased of 21 fixed-route buses, nine paratransit buses, 14 vehicles for VanRide and five service vehicles for \$10.7 million. The purchase of all but the nine buses was funded by federal grants administered by the Federal Transportation Administration (FTA) and matching State of Michigan Department of Transportation (MDOT) grants. A portion of federal formula dollars (Section 5307) can be used as operating assistance. In 2016 and 2015, the Authority used \$3,734,000 and \$3,594,000, 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 2016, the Authority purchased 49 vehicles; 21 buses for fixed route, nine paratransit buses, 14 vehicles for the VanRide program and five service vehicles. The Authority's largest capital investments include buses and related equipment, net of depreciation, of \$33.4 million in 2016 and \$24.9 million in 2015 and the land and buildings, net of depreciation, of \$19.7 million in 2016 and \$20.4 million in 2015.

Economic Factors and Next Year's Budget (Fiscal Year 2017)

For fiscal year 2017, the Board of Directors adopted a \$44.17 million budget with a surplus of \$62,200. 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, 2016 property tax levies increased 2.0% from the July 1, 2015 levies 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's website at 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's website at <https://treas-secure.state.mi.us/LAFDocSearch/>. Once there, select "Washtenaw County" for County, select the year "2016" (or a previous year as far back as 2004) for the Year and "Authority, Drain District" for the municipality type. Then you can select the "Ann Arbor Area Transportation Authority" for the municipality.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF NET POSITION SEPTEMBER 30, 2016 AND 2015

ASSETS	2016	2015
CURRENT ASSETS:		
Cash (Note 3)	\$ 5,147,654	\$ 3,308,311
Investments (Note 3 and 4)	11,583,425	14,123,157
Accounts receivable, less allowance of \$0 in 2016 and 2015	732,709	850,565
Grants receivable (Notes 2 and 5)	3,560,470	4,196,423
Other receivables (Note 6)	767,969	885,680
Inventory	854,715	815,265
Prepaid expenses	1,057,826	686,871
Total current assets	<u>23,704,768</u>	<u>24,866,272</u>
CAPITAL ASSETS: (Note 7)		
Land and improvements	2,270,821	2,270,821
Park and Ride lot construction	5,759,849	5,759,849
Buildings and improvements	28,048,161	27,567,921
Equipment and other	69,450,766	59,042,279
Construction in progress	229,677	504,849
Total capital assets	<u>105,759,274</u>	<u>95,145,719</u>
Less accumulated depreciation	51,021,005	48,276,816
Net capital assets	<u>54,738,269</u>	<u>46,868,903</u>
TOTAL ASSETS	<u>\$ 78,443,037</u>	<u>\$ 71,735,175</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,157,287	\$ 1,466,357
Grant refunds payable (Notes 2 and 5)	1,230,899	840,560
Accrued payroll	650,934	472,156
Accrued compensated absences, current portion	156,514	143,593
Other accrued expenses	104,351	146,122
Unearned revenue (Note 8)	221,261	252,439
Total current liabilities	<u>3,521,246</u>	<u>3,321,227</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	1,408,622	1,292,334
Postretirement benefit obligation (Note 15)	261,728	238,615
Total noncurrent liabilities	<u>1,670,350</u>	<u>1,530,949</u>
Total liabilities	5,191,596	4,852,176
NET POSITION:		
Net investment in capital assets	54,738,269	46,868,903
Unrestricted	18,513,172	20,014,096
Total net position	<u>73,251,441</u>	<u>66,882,999</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 78,443,037</u>	<u>\$ 71,735,175</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES (Note 12)	\$ 6,187,166	\$ 6,003,725
OPERATING EXPENSES (Notes 9, 12, 15 and 16):		
Operations	30,681,719	28,141,031
Maintenance	5,178,015	4,600,561
General administration	<u>7,878,848</u>	<u>8,237,470</u>
Total operating expenses	<u>43,738,582</u>	<u>40,979,062</u>
OPERATING LOSS	(37,551,416)	(34,975,337)
NONOPERATING REVENUES:		
Local (Note 10)	17,201,434	16,425,506
State (Note 2)	12,201,178	11,152,690
Federal	<u>5,031,338</u>	<u>4,751,082</u>
Total nonoperating revenues	<u>34,433,950</u>	<u>32,329,278</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(3,117,466)	(2,646,059)
CAPITAL CONTRIBUTIONS - FEDERAL, STATE AND LOCAL	<u>9,485,908</u>	<u>4,730,818</u>
CHANGE IN NET POSITION	6,368,442	2,084,759
TOTAL NET POSITION, BEGINNING OF YEAR	<u>66,882,999</u>	<u>64,798,240</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 73,251,441</u>	<u>\$ 66,882,999</u>
UNRESTRICTED NET POSITION, END OF YEAR	<u>\$ 18,513,172</u>	<u>\$ 20,014,096</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 3,964,822	\$ 3,897,311
Payments for salaries and wages and fringe benefits	(22,695,068)	(20,545,685)
Payments to suppliers	(6,986,052)	(7,687,161)
Payments for claims and insurance	(1,241,636)	(545,031)
Payments for purchased transportation	(4,678,609)	(4,455,083)
Net cash used in operating activities	(31,636,543)	(29,335,649)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenues:		
Local	17,236,486	15,992,618
State	12,630,482	11,469,818
Federal	5,431,088	3,961,177
Net cash provided by noncapital financing activities	35,298,056	31,423,613
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(14,096,529)	(5,994,132)
Capital contributed by state and federal grants	9,683,146	3,846,947
Proceeds from sales of equipment	17,113	10,000
Net cash used in capital and related financing activities	(4,396,270)	(2,137,185)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(24,866,759)	(29,131,778)
Proceeds from sale and maturities of investment securities	27,406,491	24,829,606
Interest income	34,368	31,027
Net cash provided by (used in) investing activities	2,574,100	(4,271,145)
NET INCREASE (DECREASE) IN CASH	1,839,343	(4,320,366)
CASH AT BEGINNING OF YEAR	3,308,311	7,628,677
CASH AT END OF YEAR	\$ 5,147,654	\$ 3,308,311

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (37,551,416)	\$ (34,975,337)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,964,564	5,501,447
Changes in assets and liabilities which provided (used) cash:		
Receivables	117,856	(88,590)
Inventory	(39,450)	(55,283)
Prepaid expenses	(370,955)	(93,473)
Payables	(46,471)	210,603
Accrued payroll	178,778	107,018
Other accrued expenses	110,551	57,966
Total adjustments	<u>5,914,873</u>	<u>5,639,688</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (31,636,543)</u>	<u>\$ (29,335,649)</u>
NONCASH TRANSACTIONS:		
Subcontracted revenue - urban demand response (Note 12)	535,611	588,490
Subcontracted revenue - interurban airport shuttle (Note 12)	1,048,721	998,231
Nonurban - passenger fares and other governmental sources	<u>755,868</u>	<u>569,251</u>
Total noncash transactions	<u>\$ 2,340,200</u>	<u>\$ 2,155,972</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

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

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

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

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

Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

The Authority records the fair market value of the fuel hedge contracts in investments. The resulting realized gains and losses are recorded as an offset to the expense (gain) or an additional expense (loss) in the statements of revenues, expenses and changes in net position in the fuel and lubricants expense line item.

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

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

Cash Flows - Cash and Investment Classification - For the purpose of the statements of cash flows, the Authority considers all cash investments with an original maturity of 28 days or more when purchased to be investments, which is consistent with how investments have been classified on the balance sheet.

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

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

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

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

Grant Activities - The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provides financial assistance and grants directly to the Authority for operations and acquisition of property and equipment. Operating grants are recorded as grant receivables and revenues when the qualified expenditures are recorded. Federal and state capital acquisition grants fund the purchase of capital items, including buses and related transportation equipment used by Authority. Capital grants for the acquisition of capital assets are recorded as grants receivable in the statement 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, 2016.

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, 2013. 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, 2014, 2015, and 2016 (open years). The Authority has not recorded any estimated aggregate receivable or liability as of September 30, 2016 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, 2016 and 2015:

Balance Sheet:	2016	2015
Cash	\$ 5,147,654	\$ 3,308,311
Investments	<u>11,583,425</u>	<u>14,123,157</u>
Total	<u>\$16,731,079</u>	<u>\$17,431,468</u>

Deposits and Investments:	2016	2015
Bank deposits (checking, savings and certificates of deposit)	\$16,244,834	\$17,155,490
Investment in government liquid asset fund accounts	5,399	5,393
Money market fund	99,741	93,360
Ultra-low sulfur diesel futures account	378,285	174,405
Cash on hand	<u>2,820</u>	<u>2,820</u>
Total	<u>\$16,731,079</u>	<u>\$17,431,468</u>

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

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

- Certificates of deposit, depository receipts and repurchases agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the State of Michigan. The total investment (exclusive of checking accounts) in any one financial institution shall not exceed the lesser of 20% of that financial institution's capital and surplus or \$4,000,000.
- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less
- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than \$500,000 may be invested in a single corporation.
- Governmental mutual funds which invest only in authorized investments for local units of government under state law and which offer daily liquidity

The Authority chooses to disclose its investments by specifically identifying each. As of September 30, 2016, the Authority had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
RBC Wealth Management Money Market Fund	N/A	0.01%	\$ 378,285	Moody's Aa3
Government Liquid Assets Funds	N/A	0.1%	<u>5,399</u>	Not rated
			<u>\$ 383,684</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, 2016.

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, 2016, \$5,601,560 of the Authority's bank balance of \$16,959,196 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

4. FAIR VALUE MEASUREMENT

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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

The Authority has the following recurring fair value measurements as of September 30, 2016:

- Ultralow Sulfur Diesel fuel futures are valued using quoted market prices (Level 1 inputs)

5. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The amount remaining on each current grant is listed on the additional information - schedule of expenditures of federal and state awards - unaudited on pages 34 and 35. The following grant amounts were outstanding at September 30:

	2016	2015
Michigan Department of Transportation:		
Rideshare program	\$ 321,954	\$ 139,499
Operating assistance	(575,414)	(152,675)
Capital cost of contracting	22,500	15,000
Planning	63,475	35,882
Preventive maintenance	158,500	97,500
Rail Feasibility Studies	73,480	169,965
Buses and related equipment	811,067	635,110
BikeShare	19,802	16,080
Computer hardware and software	13,238	20,470
Passenger shelters	963	9,864
Facilities	12,797	-
Transit Centers	7,027	-
Job Access/Reverse Commute (State match)	-	6,174
Federal Transit Administration:		
Buses and related equipment	699,869	995,964
BikeShare	1,282	-
Passenger shelters	2,500	39,456
Facilities	9,458	-
Job Access/Reverse Commute	60,045	87,711
New Freedom	119,879	-
Operating assistance		1,040,000
Planning	191,149	141,567
Preventive maintenance	316,000	-
Computer hardware and software	-	58,296
	<u> </u>	<u> </u>
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ 2,329,571</u>	<u>\$ 3,355,863</u>

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

	2016	2015
Grants receivable	\$ 3,560,470	\$ 4,196,423
Grant refunds payable	<u>(1,230,899)</u>	<u>(840,560)</u>
Net grants receivable	<u>\$ 2,329,571</u>	<u>\$ 3,355,863</u>

6. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2016	2015
City of Ann Arbor - property tax levy	\$ 257,671	\$ 225,555
City of Ypsilanti - property tax levy	401,283	370,490
Charter Township of Ypsilanti - property tax levy	108,586	289,194
Interest receivable	<u>429</u>	<u>441</u>
Total	<u>\$ 767,969</u>	<u>\$ 885,680</u>

7. CAPITAL ASSETS

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

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

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

	Balance October 1, 2014	Additions/ Reclassifications	Deletions/ Reclassifications	Balance September 30, 2015
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>37,561</u>	<u>\$ 499,879</u>	<u>\$ 32,591</u>	<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	<u>43,011,896</u>	<u>5,501,447</u>	<u>236,527</u>	<u>48,276,816</u>
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>

8. UNEARNED REVENUE

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

	2016	2015
Federal capital	\$ 62,991	\$ 51,991
State capital	14,498	10,498
Ypsilanti DDA - Ypsilanti transit center renovations	20,000	20,000
Local share of North/South Rail intergovernmental revenues	71,534	104,199
GetDowntown Program	<u>52,238</u>	<u>65,751</u>
Total	<u>\$ 221,261</u>	<u>\$ 252,439</u>

9. EMPLOYEES’ PENSION PLAN

The Authority provides pension benefits for substantially all of its full-time employees through a defined contribution plan called the Ann Arbor Area Transportation Authority Employees’ Pension Plan (“Plan”). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority’s contributions for each employee and investment earnings allocated to the employee’s account are fully vested after five years of employment. Authority contributions for, and investment earnings forfeited by, employees who leave employment before five years of service are used to reduce the Authority’s current year contribution requirement. Employees contribute 5% of their gross earnings to the plan. Employee contributions amounted to approximately \$667,200 and \$586,300 for the years ended September 30, 2016 and 2015. The Authority’s contribution to the plan is 9% of the employees’ gross earnings, less forfeitures. Authority contributions amounted to approximately \$1,156,400 and \$1,089,000 for the years ended September 30, 2016 and 2015, respectively. Total payroll and covered payroll was approximately \$16,551,800 and \$13,389,800 for 2016 and \$14,830,000 and \$12,608,000 for 2015.

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

10. PROPERTY TAXES

In 1974, voters in the City of Ann Arbor approved a 2.5 mills property tax dedicated to public transportation. Through the Headlee Amendment (1978) to the State of Michigan Constitution, the property tax millage has been reduced and is currently 2.037 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 (reduced to 0.6943 due to the Headlee Amendment). In November 2015, voters in Scio Township approved a 0.36 mill property tax dedicated to public transportation, where Scio Township will levy the property tax and purchase public transportation services from the Authority under a Purchase of Service Agreement (POSA).

Property tax revenues received by the Authority for the years ended September 30, 2016 and 2015 totaled approximately \$15,131,000 and \$14,827,700, respectively.

11. 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.

12. 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 \$1,584,300 and \$1,586,700 of fares for these services in the years ended September 30, 2016 and 2015, respectively. These amounts are disclosed as noncash transactions on the statements of cash flows.

13. 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.

14. 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).

15. POSTEMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description. The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. The benefits for bargaining employees are specified by union contract while the Board of Directors establishes those for 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 59½ 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 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:

	2016	2015	2014
Annual required contribution (recommended)	\$ 98,233	\$ 76,321	\$ 82,701
Interest on net OPEB obligation	4,764	5,107	4,892
Adjustment to annual required contribution	<u>(11,909)</u>	<u>(11,728)</u>	<u>(11,118)</u>
Total annual OPEB cost	91,088	69,700	76,475
Employer contributions made -			
Payment of current healthcare premiums	<u>(67,975)</u>	<u>(86,459)</u>	<u>(65,687)</u>
Increase (decrease) in net OPEB obligation	23,113	(16,759)	10,788
OPEB obligation, beginning of year	<u>238,615</u>	<u>255,374</u>	<u>244,586</u>
OPEB obligation, end of year	<u>\$ 261,728</u>	<u>\$ 238,615</u>	<u>\$ 255,374</u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
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
9/30/2016	\$ 91,088	74.6%	\$ 261,728

Funded Status and Funding Progress - The funded status of the plan as of September 30, 2016, the most recent available actuarial valuation, is as follows:

	2016	2015	2014
Actuarial accrued liabilities (a)	\$ 1,810,713	\$ 1,453,730	\$ 1,643,567
Actuarial value of plan assets (b)	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 1,810,713</u>	<u>1,453,730</u>	<u>\$ 1,643,567</u>
Funded ratio (b) / (a)	0%	0%	0%
Covered payroll (c)	\$ 107,142	\$ 67,196	\$ 91,396
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) - (b)) / (c)	1,690%	2,163%	1,798%

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

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

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation date and the historical pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. As permitted by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC. The Plan currently covers two active employees, 11 retirees and two retirees' spouses. The following simplifying assumptions were made pursuant to the Alternative Measurement Method:

Actuarial valuation date	September 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Remaining amortization period	19 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	2.0%
Projected salary increases	2.0%
Healthcare cost trend rate	5.9% through 2021
Inflation rate	1.0%
Payroll growth rate	2.0%
Retirement age	65
Marital status	Marital status to continue throughout retirement
Mortality	2002 United States for males and females life tables
Turnover	0%

16. HEALTH CARE SAVINGS PLAN

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

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

Effective January 1, 2016, the Authority made pretax contributions of \$140 each month into each eligible employee's HCSP account. From January 1, 2015 to December 31, 2015, the Authority made pretax contributions of \$135 per month. The employees shall make a mandatory monthly pretax contribution of \$10 per pay period. Employees may make voluntary pretax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to approximately \$390,400 and \$338,200 for the years ended September 30 2016 and 2015, respectively.

17. COMMITMENTS

At September 30, 2016, the Authority had outstanding commitments relating to the purchase of ten buses for approximately \$5.4 million, the purchase of 13 VanRide vehicles for \$317,500, the purchase of a computer aided dispatch/automated vehicle location (CAD/AVL) intelligent transportation system for approximately \$1.3 million and the purchase of a purchasing, maintenance, inventory, work order and asset management software system for approximately \$579,000.

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

18. CHANGE IN ACCOUNTING

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

19. UPCOMING ACCOUNTING AND REPORTING CHANGES

In 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.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement requires the disclosure of any taxes being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes and the types of commitments made by the tax abatement recipients. The disclosures also include the gross dollar amount of the taxes abated during the reporting period and any other commitments made by a government as part of the abatement agreement. 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, 2017.

Required GASB Statement No. 45
Supplementary Information
September 30, 2016

ANN ARBOR AREA TRANSPORTATION AUTHORITY

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

Fiscal Year Ending	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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%
9/30/2016	9/30/2016	\$ -	\$ 1,810,713	\$ 1,810,713	\$ -	\$ 107,142	1690.0%

Additional Information for the Year Ended
September 30, 2016

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF REVENUES - UNAUDITED YEARS ENDED SEPTEMBER 30, 2016 AND 2015

LOCAL OPERATING REVENUES:	2016	2015
Passenger fares:		
Urban fixed route	\$ 2,038,936	\$ 2,071,704
Urban demand response	735,244	736,822
Commuter express	119,249	150,059
Interurban airport shuttle	1,048,721	998,231
VanRide fares	56,791	53,446
Nonurban demand response	122,402	123,911
Special fares:		
City of Ann Arbor DDA (go!pass)	666,023	579,905
City of Ann Arbor - Downtown Development Authority (NightRide)	12,354	13,882
Ann Arbor Public Schools	80,418	45,424
Eastern Michigan University	192,312	191,574
University of Michigan (MRide)	1,062,601	977,870
Washtenaw Community College	52,115	60,897
TOTAL LOCAL OPERATING REVENUES	<u>\$ 6,187,166</u>	<u>\$ 6,003,725</u>
LOCAL NONOPERATING REVENUES:		
Purchase of service agreements:		
Pittsfield Township	\$ 611,282	\$ 242,173
Scio Township	93,752	
Superior Township	69,234	40,947
City of Chelsea (ExpressRide)	15,000	15,000
Total purchase of service agreements	789,268	298,120
City of Ann Arbor - property tax levy	13,831,843	13,556,384
City of Ypsilanti - property tax levy	502,702	475,299
Ypsilanti Township - property tax levy	796,283	796,047
City of Ann Arbor - Downtown Development Authority (GetDowntown)	23,426	39,286
City of Ann Arbor - Downtown Development Authority (Route #4 and #5 expansion)	76,600	74,764
City of Ann Arbor - Downtown Development Authority (Downtown Commuter Study)		5,000
City of Ann Arbor - Downtown Development Authority (Connector Study)	3,439	2,751
City of Ann Arbor (Connector Study)	3,439	2,751
City of Ann Arbor (GetDowntown)	7,900	7,900
Scio Township (Transit Demand Study)		6,000
University of Michigan (Connector Study)	17,198	13,758
North/South Rail partner contributions (provides planning grant match)	32,665	40,537
Michigan Environmental Council (Coast to Coast Rail Study)	13,800	6,200
Job access/Reverse commute pass-through	158,348	210,456
Nonurban - Other governmental and local sources	506,090	445,340
Interurban airport shuttle - private contractor contribution	127,376	140,263
Interest income	34,356	31,192
Advertising income	221,126	245,875
Other revenue	53,802	32,972
Gain (loss) on sale of equipment	1,773	(5,389)
Total local nonoperating revenues	<u>17,201,434</u>	<u>16,425,506</u>
Total local operating and nonoperating revenues	<u>23,388,600</u>	<u>22,429,231</u>
STATE OF MICHIGAN NONOPERATING REVENUES:		
Formula operating assistance - urban (Act 51)	9,619,792	9,194,271
Formula operating assistance - nonurban (Act 51)	454,011	415,180
Prior years formula adjustments - urban and nonurban	1,510,646	967,228
Capital cost of contracting	30,000	30,000
Job access/Reverse commute (state match)	81,194	104,572
Planning	92,540	57,540
Preventive maintenance	317,500	292,500
Specialized services	95,495	91,399
Total state nonoperating revenues	12,201,178	11,152,690
FEDERAL NONOPERATING REVENUES:		
Operating assistance (Section 5307)	1,980,000	1,900,000
Unified planning program passed through SEMCOG (Section 5303)	26,434	98,880
Planning (Sections 5307 and 5336)	498,984	379,275
Federal operating assistance - nonurban (Section 5311) - passed through the State	233,657	211,345
Capital cost of contracting (Section 5307)	120,000	120,000
Job access/Reverse commute	115,518	137,057
New Freedom	155,247	6,171
Preventive maintenance (Section 5307)	1,272,245	1,170,000
Transportation and Community System Preservation Grant (passed through State of Mich.)	151,053	187,454
State planning and research (Section 5304 - passed through the State of Michigan)	23,200	56,800
Travel Demand Management (CMAQ - passed through the State of Michigan)	455,000	484,100
Total federal nonoperating revenues	<u>5,031,338</u>	<u>4,751,082</u>
TOTAL NONOPERATING REVENUES	<u>\$ 34,433,950</u>	<u>\$ 32,329,278</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Operations	Maintenance	General Administration	2016 Total	2015 Total
LABOR:					
Operators' salaries and wages	\$ 7,866,530			\$ 7,866,530	\$ 6,912,305
Other salaries and wages	1,458,435	\$ 2,376,229	\$ 2,455,044	6,289,708	5,633,177
FRINGE BENEFITS					
Fringe wages	1,404,593	402,974	588,032	2,395,599	2,284,643
Social security payroll taxes	740,216	197,516	249,665	1,187,397	1,075,564
Medical insurance	1,830,801	549,594	284,294	2,664,689	2,436,427
Pension	742,829	194,940	218,653	1,156,422	1,089,074
Health care savings plan	262,465	71,075	56,885	390,425	338,200
Postretirement medical benefits	64,928	26,160		91,088	69,700
Other fringe benefits	759,142	165,323	33,388	957,853	857,893
SERVICES:					
Advertising fees	-	-	77,060	77,060	96,388
Other services	312,932	805,614	944,862	2,063,408	2,180,322
Auditing fees	-	-	22,010	22,010	29,372
MATERIALS AND SUPPLIES CONSUMED:					
Fuel and lubricants	1,473,699	5,880	-	1,479,579	2,390,227
Tires and tubes	133,167	920	-	134,087	114,145
Materials and supplies	905,240	361,836	643,317	1,910,393	1,710,471
UTILITIES	-	-	418,268	418,268	562,449
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	567,186	-	-	567,186	394,596
Other casualty and liability costs	-	-	221,267	221,267	142,534
PURCHASED TRANSPORTATION	7,142,619	-	-	7,142,619	6,445,932
MISCELLANEOUS EXPENSES:					
Travel and meetings	-	-	60,788	60,788	51,003
Advertising and promotion media	-	-	175,388	175,388	203,220
Association dues and subscriptions	-	-	85,138	85,138	78,461
Other	8,151	11,400	231,645	251,196	333,964
LEASES AND RENTALS	144,884	-	21,036	165,920	47,548
DEPRECIATION	<u>4,863,902</u>	<u>8,554</u>	<u>1,092,108</u>	<u>5,964,564</u>	<u>5,501,447</u>
TOTAL OPERATING EXPENSES	<u>\$ 30,681,719</u>	<u>\$ 5,178,015</u>	<u>\$ 7,878,848</u>	<u>\$ 43,738,582</u>	<u>\$ 40,979,062</u>

ADDITIONAL INFORMATION
SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS - UNAUDITED
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 44,200,209	\$ 44,653,731
Contributions - Federal and state capital grants	9,485,908	4,709,750
Loss on disposal of capital assets (Federal and State)	(5,340)	(5,389)
Depreciation on assets purchased with Federal and State capital grants	<u>(5,373,150)</u>	<u>(5,157,883)</u>
Balance, end of year	<u>\$ 48,307,627</u>	<u>\$ 44,200,209</u>
Detail of Federal and State interest in capital assets at September 30:		
Federal government	\$ 79,110,779	\$ 73,914,906
State of Michigan	<u>16,334,210</u>	<u>14,663,400</u>
Total	95,444,989	88,578,306
Less accumulated depreciation on contributed assets	<u>47,137,362</u>	<u>44,378,097</u>
Net Federal and state interest in capital assets	48,307,627	44,200,209
Net local interest in capital assets	<u>6,430,642</u>	<u>2,668,694</u>
Net investment in capital assets	<u>\$ 54,738,269</u>	<u>\$ 46,868,903</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL 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
U. S. Department of Transportation (Federal):									
Direct assistance - Capital Grants:									
Capital (Section 5307) (FY 2011 and 2012) (80/20 or 100/0)	20.507	MI90-X641-01	\$11,800,000	\$50,730	\$50,730	\$0	\$0	\$11,628,080	\$121,190
Capital (Section 5307) (FY 2013) (80/20)	20.507	MI90-X671	2,532,810	562,440	562,440	0	0	1,679,574	290,796
Capital (Section 5307) (FY 2014 and 2015) (80/20)	20.507	MI90-X684	5,362,693	3,103,934	3,103,934	0	0	588,584	1,670,175
Capital (Section 5307) (FY 2016) (80/20)	20.507	MI90-X778	1,031,725	570,225	570,225	0	0	0	461,500
Capital (Section 5307) (FY 2016) (80/20)	20.507	MI95-X123	395,519	52,519	52,519	0	0	0	343,000
Capital (Section 5339) (FY 2016) (80/20)	20.526	MI34-0023	632,275	43,660	43,660	0	0	0	588,615
Federal Highway - Capital Grant - Section 330 (BikeShare)	20.507	MI95-X106	500,000	54,913	54,913	0	0	431,401	13,686
Capital (Section 5310) (FY 2015)	20.513	MI16-X011	153,600	0	0	0	0	0	153,600
Capital (Section 5310) (FY 2016)	20.513	MI-2016-X40	174,936	0	0	0	0	0	174,936
Congestion Mitigation and Air Quality (Buses FY 2013)	20.507	MI95-X103-01	2,428,457	1,699,980	1,699,980	0	0	695,061	33,416
Capital (Section 5339) (FY 2013 and FY 2014)	20.526	MI34-0004-01	2,171,091	1,477,501	1,477,501	0	0	693,590	0
Passed Through Michigan Department of Transportation:									
Congestion Mitigation and Air Quality (BikeShare)	20.205	2014-0065	200,000	19,802	19,802	0	0	112,560	67,638
Subtotal - Federal Capital			\$27,383,106	\$7,635,704	\$7,635,704	\$0	\$0	\$15,828,850	\$3,918,552
Direct assistance - Operating grants:									
Unified Planning Program (Section 5303) (80/0)	20.505	16005	50,583	1,429	1,143	0	286	49,440	0
Unified Planning Program (Section 5303) (80/0)	20.505	17005	49,440	31,614	25,291	0	6,323	0	24,149
Planning (Section 5307) (FY 2014) (80/20)	20.507	MI90-X684	320,000	144,936	144,936	0	0	175,064	0
Planning (Section 5307) (FY 2015) (80/20)	20.507	MI90-X684-01	136,470	136,470	136,470	0	0	0	0
Planning (Section 5307) (FY 2016) (80/20)	20.507	MI90-X778	80,000	80,000	80,000	0	0	0	0
Planning (Section 5339) Connector Study Alternatives (80/0)	20.522	MI39-0004	1,200,000	137,578	137,578	0	0	969,209	93,213
Capital Cost of Contracting (Section 5307) (80/20)	20.507	MI90-X684-01	120,000	120,000	120,000	0	0	0	0
Capital Cost of Contracting (Section 5307) (80/20)	20.507	MI90-X778	120,000	0	0	0	0	0	120,000
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X671	1,682,245	2,245	2,245	0	0	1,680,000	0
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X684	1,560,000	390,000	390,000	0	0	1,170,000	0
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X684-01	880,000	880,000	880,000	0	0	0	0
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X778	880,000	0	0	0	0	0	880,000
Operating Assistance (Section 5307) (50/50)	20.507	MI90-X684	2,400,000	1,360,000	1,360,000	0	0	1,040,000	0
Operating Assistance (Section 5307) (50/50)	20.507	MI90-X778	2,400,000	620,000	620,000	0	0	0	1,780,000
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-01	452,367	37,525	37,525	0	0	383,951	30,891
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-02	311,760	77,993	77,993	0	0	0	233,767
New Freedom (Mobility Management) (Section 5317)	20.521	MI57-X016-01	151,110	40,474	40,474	0	0	98,841	11,795
New Freedom (Mobility Management) (Section 5317)	20.521	MI57-X016-02	151,724	114,773	114,773	0	0	0	36,951
Enhanced Mobility Seniors and Disabilities (Section 5310)	20.513	MI16-X011	179,503	0	0	0	0	0	179,503
Enhanced Mobility Seniors and Disabilities (Section 5310)	20.513	MI16-X019	89,299	0	0	0	0	0	89,299
Passed Through Michigan Department of Transportation:									
Congestion Mitigation and Air Quality, Rideshare	20.507	2015-0317	455,000	455,000	455,000	0	0	0	0
Planning (Coast to Coast Rail) (Section 5304)	20.515	2012-0033/P15	80,000	29,000	23,200	0	5,800	56,800	0
Planning: North/South Rail Feasibility Study (TCSP)	20.205	2012-0033/P20	624,937	188,816	151,053	0	37,763	187,454	286,430
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2012-0033/P21	233,657	233,657	233,657	0	0	0	0
Subtotal - Federal Operating			14,608,095	5,081,510	5,031,338	0	50,172	5,810,759	3,765,998
Transfer - Capital (Insurance proceeds)	20.507	MI90-X380	90,708	0	0	0	0	62,977	27,731
TOTAL FEDERAL EXPENDITURES			\$42,081,909	\$12,717,214	\$12,667,042	\$0	\$50,172	\$21,702,586	\$7,712,281

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF STATE 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
Michigan Department of Transportation (State):									
Direct assistance - Capital grants:									
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	42,519	0	42,519	0	2,871,549	6,532
Capital (FY 2013)	N/A	2012-0033/P9	633,203	121,970	0	121,970	0	379,644	131,589
Capital (FY 2014 and FY 2015)	N/A	2012-0033/P17 R1	1,340,673	748,256	0	748,256	0	147,146	445,271
Capital (FY 2016)	N/A	2012-0033/P24	514,880	166,601	0	166,601	0	0	348,279
Capital (Livability FY 2012)	N/A	2012-0033/P16 R1	216,877	0	0	0	0	216,877	0
Capital (Section 5310 Match) (FY 2015)	N/A	2012-0033/P18	83,276	0	0	0	0	0	83,276
Capital (Section 5310 Match) (FY 2016)	N/A	2012-0033/P25	43,734	0	0	0	0	0	43,734
Capital (FY 2014)	N/A	2012-0033/P11 R1	749,080	424,995	0	424,995	0	173,765	150,320
Capital (Section 5339 Match) (FY 2013)	N/A	2012-0033/P8 R3	542,773	345,863	0	345,863	0	173,398	23,512
Subtotal - Direct State Capital			7,956,927	1,850,204	0	1,850,204	0	4,828,887	1,277,836
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	9,619,792	9,619,792	0	9,619,792	0	0	0
Operating assistance - Act 51 Non-Urban	N/A	N/A	454,011	454,011	0	454,011	0	0	0
Prior year formula adjustments	N/A	N/A	1,510,646	1,510,646	0	1,510,646	0	0	0
Planning (FY 2014 and FY 2015)	N/A	2012-0033/P17	114,117	72,540	0	72,540	0	41,577	0
Planning (FY 2016)	N/A	2012-0033/P24	20,000	20,000	0	20,000	0	0	0
Capital Cost of Contracting (FY 2014 and 2015)	N/A	2012-0033/P17	60,000	30,000	0	30,000	0	30,000	0
Capital Cost of Contracting (FY 2016)	N/A	2012-0033/P24	30,000	0	0	0	0	0	30,000
Preventive Maintenance (FY 2014 and FY 2015)	N/A	2012-0033/P17	610,000	317,500	0	317,500	0	292,500	0
Preventive Maintenance (FY 2016)	N/A	2012-0033/P24	220,000	0	0	0	0	0	220,000
Specialized Services (FY 2016)	N/A	2012-0033/P22	95,495	279,293	0	95,495	183,798	0	0
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27 R1	452,367	81,194	0	81,194	0	323,580	47,593
Subtotal - Direct State Operating			13,186,428	12,384,976	0	12,201,178	183,798	687,657	297,593
Transfer - Capital grants:									
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
TOTAL STATE EXPENDITURES			\$21,166,032	\$14,235,180	\$0	\$14,051,382	\$183,798	\$5,532,288	\$1,582,362
STATE PASS-THROUGH:									
Specialized Services (FY 2016)		2012-0033/P22	\$81,345	\$58,292	\$0	\$58,292	\$0	\$0	\$23,053
Specialized Services (FY 2015)		2012-0033/P19	85,441	20,639	0	20,639	0	61,729	3,073
Total -State Pass-through Special Services			\$166,786	\$78,931	\$0	\$78,931	\$0	\$61,729	\$26,126

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2016, WITH COMPARATIVE TOTALS FOR 2015**

	Specialized Services 2012-0033/P22 FY 2016	Job Access/ Reverse Commute	New Freedom MI57-0016 MI57-4016	Rideshare Program 2015-0317 FY 2016	Nonurban Operations (Sec. 5311: 2012-0033/P23 FY 2016	Urban Operations		2016 Total	2015 Total
		MI37-0044 MI37-4044 2007-0162/Z27				Demand-response	Fixed-route		
OPERATING EXPENSES:									
Labor		\$ 63,286		\$ 204,026	\$ 38,212	\$ 674,613	\$ 13,176,101	\$ 14,156,238	\$ 12,545,482
Fringe benefits		40,508		155,868	13,380	496,699	8,137,018	8,843,473	8,151,501
Services		-		27,003	6,325	-	2,129,150	2,162,478	2,306,082
Materials and supplies		2,725		37,346	4,408	73,334	3,406,246	3,524,059	4,214,843
Utilities		-		-	-	18,796	399,472	418,268	562,449
Casualty and liability costs		-		-	5,738	61,201	721,514	788,453	537,130
Purchased transportation	\$ 279,293	248,541	\$ 155,247	-	1,198,995	3,930,937	1,329,606	7,142,619	6,445,932
Other	-	-	-	30,757	2,690	7,185	531,878	572,510	666,648
Leases and rentals	-	-	-	-	-	-	165,920	165,920	47,548
Depreciation	-	-	-	-	-	125,011	5,839,553	5,964,564	5,501,447
TOTAL OPERATING EXPENSES	\$ 279,293	\$ 355,060	\$ 155,247	\$ 455,000	\$ 1,269,748	\$ 5,387,776	\$ 35,836,458	\$ 43,738,582	\$ 40,979,062

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2016**

Code	Description	Fixed-route	Demand-response	Total Urban
401 : Farebox Revenue				
40100	Passenger Fares	\$ 3,263,697	\$ 735,244	\$ 3,998,941
40200	Contract Fares	2,065,823		2,065,823
406 : Auxiliary Transit Revenue				
40615	Advertising Revenue	221,126	-	221,126
407 : NonTransit Revenue				
40799	Gain on Sale/Disposal of Equipment	1,773	-	1,773
40799	Other Revenue	53,802	-	53,802
408 : Local Revenue				
40800	Taxes Levied Directly for Transit Agency	12,685,017	2,445,811	15,130,828
409 : Local Revenue				
40910	Local Operating Assistance	599,091	190,177	789,268
40999	Other Local - Local Match	352,255	-	352,255
411 : State Formula and Contracts				
41101	State Operating Assistance	8,137,034	1,482,758	9,619,792
41101	Prior Year Formula Adjustments	1,510,646	-	1,510,646
41111	Preventive Maintenance	317,500	-	317,500
41112	Capital Cost of Contracting	-	30,000	30,000
41112	Planning	92,540	-	92,540
413 : Federal Contracts				
41302	Operating Assistance (Sec 5307)	1,721,225	258,775	1,980,000
41311	Preventive Maintenance (Sec 5307)	1,272,245	-	1,272,245
41312	Capital Cost of Contracting (Sec 5307)	-	120,000	120,000
41312	Planning (Sec 5307)	498,984	-	498,984
41312	Unified Planning (Sec 5303)	26,434	-	26,434
41399	State Planning and Research - North/South Rail	151,053	-	151,053
41399	State Planning and Research - Coast to Coast Rail	23,200	-	23,200
414 : Other Revenue				
41400	Interest Revenue	34,356	-	34,356
Total		\$ 33,027,801	\$ 5,262,765	\$ 38,290,566

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2016**

		Operations		Maintenance		General Administration				
Code	Description	Fixed-route	Demand Response	Fixed-Route	Demand Response	Fixed-route	Demand-response	Total		
501:	Labor									
50101	Operators Salaries and Wages	\$ 7,583,780	\$ 282,750						\$ 7,866,530	
50102	Other Salaries and Wages	1,475,904	144,488	\$ 2,024,631	\$ 94,420	\$ 2,091,784	\$ 152,955		5,984,182	
502:	Fringe Benefits									
50200	Other Fringe Benefits	4,194,120	235,156	1,514,775	72,955	1,374,449	118,180		7,509,635	
50201	Pensions	676,830	25,961	177,620	16,965	199,226	27,482		1,124,084	
503:	Services									
50302	Advertising Fees	-	-	-	-	51,443			51,443	
50305	Audit Costs	-	-	-	-	22,010			22,010	
50399	Other Services	311,763	-	802,603	-	941,331	-		2,055,697	
504:	Materials and Supplies									
50401	Fuel and Lubricants	1,454,177	19,600	5,802	-	-	-		1,479,579	
50402	Tires and Tubes	131,067	2,115	905	-	-	-		134,087	
50499	Other Materials and Supplies	859,704	24,460	343,635	9,777	610,956	17,382		1,865,914	
505:	Utilities									
50500	Utilities	-	-	-	-	399,472	18,796		418,268	
506:	Insurance									
50603	Liability Insurance	567,186	-	-	-	-	-		567,186	
50699	Other Insurance	-	-	-	-	154,328	61,201		215,529	
508:	Purchased Transportation									
50800	Purchased Transportation	1,329,605	3,930,937	-	-	-	-		5,260,542	
509:	Miscellaneous Expenses									
50902	Travel, Meeting and Training	-	-	-	-	58,560	-		58,560	
50903	Association Dues and Subscriptions	-	-	-	-	84,193	-		84,193	
50999	Other Misc Expenses	7,434	137	10,399	192	371,292	6,856		396,310	
512:	Operating Leases and Rentals									
51200	Operating Leases and Rentals	144,884	-	-	-	21,036	-		165,920	
513:	Depreciation									
51300	Depreciation	4,761,960	125,011	8,375	-	1,069,219	-		5,964,565	
Total Urban Expenses		23,498,414	4,790,615	4,888,745	194,309	7,449,299	402,852		41,224,234	
550:	Ineligible Expenses									
55007	Ineligible Depreciation	4,272,312	125,011	6,830	-	968,997	-		5,373,150	
55008	Ineligible Bad Debts and Interest Expense	-	-	-	-	10,044	-		10,044	
55009	Ineligible Association Dues	-	-	-	-	11,560	-		11,560	
55010	Ineligible Nontransportation Revenue	-	-	-	-	53,802	-		53,802	
55011	Ineligible Preventive Maintenance (5307)	-	-	1,589,745	-	-	-		1,589,745	
570:	Ineligible Expenses									
57099	Ineligible - Planning (Sec 5307)	-	-	-	-	591,524	-		591,524	
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	33,043	-		33,043	
57602	Ineligible - Capital Cost of Contracting	-	150,000	-	-	-	-		150,000	
57604	Ineligible - Federal TCSP	-	-	-	-	188,816	-		188,816	
57604	Ineligible - State Planning and Research (Sec 5304)	-	-	-	-	29,000	-		29,000	
580:	Ineligible Expenses									
58007	Ineligible - Postretirement Benefit Accrual	64,928	-	26,160	-	-	-		91,088	
58007	Ineligible - Postretirement Benefits Paid	(48,453)	-	(19,522)	-	-	-		(67,975)	
						Fixed-route	Demand-response	Total		
Total Expenses						\$ 35,836,458	\$ 5,387,776	\$ 41,224,234		
Total Ineligible Expenses						(7,778,786)	(275,011)	(8,053,797)		
Total Eligible Expenses						\$ 28,057,672	\$ 5,112,765	\$ 33,170,437		

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES - UNAUDITED YEAR ENDED SEPTEMBER 30, 2016

Code	Description	Total Nonurban
401 :	Farebox Revenue	
40100	Passenger Fares	\$ 122,402
40200	Contract Fares	-
406 :	Auxiliary Transit Revenue	
40615	Advertising	-
407 :	NonTransit Revenue	
40799	Gain (Loss) on Sale of Equipment	-
40799	Other Revenue	-
408 :	Local Revenue	
40800	Taxes Levied Directly for Transit Agency	-
409 :	Local Revenue	
40910	Local Operating Assistance	459,678
40999	Other Local	-
411 :	State Formula and Contracts	
41101	State Operating Assistance	454,011
411	Prior Year Formula Adjustments	-
413 :	Federal Contracts	
41301	Federal Section 5311	233,657
414 :	Other Revenue	
41400	Interest Revenue	-
	Other	-
Total		\$ 1,269,748

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2016**

Code	Description	DEMAND-RESPONSE			Total
		Operations	Maintenance	General Administration	
501: Labor					
50102	Other Salaries and Wages			\$ 38,213	\$ 38,213
502: Fringe Benefits					
50200	Other Fringe Benefits			10,253	10,253
50201	Pensions			3,126	3,126
503: Services					
50305	Other Services	\$ 959	\$ 2,469	2,896	6,324
504: Materials and Supplies					
50499	Other Materials and Supplies	2,089	835	1,484	4,408
506: Insurance					
50699	Other Insurance	-	-	5,738	5,738
508: Purchased Transportation					
50800	Purchased Transportation	1,198,996	-	-	1,198,996
509: Miscellaneous Expenses					
50999	Other Misc Expenses	-	-	2,690	2,690
550: Ineligible Expenses					
570: Ineligible Expenses					
				Total Expenses	\$ 1,269,748
				Total Ineligible Expenses	-
				Total Eligible Expenses	<u>\$ 1,269,748</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - URBAN AND NONURBAN SERVICE NONFINANCIAL INFORMATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2016**

PUBLIC SERVICE - URBAN FIXED-ROUTE

Code	Description	Total
610	Vehicle Hours	257,500
611	Vehicle Miles	3,673,494

PUBLIC SERVICE - URBAN DEMAND-RESPONSE

Code	Description	Total
610	Vehicle Hours	114,275
611	Vehicle Miles	1,357,630

PUBLIC SERVICE - NONURBAN DEMAND-RESPONSE

Code	Description	Total
610	Vehicle Hours	28,118
611	Vehicle Miles	485,525

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2016

	Urban		Nonurban
	Line-haul	Demand Response	
Total Expenses	\$ 35,836,458	\$ 5,387,776	\$ 1,269,748
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	\$ 1,272,245		
Federal Planning (Section 5307 and 5336)	498,984		
Federal Unified Planning (Section 5303)	33,043		
Federal Capital Cost of Contracting (Sec 5307)	-	\$ 120,000	
Federal and State Depreciation Expense	5,248,139	125,011	
Federal TCSP	188,816	-	
State Preventive Maintenance	317,500	-	
State Planning	92,540	-	
State Planning and Research (Section 5304)	29,000	-	
State Capital Cost of Contracting	-	30,000	
Post-Retirement Medical Benefits Accrual	91,088	-	
Post-Retirement Medical Benefits Paid	(67,975)	-	
Other revenue	53,802	-	
Other expenses (bad debts, ineligible interest)	10,044	-	
Association Dues (Ineligible Portion)	11,560	-	\$ -
Total Ineligible Expenses	\$ 7,778,786	\$ 275,011	\$ -
Total State Eligible Expenses	\$ 28,057,672	\$ 5,112,765	\$ 1,269,748

Eligible Expenses for State Reimbursement	\$ 28,057,672	\$ 5,112,765	\$ 1,269,748
x Reimbursement Percentage	29.0011%	29.0011%	35.7560%
State Operating Assistance	\$ 8,137,034	\$ 1,482,758	\$ 454,011
Total Operating Assistance - Urban		<u>\$ 9,619,792</u>	

Total Federal Eligible Expenses

Total Eligible Expenses for State Reimbursement	\$ 1,269,748
Less: Ineligible Auditing Expenses	6,735
Eligible Expenses for Federal Reimbursement	\$ 1,263,013
x Reimbursement Percentage	18.5000%
Federal Operating Assistance (Section 5311)	<u>\$ 233,657</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED YEAR ENDED SEPTEMBER 30, 2016

A. ITEMS REIMBURSED BY FEDERAL GRANTS

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

B. FEDERAL AND STATE DEPRECIATION AND AMORTIZATION EXPENSE

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

C. POSTRETIREMENT MEDICAL BENEFITS PLAN EXPENSE

The amount of postretirement medical benefits accrued under the provisions of GASB 45 are ineligible expenses. The amount paid for postretirement medical benefits during the current year are eligible and are therefore subtracted out from the ineligible expenses.

D. OTHER REVENUES AND ADVERTISING REVENUES

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

E. ASSOCIATION DUES

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 18.9% and 24.7%, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ann Arbor Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2016 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 19, 2017.

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 opinion 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 19, 2017

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 (the "Authority") compliance with the types of compliance requirements described in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements* that could have a direct and material effect on its major federal program for the year ended September 30, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ann Arbor Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for 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, 2016.

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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

Plante & Moran, PLLC

January 19, 2017

Ann Arbor Area Transportation Authority

Schedule of Expenditures of Federal Awards Year Ended September 30, 2016

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	\$ 1,477,501
Investment Grant - Capital Assistance (CMAQ)	20.507		MI95-0103	1,699,980
Investment Grant - Capital Assistance (CMAQ)	20.507		MI95-0106	54,913
Investment Grant - Surface Transportation Program	20.526		MI34-X023	43,660
Investment Grant - FHWA transfer to CMAQ	20.507		MI95-X123	52,519
Total Federal Transit - Investment Grants				<u>3,328,573</u>
Urbanized Area Formula Grants:				
Capital, Planning, and Operating Grant	20.507		MI90-X641	50,730
Capital, Planning, and Operating Grant	20.507		MI90-X671	564,685
Capital, Planning, and Operating Grant	20.507		MI90-X684	6,135,340
Capital, Planning, and Operating Grant	20.507		MI90-X778	1,270,225
Total Federal Transit - Formula Grants				<u>8,020,980</u>
Total Federal Transit Cluster				11,349,553
Michigan Department of Transportation - Pass-through:				
Congestion Mitigation and Air Quality Grants	20.205	N/A	2015-0317	455,000
Congestion Mitigation and Air Quality Grants	20.205	N/A	2014-0065	19,802
Federal Highway - Transportation, Community and System Preservation Program (TCSP)				
	20.205	2012-0033/P20	TCSP-1482	151,053
Total Highway Planning and Construction Cluster				<u>625,855</u>
Transit Services Program Cluster - Direct Programs:				
Section 5316 Job Access and Reverse Commute	20.516		MI37-0044	37,525
Section 5316 Job Access and Reverse Commute	20.516		MI37-4044	77,993
Section 5317 New Freedom	20.521		MI57-0012	114,773
Section 5317 New Freedom	20.521		MI57-4016	40,474
Total Transit Services Program Cluster				<u>270,765</u>
FTA Alternatives Analysis Grant (Section 5336) - Direct program	20.522		MI39-0004	137,578
Passed through Michigan Department of Transportation FTA State Planning and Research Program (Sec. 5304)	20.515	2012-0033/P15	MI80-0004-06	23,200
Public Transportation for Nonurbanized Areas - Passed through Michigan Department of Transportation Operating Assistance (Section 5311)				
	20.509	2012-0033/P14	MI80-X050-06	233,657
Federal Transit Technical Studies Grant - Passed through Southeastern Michigan Council of Governments (SEMCOG):				
Planning Grant (Section 5303)	20.505	17005		25,291
Planning Grant (Section 5303)	20.505	16005		1,143
Total expenditures of federal awards				<u><u>\$ 12,667,042</u></u>

Ann Arbor Area Transportation Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2016

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, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Ann Arbor Area Transportation Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of Ann Arbor Area Transportation Authority.

Note 2 - Summary of Significant Accounting Policies

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

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

Ann Arbor Area Transportation Authority

Schedule of Findings and Questioned Costs Year Ended September 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major program:

CFDA Numbers	Name of Federal Program or Cluster
20.500, 20.507, 20.526	Federal Transit Cluster

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

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Ann Arbor Area Transportation Authority

Summary Schedule of Prior Audit Findings Year Ended September 30, 2016

Prior Year Finding Number	Fiscal Year in Which the Finding Initially Occurred	Federal Program, CFDA Number, and Name	Original Finding Description	Status/Partial Corrective Action (as applicable)	Planned Corrective Action (if finding not corrected)
2015-001	2015	Federal Transit Cluster (CFDA 20.500, 20.507, 20.526)	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.	Corrected	N/A