

Ann Arbor Area Transportation Authority

*Financial Statements as of and for the
Years Ended September 30, 2019 and 2018 and
Additional Information for the Year Ended
September 30, 2019, 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, 2019, and
Independent Auditor's Reports*

ANN ARBOR AREA TRANSPORTATION AUTHORITY

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Independent Auditor's Report

To the Board of Directors of
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 year ended September 30, 2019, 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 of 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, 2019 and the changes in financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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 is also not a required part of the basic financial statements.

The additional information for the year ended September 30, 2019 as identified in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, additional information for the year ended September 30, 2019 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2020, on our consideration of the 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.

Prior Period Financial Statements

The financial statements of the Ann Arbor Area Transportation Authority as of and for the year ended September 30, 2018, were audited by other auditors whose report dated January 24, 2019, expressed an unmodified opinion on those statements.



Farmington Hills, MI
February 28, 2020

ANN ARBOR AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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, 2019. We encourage readers to consider the information in conjunction with the financial statements, related note disclosures and the required supplementary and additional information as listed in the table of contents.

Five-Year Transit Improvement Plan

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

Governance of the Authority

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

Overview of the Financial Statements and Financial Analysis

The discussion is intended to present an overview of the Authority's financial performance for the years ended September 30, 2019 and 2018 and does not purport to make any statement regarding the future operations of the Authority. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

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

The basic financial statements for the year ended September 30, 2018 have been audited and are included herein for comparative purposes by a different auditing firm.

Financial Highlights

The Authority's total assets decreased from the prior year by \$3.7 million (4.6%), primarily due to a decrease of \$4.7 million (9.2%) in net capital assets, \$1.5 million (20%) decrease in receivables being offset by an increase in cash, investments, and other current assets of \$2.5 million.

Total net position decreased by \$1.6 million (2.3%) as the net investment in capital assets decreased by \$4.7 million (9.2%) offset by the unrestricted net position increase of \$3.0 million (15%).

Total operating revenues is comprised of passenger fares and special fares, where someone other than the passenger pays the fare. These decreased about \$176,000 (2.5%) due to slightly lower ridership in several fare categories.

Total operating expenses increased \$2.7 million (5.6%) primarily due to higher salaries and fringes (\$0.8 million), materials and supplies (\$0.6 million), purchased transportation (\$1.1 million), and depreciation (\$0.2 million).

Authority's Net Position

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

A summary of the Authority's assets, liabilities and net position at September 30, 2019, 2018 and 2017 follows (in thousands):

	2019	2018	2017
Assets:			
Current assets	\$30,295	\$29,251	\$24,361
Noncurrent assets	107	133	665
Capital assets, net	<u>46,748</u>	<u>51,459</u>	<u>54,644</u>
Total assets	\$77,150	\$80,843	\$79,670
Deferred Outflows	10	--	--
Liabilities:			
Current liabilities	\$4,348	\$5,776	\$3,969
Noncurrent liabilities, including OPEB	<u>2,421</u>	<u>3,044</u>	<u>1,713</u>
Total liabilities	6,769	8,820	5,682
Net Position:			
Invested in capital assets	46,749	51,459	54,644
Unrestricted	<u>23,642</u>	<u>20,564</u>	<u>19,344</u>
Total net position	<u>\$70,391</u>	<u>\$72,023</u>	<u>\$73,988</u>

At September 30, 2019, the Authority's net position was \$70.4 million, compared to \$72.0 million at September 30, 2018.

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

The Authority maintains a postretirement healthcare plan and life insurance plan (the "Plan") and adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This Standard requires the Authority to recognize the expense related to these healthcare and life insurance benefits on an actuarially determined basis to better match the expense of the benefits with the period in which employees earn the benefit instead of a "pay as you go" basis. The unfunded actuarial accrued liability for the Plan was \$0.9 million as of September 30, 2019, based on the most recent available valuation. See Note 16 for more information.

The total assets of the Authority exceeded its total liabilities by \$70.4 million (net position) as of September 30, 2019. Of this amount, \$23.6 million (unrestricted net position) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2019 property tax levies of \$17.0 million have been included in nonoperating revenues for the year ended September 30, 2019, even though three quarters of them will be needed to help fund operations from October 1, 2019 to June 30, 2020.

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, 2019, 2018 and 2017 is as follows (in \$1,000s):

	2019	2018	2017
Operating revenues	\$6,751	\$6,926	\$6,939
Operating expenses	<u>(51,582)</u>	<u>(48,849)</u>	<u>(46,520)</u>
Operating loss	(44,831)	(41,923)	(39,581)
Nonoperating revenues	<u>40,750</u>	<u>37,826</u>	<u>35,774</u>
Change in net position before capital contributions	(4,081)	(4,097)	(3,807)
Net capital contributions	<u>2,449</u>	<u>3,655</u>	<u>4,544</u>
Change in net position	(1,632)	(442)	737
Net position, beginning of year	<u>72,023</u>	<u>72,465</u>	<u>73,251</u>
Net position, end of year	<u>\$70,391</u>	<u>\$72,023</u>	<u>\$73,988</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 \$51.6 million include operations (\$37.0 million), fleet and facility maintenance (\$5.7 million) and general administration (\$8.9 million). The largest portion of all expenses is for employee wages and fringe benefits of \$25.2 million, 49% of all expenses.

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

Capital contributions represent federal, state and local grants for the purchase of new capital assets. A portion of Federal formula dollars (Section 5307) can be used as operating assistance. In 2019 and 2018, the Authority used \$4,686,509 and \$3,921,000, respectively for operating assistance, such as operating assistance, planning, preventive maintenance, and capital cost of contracting.

Notes to the Financial Statements

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

Capital Assets

The Authority continues to invest in vehicles, facilities and equipment. In 2019, the Authority purchased two nonrevenue vehicles for operational support, various bus components for the existing fleet, and began building rehabilitation for the operations facility. In 2018, the Authority purchased seven vehicles: six buses for fixed route, one van for local nonprofit agencies. In 2017, the Authority purchased 23 vehicles: 10 buses for fixed route, six vehicles for the VanRide program, and seven vans for local nonprofit agencies. The Authority's largest capital investments include buses and related equipment, net of depreciation, of \$24.8 million in 2019 and \$29.5 million in 2018 and the land and buildings, net of depreciation, of \$16.9 million in 2019 and \$17.8 million in 2018.

Economic Factors and Next Year's Budget (Fiscal Year 2020)

For fiscal year 2020, the Board of Directors adopted a \$47.39 million operating budget with an operating surplus of \$434,972 and a \$17.9 million capital budget. As of February 2020, the Board of Directors approved a \$1.4 million budget amendment increase to revenue and expense for an Ann Arbor to Detroit expanded service. 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. As of February 2020, the Authority received a formal federal communication that the Ypsilanti Transit Center budgeted capital project (\$5.3 million) was not approved for funding. The Authority will continue to pursue funding for the project in the future.

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

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

Request for Information

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

This year and prior year audited financial statements are also available on the State of Michigan's website at <https://treas-secure.state.mi.us/LAFDocSearch/>. Once there, select "Washtenaw County" for County, select the year "2019" (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, 2019 AND 2018

ASSETS	2019	2018
CURRENT ASSETS:		
Cash (Note 3)	\$ 10,120,697	\$ 4,823,641
Investments (Note 3 and 4)	11,641,704	14,757,358
Accounts receivable, less allowance of \$0 in 2019 and 2018	1,170,398	922,402
Grants receivable (Notes 2 and 5)	4,494,328	5,883,212
Other receivables (Note 6)	730,186	1,174,584
Inventory	1,000,841	937,926
Prepaid expenses	1,136,536	752,346
Total current assets	<u>30,294,690</u>	<u>29,251,469</u>
NONCURRENT ASSETS:		
Restricted cash (Note 3)	<u>107,155</u>	<u>132,910</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	28,165,485	28,048,161
Equipment and other	69,626,789	73,181,881
Construction in progress	1,018,582	70,898
Total capital assets	<u>106,841,526</u>	<u>109,331,610</u>
Less accumulated depreciation	<u>60,092,908</u>	<u>57,872,319</u>
Net capital assets	<u>46,748,618</u>	<u>51,459,291</u>
TOTAL ASSETS	\$ 77,150,464	\$ 80,843,670
Deferred OPEB cost outflows (Note 16)	\$ 9,832	\$ -
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,977,509	\$ 4,339,023
Grant refunds payable (Notes 2 and 5)	956,383	152,756
Accrued payroll	790,373	704,476
Accrued compensated absences, current portion	187,523	160,827
Other accrued expenses	121,451	113,921
Unearned revenue (Note 8)	314,586	304,462
Total current liabilities	<u>4,347,825</u>	<u>5,775,465</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	1,501,875	1,447,440
Net postretirement benefit (OPEB) liability (Note 16)	919,135	1,596,849
Total noncurrent liabilities	<u>2,421,010</u>	<u>3,044,289</u>
Total liabilities	<u>6,768,835</u>	<u>8,819,754</u>
DEFERRED INFLOW OF RESOURCES:		
Deferred OPEB cost reductions (Note 16)	<u>385</u>	<u>514</u>
NET POSITION:		
Net investment in capital assets	46,748,618	51,459,291
Unrestricted	<u>23,642,458</u>	<u>20,564,111</u>
Total net position	<u>\$ 70,391,076</u>	<u>\$ 72,023,402</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
OPERATING REVENUES (Note 13)	\$ 6,750,571	\$ 6,926,124
OPERATING EXPENSES (Notes 9, 13, 16 and 17):		
Operations	37,072,813	35,054,247
Maintenance	5,652,958	5,652,950
General administration	<u>8,856,191</u>	<u>8,141,509</u>
Total operating expenses	<u>51,581,962</u>	<u>48,848,706</u>
OPERATING LOSS	(44,831,391)	(41,922,582)
NONOPERATING REVENUES:		
Local (Notes 10 and 11)	20,254,218	18,685,963
State (Note 2)	15,024,782	14,083,421
Federal	<u>5,471,058</u>	<u>5,056,459</u>
Total nonoperating revenues	<u>40,750,058</u>	<u>37,825,843</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(4,081,333)	(4,096,739)
CAPITAL CONTRIBUTIONS - FEDERAL, STATE AND LOCAL	<u>2,449,007</u>	<u>3,654,628</u>
CHANGE IN NET POSITION	(1,632,326)	(442,111)
NET POSITION, BEGINNING OF YEAR	<u>72,023,402</u>	<u>72,465,513</u>
NET POSITION, END OF YEAR	<u>\$ 70,391,076</u>	<u>\$ 72,023,402</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 4,043,337	\$ 4,959,372
Payments for salaries and wages and fringe benefits	(25,943,074)	(24,180,096)
Payments to suppliers	(8,037,969)	(7,080,692)
Payments for claims and insurance	(1,047,836)	(799,989)
Payments for purchased transportation	(8,049,776)	(7,149,907)
Net cash used in operating activities	<u>(39,035,318)</u>	<u>(34,251,312)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenues:		
Local	20,499,141	18,519,169
State	14,529,176	13,076,776
Federal	6,135,965	3,835,908
Net cash provided by noncapital financing activities	<u>41,164,282</u>	<u>35,431,853</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(4,655,132)	(1,085,106)
Capital contributed by state and federal grants	4,443,694	2,975,313
Proceeds from sales of equipment	29,718	1,077,050
Net cash provided by (used in) capital and related financing activities	<u>(181,720)</u>	<u>2,967,257</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(9,454,153)	(98,308,461)
Proceeds from sale and maturities of investment securities	12,569,807	94,006,390
Interest income	208,403	31,440
Net cash provided by (used in) investing activities	<u>3,324,057</u>	<u>(4,270,631)</u>
NET INCREASE (DECREASE) IN CASH	5,271,301	(122,833)
CASH AT BEGINNING OF YEAR	<u>4,956,551</u>	<u>5,079,384</u>
CASH AT END OF YEAR	<u>\$ 10,227,852</u>	<u>\$ 4,956,551</u>
STATEMENTS OF POSITION CLASSIFICATION OF CASH		
Unrestricted cash	\$ 10,120,697	\$ 4,823,641
Restricted cash	107,155	132,910
Total cash	<u>\$ 10,227,852</u>	<u>\$ 4,956,551</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued) YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (44,831,391)	\$ (41,922,582)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,992,794	6,815,239
Changes in assets and liabilities which provided (used) cash:		
Receivables	(247,996)	322,729
Inventory	(62,915)	(175,727)
Deferred outflows	(9,832)	-
Prepaid expenses	(384,190)	333,140
Payables	11,497	550,346
Accrued payroll	85,897	48,156
Other accrued expenses	(589,182)	(222,613)
Total adjustments	<u>5,796,073</u>	<u>7,671,270</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (39,035,318)</u>	<u>\$ (34,251,312)</u>
NONCASH TRANSACTIONS:		
Subcontracted revenue - urban demand response (Note 13)	528,951	617,001
Subcontracted revenue - interurban airport shuttle (Note 13)	1,061,243	1,002,289
Nonurban - passenger fares and other governmental sources	<u>869,044</u>	<u>670,191</u>
Total noncash transactions	<u>\$ 2,459,238</u>	<u>\$ 2,289,481</u>

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2019 AND 2018

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

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

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

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

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

Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

Derivative Financial Instruments – As of April 2019, the Authority no longer enters into or holds any derivative financial instruments. In the past, the Authority periodically entered 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, were 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 did not enter into ULSD future contracts for trading or speculative purposes.

The Authority recorded 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. The accrual for compensated absences amounted to \$1,689,398 and \$1,608,267 for the years ended September 30, 2019 and 2018, respectively.

Inventory is stated at the average weighted cost or market.

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

Capital Assets - Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 or as deemed necessary and an estimated useful life in excess of one year. Capital assets include land, buildings, vehicles and other equipment, which are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Improvements which are expected to extend the useful lives of existing assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

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

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

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

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

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

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

Net Position is displayed in two components as follows:

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

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

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STATE OF MICHIGAN OPERATING ASSISTANCE FUNDS

Under Act 51 of the Public Acts of 1951, as amended, the State of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. As indicated in Note 1, the RTA is the designated recipient of such funds and the Authority is a subrecipient of the RTA. The Authority has recorded operating grant revenue under Act 51 based on a formula that takes into account the eligible costs incurred by the Authority and preliminary information made available by the Michigan Department of Transportation (MDOT) as to the eligible expenses reimbursement percentage for the fiscal year ended September 30, 2019.

The latest "final" determination of State of Michigan operating assistance allocable to the Authority in accordance with the Act 51 funding formula was for the fiscal year ended September 30, 2015. The resulting increase in revenue has been finalized with the State and has been received by the Authority. Furthermore, the Authority awaits the "final" determination for the years ended September 30, 2016, 2017, 2018, and 2019 (open years). The Authority has not recorded any estimated aggregate receivable or liability as of September 30, 2019 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, 2019 and 2018:

Statements of Position:	2019	2018
Cash	\$10,120,697	\$ 4,823,641
Investments	11,641,704	14,757,358
Restricted cash	<u>107,155</u>	<u>132,910</u>
Total	<u>\$ 21,869,556</u>	<u>\$19,713,909</u>

Deposits and Investments:	2019	2018
Bank deposits (checking, savings and certificates of deposit)	\$10,224,562	\$13,928,262
U.S. Treasury securities	11,641,704	4,999,880
Investment in government liquid asset fund accounts	-----	5,409
Ultra-low sulfur diesel (ULSD) futures account	-----	777,068
Cash on hand	<u>3,290</u>	<u>3,290</u>
Total	<u>\$21,869,556</u>	<u>\$19,713,909</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. During the year ended

September 30, 2019, it was determined by management and the board that the investment in ULSD fuel futures was not in compliance with applicable State statutes and thus the Authority closed these investments in April 2019.

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

- Certificates of deposit with funds initially invested through a Federal Deposit Insurance Corporation (FDIC) financial institution that maintains a principal office or branch office located in the State of Michigan. This financial institution, acting as custodian, may arrange the investment of funds in certificates of deposit in one or more FDIC insured depository institutions throughout the United States if the principal and any accrued interest of each certificate of deposit is insured by an agency of the United States. The total investment (exclusive of checking accounts) in any one financial institution shall not exceed the lesser of 20% of that financial institution’s capital and surplus or \$4,000,000.
- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.
- Governmental Mutual Funds operated by any of the banks listed above which invest only in authorized investments for local units of Government under State Law and which offer daily liquidity.

As of September 30, 2019, the Authority had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
U.S Treasury Bills & Notes	Various	1.7 – 2.0%	11,493,282	Moody’s AAA
U.S. Government Money Market Funds	N/A	2.0%	<u>148,422</u>	Moody’s AAA
			<u>\$ 11,641,704</u>	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except as noted in the Authority’s investment policy above.

At September 30, 2019, the Authority had the following investments and maturities:

	<u>Carrying Value</u>	<u>0-1 Year</u>	<u>1-2 Years</u>
U.S. Treasury	\$11,641,704	\$11,641,704	\$-----

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, 2019.

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, 2019, \$22,532,618 of the Authority's bank balance of \$22,931,040 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, 2019 and 2018:

- U.S. Treasury securities are valued using quoted market prices (Level 1 inputs)

- Ultralow Sulfur Diesel fuel futures are valued using quoted market prices (Level 1 inputs); The investment was held in 2018 but not at the end of 2019.

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 - on pages 32 and 33. The following grant amounts were outstanding at September 30:

	2019	2018
Michigan Department of Transportation:		
Operating assistance	\$ 525,382	\$ 320,128
Rideshare program	-	-
Capital cost of contracting	163,648	45,000
Planning	33,033	46,967
Preventive maintenance	473,000	329,500
Rail Feasibility Studies	-	-
Buses and related equipment	856,265	1,550,977
Computer hardware and software	353,591	65,553
Passenger shelters	26,633	11,914
Facilities	228,103	29,126
Transit Centers	-	-
Federal Transit Administration:		
Buses and related equipment	-	2,202,067
Passenger shelters	2,795	11,053
Facilities	498,085	3,718
Capital cost of contracting		165,279
Enhanced Mobility (Section 5310)	71,909	12,442
Job Access/Reverse Commute	51,134	-
Planning	147,442	843,750
Computer hardware and software	106,725	92,982
	<u> </u>	<u> </u>
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u><u>\$ 3,537,745</u></u>	<u><u>\$ 5,730,456</u></u>

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

	2019	2018
Grants receivable	\$ 4,494,328	\$ 5,883,212
Grant refunds payable	<u>(956,383)</u>	<u>(152,756)</u>
Net grants receivable	<u><u>\$ 3,537,945</u></u>	<u><u>\$ 5,730,456</u></u>

6. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2019	2018
City of Ann Arbor – property tax levy	\$ 480,566	\$ 490,500
City of Ypsilanti – property tax levy	81,561	273,535
Charter Township of Ypsilanti – property tax levy	168,059	405,565
Interest receivable	<u>0</u>	<u>4,984</u>
Total	<u>\$730,186</u>	<u>\$1,174,584</u>

7. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2019 is as follows:

	Balance October 1 2018	Additions/ Reclassifications	Deletions/ Reclassifications	Balance September 30 2019
Capital assets not being depreciated:				
Land and improvements	\$ 2,270,821			\$ 2,270,821
Construction in progress	<u>70,898</u>	<u>\$ 1,018,582</u>	<u>\$ 70,898</u>	<u>1,018,582</u>
Capital assets not being depreciated	2,341,719	1,018,582	70,898	3,289,403
Capital assets being depreciated:				
Park and ride lot construction	5,759,849			5,759,849
Buildings	28,048,161	117,322		28,165,483
Vehicles and related equipment	62,979,417	412,394	4,115,074	59,276,737
Radio and telephone systems	210,067			210,067
Fare collection equipment	1,035,362	6,547		1,041,909
Maintenance equipment	658,902	146,915		805,817
Office equipment and furniture	2,685,363	214,341	350,822	2,548,882
Passenger shelters	1,536,952	99,456		1,636,408
Other	783,811			783,811
Advanced operating system	<u>3,292,007</u>	<u>337,461</u>	<u>306,309</u>	<u>3,323,159</u>
Total capital assets being depreciated	106,989,891	1,334,436	4,772,205	103,552,123
Less accumulated depreciation:				
Park and ride lot construction	2,204,139	139,327		2,343,466
Buildings	16,176,085	726,679		16,902,764
Vehicles and related equipment	33,576,743	4,997,359	4,115,074	34,459,028
Radio and telephone systems	183,462	9,319		192,781
Fare collection equipment	947,232	53,518		1,000,750
Maintenance equipment	471,318	37,138		508,456
Office equipment and furniture	1,399,550	340,713	350,822	1,389,441
Passenger shelters	1,063,585	98,676		1,162,261
Other	392,502	64,326		456,828
Advanced operating system	<u>1,457,703</u>	<u>525,739</u>	<u>306,309</u>	<u>1,677,133</u>
Total accumulated depreciation	<u>57,872,319</u>	<u>6,992,794</u>	<u>4,772,205</u>	<u>60,092,908</u>
Total capital assets being depreciated, net	<u>49,117,572</u>	<u>(5,658,358)</u>		<u>43,459,215</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 51,459,291</u>	<u>\$ (4,639,776)</u>	<u>\$ 70,898</u>	<u>\$ 46,748,618</u>

7. CAPITAL ASSETS (Concluded)

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

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

8. UNEARNED REVENUE

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

	2019	2018
Federal capital	\$ 154,175	\$68,451
State capital	37,294	148,773
Ypsilanti DDA – Ypsilanti Transit Center Renovations	20,000	20,000
City of Chelsea – ExpressRide	15,000	15,000
GetDowntown Program	<u>88,117</u>	<u>52,238</u>
Total	<u>\$ 314,586</u>	<u>\$ 304,462</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 \$803,000 and \$793,600 for the years ended September 30, 2019 and 2018. The Authority's contribution to the plan is 9% of the employees' gross earnings, less forfeitures. Authority contributions amounted to approximately \$1,445,350 and \$1,428,500 for the years ended September 30, 2019 and 2018, respectively. Total payroll and covered payroll was approximately \$18,457,500 and \$16,059,200 for 2019 and \$17,977,700 and \$15,872,000 for 2018.

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

10. PROPERTY TAXES

In 1974, voters in the City of Ann Arbor approved a 2.5 mills property tax dedicated to public transportation. Through the Headlee Amendment (1978) to the State of Michigan Constitution, the property tax millage has been reduced and is currently 1.9627 mills. In 2010, voters in the City of Ypsilanti approved a 0.9789 mill property tax dedicated to public transportation and is currently 0.9424 mills (Headlee). In May 2014 and May 2018, voters in the three member communities (cities of Ann Arbor and Ypsilanti and the Charter Township of Ypsilanti) approved a 0.7 mill property tax dedicated to public transportation (reduced to 0.6936 due to the Headlee Amendment).

Property tax revenues received by the Authority for the years ended September 30, 2019 and 2018 totaled approximately \$16,943,500 and \$16,038,000, respectively.

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

11. PROPERTY TAX ABATEMENTS

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

12. RISK MANAGEMENT

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

13. SUBCONTRACT SERVICE

The Authority subcontracts with other transportation companies to provide certain services. The Authority pays the companies fees based on the level of service provided, and the companies collect and retain the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately \$1,590,200 and \$1,619,300 of fares for these services in the years ended September 30, 2019 and 2018, respectively. These amounts are disclosed as noncash transactions on the Statements of Cash Flows.

14. COST ALLOCATION PLANS

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

15. REPORTING CHANGE (PRIOR PERIOD ADJUSTMENT)

During 2018, the Authority adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result, the financial statements now include a liability for unfunded legacy costs. Some of the changes in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to Note 16 for further details.

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

As a result of implementing this statement, the beginning net position for fiscal year 2018 has been restated as indicated:

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

16. POSTEMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS

Plan Description. The Authority provides other postemployment benefits (OPEB) for eligible retirees and their spouses. These OPEB benefits for bargaining employees are specified by union contract while the Chief Executive Officer establishes those for non-bargaining employees. These OPEB benefits are provided by the Authority directly to the retiree and beneficiary monthly. The Authority also maintains a retiree health funding vehicle (RHFV) account with MERS of Michigan. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. This Plan was closed and active bargaining and non-bargaining employees who were eligible to retire based upon attaining age 62 with at least 15 years of service were eligible to elect to stay in this plan when they retire. Also, active employees who had over 30 years of service, regardless of their age, were also eligible to elect to stay covered by this plan when they retire. The plan does not issue a stand-alone financial report.

Benefits Provided. The Authority provides contributory and noncontributory defined benefit postemployment health care insurance, prescription, and life insurance benefits to eligible employees and beneficiaries. For health insurance and prescription coverage, eligible employees include those, as of January 1, 2008, who elected to stay in the plan instead of electing to participate in the Health Care Savings Plan (HCSP). Eligible retirees have the option to select an alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130% of that year's core HMO single-person premium. For retirees who retired between July 1, 2002 and December 31, 2007, their spouses are eligible to receive 50% of the monthly premium for the core HMO single person premium toward medical coverage.

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

Employees Covered by Benefit Terms. The health care insurance and prescription coverage plan is closed to new employees. Substantially all Authority employees are eligible for retiree life insurance. At the OPEB liability valuation date of September 30, 2018, the following employees were covered by the plan:

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

The OPEB liability was rolled forward to September 30, 2019 and at that time, the following employees were covered by the plan:

	<u>Health</u>	<u>Life</u>
Current retirees and spouses	11	46
Current Active members	<u>1</u>	<u>275</u>
Total plan members	<u>12</u>	<u>321</u>

Contributions. The Authority contributes 100 percent of the actual monthly costs for current benefits and administrative expenses to the plan (pay-as-you-go funding). For the fiscal year ended September 30, 2019, the Authority paid postemployment health care benefit premiums and life insurance premiums of \$98,450.

Net OPEB Liability. The net OPEB liability was measured as of September 30, 2018 and rolled forward to September 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. To roll forward the total OPEB liability from September 30, 2018, the actuarial assumptions and projections in the September 30, 2018 were utilized as there were deemed no significant changes in those assumptions or projected by the actuary.

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

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Net Position</u>	<u>Net OPEB Liability</u>
Changes in Net OPEB Liability:			
Balance at October 1, 2018	\$1,705,243	\$108,394	\$1,596,849
Changes for the year:			
Service cost	18,778	-	18,778
Interest	68,282	-	68,282
Contributions - Employer	-	758,450	(758,450)
Difference between expected and actual experience	-	-	-
Net investment earnings	-	6,555	(6,555)
Benefit payments, including refunds	(98,450)	(98,450)	-
Administrative expenses	-	(231)	231
Net Changes	<u>(11,390)</u>	<u>666,324</u>	<u>(677,714)</u>
OPEB obligation, end of year	<u>\$1,693,853</u>	<u>\$ 774,718</u>	<u>\$919,135</u>

The plan's fiduciary net position represents 46% of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended September 30, 2019, the Authority recognized an OPEB expense of \$45,259.

At September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 9,832	\$ 385
Net difference between projected and actual earnings	-	-
Total	<u>\$ 9,832</u>	<u>\$ 385</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 2,329
2021	2,329
2022	2,332
2023	2,457

Actuarial Assumptions. The total OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward to September 30, 2019 using the following actuarial assumptions:

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

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

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

Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate was determined by blending the long-term expected rate of return on OPEB plan investments of 4.3% with the current yield for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, which currently stands at 3.64%."

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

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

The portfolio allocation and assumptions stated above was at the time of plan valuation (September 30, 2018). No significant changes occurred in portfolio and assumptions as of September 30, 2019.

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

	<u>1% Decrease</u>	<u>Current 4.1%</u>	<u>1% Increase</u>
Net OPEB liability	\$1,134,101	\$919,135	\$740,600

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

	<u>1% Decrease</u>	<u>Current 7.0%</u>	<u>1% Increase</u>
Net OPEB liability	\$827,629	\$919,135	\$1,022,682

17. HEALTH CARE SAVINGS PLAN

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

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

Effective January 1, 2018, the Authority made pretax contributions of \$150 each month into each eligible employee's HCSP account. From January 1, 2016 to December 31, 2017, the Authority made pretax contributions of \$140 per month. The employees shall make a mandatory monthly pretax contribution of \$10 per pay period. Employees may make voluntary pre-tax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to approximately \$467,396 and \$477,300 for the years ended September 30, 2019 and 2018, respectively.

18. UPCOMING ACCOUNTING AND REPORTING CHANGES

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

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

Required GASB Statement No. 75
Supplementary Information
September 30, 2019

ANN ARBOR AREA TRANSPORTATION AUTHORITY

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

	Year Ended September 30	Year Ended September 30
	2019	2018
Total OPEB Liability		
Service cost	\$ 18,778	\$ 4,640
Interest	68,282	27,287
Benefit payments, including refunds	(98,450)	(117,666)
Net Change in Total OPEB Liability	(11,390)	(85,739)
Total OPEB Liability - Beginning of year	1,705,243	1,790,982
Total OPEB Liability - End of Year	<u>\$ 1,693,853</u>	<u>\$ 1,705,243</u>
Plan Fiduciary Net Position		
Net investment income	\$ 6,555	\$ 2,757
Employer contributions	758,450	117,666
Benefit payments	(98,450)	(117,666)
Administrative expenses	(231)	(258)
Net Change in Plan Fiduciary Net Position	666,324	2,499
Plan Fiduciary Net Position - Beginning of year	108,394	105,895
Plan Fiduciary Net Position - End of year	<u>\$ 774,718</u>	<u>\$ 108,394</u>
Net OPEB Liability - End of Year	<u>\$ 919,135</u>	<u>\$ 1,596,849</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	45.74%	6.36%
Covered Payroll	\$ 16,826,037	\$ 16,567,739
Net OPEB Liability as a Percentage of Covered Payroll	5.46%	9.64%

Schedule is built prospectively upon implementation of GASB 75.

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

ANN ARBOR AREA TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF OPEB CONTRIBUTIONS - LAST TEN FISCAL YEARS

Fiscal Year Ending	Actuarially Determined Contribution	Historical Contribution	Contribution Excess (Deficiency)	Covered Payroll	Contributions as a Percentage of Covered Payroll
9/30/2010	\$ 85,689	\$ 67,438	(18,251)	\$ 195,288	34.53%
9/30/2011	\$ 87,083	\$ 65,412	(21,671)	\$ 201,147	32.52%
9/30/2012	\$ 89,545	\$ 81,150	(8,395)	\$ 218,584	37.13%
9/30/2013	\$ 80,645	\$ 70,095	(10,550)	\$ 132,944	52.73%
9/30/2014	\$ 82,701	\$ 65,687	(17,014)	\$ 91,396	71.87%
9/30/2015	\$ 76,321	\$ 86,459	10,138	\$ 67,196	128.67%
9/30/2016	\$ 98,233	\$ 67,975	(30,258)	\$ 107,142	63.44%
9/30/2017	\$ 85,212	\$ 84,949	(263)	\$ 43,556	195.03%
9/30/2018	\$ 85,204	\$ 117,666	32,462	\$ 16,567,739	0.71%
9/30/2019	\$ 127,617	\$ 758,450	630,833	\$ 16,826,037	4.51%

The increase in covered payroll for the years ended September 30, 2019 and 2018, relates to the inclusion of individuals with life insurance only benefits.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF REVENUES

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

LOCAL OPERATING REVENUES:	2019	2018
Passenger fares:		
Urban fixed route	\$ 1,948,509	\$ 2,087,576
Urban demand response	813,331	802,112
Commuter express	103,419	123,816
Interurban airport shuttle	1,061,243	1,002,289
VanRide fares	-	15,843
Nonurban demand response	117,092	116,282
Special Fares:		
City of Ann Arbor - DDA (go!pass)	709,436	678,137
City of Ann Arbor - DDA (NightRide)	10,808	10,308
Ann Arbor Public Schools	81,507	87,082
Eastern Michigan University	194,265	191,736
University of Michigan (MRide)	1,666,491	1,763,781
Washtenaw Community College	44,471	47,162
TOTAL LOCAL OPERATING REVENUES	<u>\$ 6,750,571</u>	<u>\$ 6,926,124</u>
LOCAL NONOPERATING REVENUES:		
Purchase of service agreements:		
Pittsfield Township	\$ 806,446	\$ 836,252
Scio Township	412,609	402,902
Ypsilanti Township	88,367	86,372
Superior Township	82,377	-
City of Chelsea (ExpressRide)	15,000	15,000
Total purchase of service agreements	1,404,799	1,340,526
City of Ann Arbor - property tax levy	15,464,878	14,693,327
City of Ypsilanti - property tax levy	512,203	486,865
Ypsilanti Township - property tax levy	966,398	857,733
City of Ann Arbor - Downtown Development Authority (GetDowntown)	73,143	89,423
City of Ann Arbor - Downtown Development Authority (Route #4 & #5 expansion)	78,132	76,600
City of Ann Arbor - DDA - University of Michigan (BikeShare)	111,883	-
City of Ann Arbor (GetDowntown)	-	7,900
Job Access/Reverse Commute pass-through	210,200	226,500
Nonurban - Other governmental and local sources	751,952	553,909
Interurban airport shuttle - private contractor contribution	74,905	-
Interest income	208,403	36,369
Advertising income	340,282	283,080
Other revenue	34,979	12,421
Gain (loss) on sale of equipment	22,060	21,310
Total local nonoperating revenues	<u>20,254,218</u>	<u>18,685,963</u>
Total local operating and nonoperating revenues	<u>27,004,790</u>	<u>25,612,087</u>
STATE OF MICHIGAN NONOPERATING REVENUES:		
Formula operating assistance - urban (Act 51)	12,893,461	12,451,748
Formula operating assistance - nonurban (Act 51)	746,367	621,054
Prior years formula adjustments - urban and nonurban	580,988	459,011
Capital Cost of Contracting	195,838	30,000
Job Access/Reverse Commute (State Match)	66,516	90,698
Michigan Mobility Challenge	254,611	-
Planning (Section 5307 - State Match)	33,033	46,967
Planning passed through SEMCOG (Section 5303 - State Match)	-	73,615
Preventive maintenance	146,000	220,000
Specialized services	107,968	90,328
Total state nonoperating revenues	<u>15,024,782</u>	<u>14,083,421</u>
FEDERAL NONOPERATING REVENUES:		
Operating Assistance (Section 5307)	3,250,001	2,400,000
Unified planning program passed through SEMCOG (Section 5303/PL 112)	154,557	50,583
Planning passed through SEMCOG (Section 5303, with Local Match)	-	397,277
Planning passed through SEMCOG (Section 5303, with State Match)	-	294,461
Planning (Sections 5307)	132,133	187,867
Federal operating assistance - nonurban (Section 5311) - passed through the State	330,295	293,359
Capital cost of contracting (Section 5307)	720,375	453,039
Job Access/Reverse Commute	67,899	-
New Freedom	8,076	15,177
Preventive maintenance (Section 5307)	584,000	880,000
Enhanced Mobility of Seniors & Individuals with Disabilities (Section 5310)	223,721	84,696
Total federal nonoperating revenues	<u>5,471,058</u>	<u>5,056,459</u>
TOTAL NONOPERATING REVENUES	<u>\$ 40,750,058</u>	<u>\$ 37,825,843</u>

Additional Information for the Year Ended
September 30, 2019

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES YEAR ENDED SEPTEMBER 30, 2019 WITH COMPARATIVE TOTALS FOR 2018

	Operations	Maintenance	General Administration	2019 Total	2018 Total
LABOR:					
Operators' salaries and wages	\$ 8,845,881			\$ 8,845,881	\$ 8,475,485
Other salaries and wages	1,516,725	\$ 2,599,707	\$ 2,660,700	6,777,132	6,560,032
FRINGE BENEFITS					
Fringe wages	1,758,552	500,243	575,654	2,834,449	2,942,189
Social security payroll taxes	932,100	237,763	240,855	1,410,717	1,321,145
Medical insurance	1,813,872	523,236	285,612	2,622,720	2,571,541
Pension	962,665	246,227	236,435	1,445,327	1,428,484
Health care savings plan	352,650	81,000	60,750	494,400	477,335
Postretirement medical benefits	34,633	10,626	-	45,259	29,942
Other fringe benefits	506,590	111,839	57,492	675,921	545,842
SERVICES:					
Advertising fees	-	-	23,974	23,974	54,792
Other services	166,194	906,500	1,424,484	2,497,178	2,475,648
Auditing fees	-	-	43,705	43,705	28,340
MATERIALS AND SUPPLIES CONSUMED:					
Fuel and lubricants	1,981,328	12,160	-	1,993,488	1,674,821
Tires and tubes	172,798	1,097	-	173,895	280,993
Materials and supplies	943,243	359,936	562,783	1,865,962	1,620,437
UTILITIES	35,359	-	558,284	593,643	520,177
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	618,844	-	-	618,844	563,792
Other casualty and liability costs	-	-	272,102	272,102	245,387
PURCHASED TRANSPORTATION	10,673,301	-	-	10,673,301	9,559,800
MISCELLANEOUS EXPENSES:					
Travel and meetings	3,586	3,136	65,491	72,214	60,273
Advertising and promotion media	-	-	100,261	100,261	139,682
Association dues & subscriptions	-	-	81,775	81,775	78,286
Other	9,048	22,000	301,844	332,892	295,964
LEASES AND RENTALS	60,840	350	32,938	94,127	83,080
DEPRECIATION	<u>5,684,604</u>	<u>37,138</u>	<u>1,271,052</u>	<u>6,992,794</u>	<u>6,815,239</u>
TOTAL OPERATING EXPENSES	<u>\$ 37,072,813</u>	<u>\$ 5,652,958</u>	<u>\$ 8,856,191</u>	<u>\$ 51,581,962</u>	<u>\$ 48,848,706</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2019**

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Purchase Order Number	Program or Award Amount	Current Year's Expenditures				Prior Years' Federal Expenditures	Federal Amount Remaining
					Total	Federal	State	Local		
U. S. Department of Transportation (Federal):										
Direct Assistance - Capital Grants:										
Capital (Section 5307) (FY 2011 & 2012) (80/20 or 100/0)	20.507	MI-90-X641-00	M190-X641	\$11,800,000	\$2,399	\$2,399	\$0	\$0	\$11,797,601	\$0
Capital (Section 5307) (FY 2013) (80/20)	20.507	MI-90-X671-00	M190-X671	2,532,810	0	0	0	0	2,478,230	\$54,580
Capital (Section 5307) (FY 2014 & 2015) (80/20)	20.507	MI-90-X684-01	M190-X684	5,362,693	206,841	206,841	0	0	4,999,778	\$156,074
Capital (Section 5307) (FY 2016 & 2017) (80/20)	20.507	MI-2016-X26-01	M190-X778	2,209,279	603,195	603,195	0	0	988,977	\$617,107
Capital (Section 5339) (FY 2016 & 2017) (80/20)	20.526	MI-2016-X26-01	M134-0023	1,431,240	269,969	269,969	0	0	1,038,008	\$123,263
Capital (Section 5307) (FY 2018) (80/20)	20.507	MI-2018-X28-00	M190-0082	2,322,400	369,941	369,941	0	0	734,022	\$1,218,437
Capital (Section 5307-CMAQ) (FY 2018) (80/20)	20.507	MI-2018-X28-00	M195-0006	1,328,723	0	0	0	0	1,101,034	\$227,689
Capital (Section 5339) (FY 2018) (80/20)	20.526	MI-2018-X28-00	M134-0053	560,000	0	0	0	0	0	\$560,000
Capital (Section 5307) (FY 2019) (80/20)	20.507	MI-2019-X34-00	M190-X822	3,608,298	80,508	80,508	0	0	0	\$3,527,790
Capital (Section 5307-CMAQ) (FY 2019) (80/20)	20.507	MI-2019-X34-00	M195-0014	1,292,264	0	0	0	0	0	\$1,292,264
Capital (Section 5339) (FY 2019) (80/20)	20.526	MI-2019-X34-00	M134-0077	1,208,000	153,559	153,559	0	0	0	\$1,054,441
Capital (Section 5307-STP) (FY 2019) (80/20)	20.507	MI-2019-X35-00	M195-4001	60,184	0	0	0	0	0	\$60,184
Capital (Section 5310) (FY 2016 & 2017) (80/20)	20.513	MI-2016-X40-01	M116-X019	345,336	73,538	73,538	0	0	92,742	\$179,056
Capital (Section 5310) (FY 2018) (80/20)	20.513	MI-2018-X31-00	M116-0035	108,000	71,994	71,994	0	0	0	\$36,006
Capital (Section 5310) (FY 2019) (80/20)	20.513	MI-2019-X39-00	M116-0039	184,000	0	0	0	0	0	\$184,000
Capital (CMAQ) (FY 2013) (80/20)	20.507	MI-95-X103-01	M195-X103	2,996,320	0	0	0	0	2,439,376	\$556,944
Subtotal - Federal Capital				\$37,349,547	\$1,831,944	\$1,831,944	\$0	\$0	\$25,669,768	\$9,847,835
Direct Assistance - Operating Grants:										
Planning (Section 5307) (FY 2017) (80/20)	20.507	MI-2016-X26-01	M190-X778	320,000	132,133	132,133	0	0	187,867	\$0
Capital Cost of Contracting (Section 5307) (FY 2014 & 2015) (80/20)	20.507	MI-90-X684-01	M190-X684	157,375	157,375	157,375	0	0	0	\$0
Capital Cost of Contracting (Section 5307) (FY 2018) (80/20)	20.507	MI-2018-X28-00	M190-0082	563,000	563,000	563,000	0	0	0	\$0
Capital Cost of Contracting (Section 5307) (FY 2019) (80/20)	20.507	MI-2019-X34-00	M190-X822	588,000	0	0	0	0	0	\$588,000
Preventive Maintenance (Section 5307) (FY 2017) (80/20)	20.507	MI-2016-X26-01	M190-X778	664,000	544,000	544,000	0	0	120,000	\$0
Preventive Maintenance (Section 5307) (FY 2018) (80/20)	20.507	MI-2018-X28-00	M190-0082	40,000	40,000	40,000	0	0	0	\$0
Preventive Maintenance (Section 5307) (FY 2019) (80/20)	20.507	MI-2019-X34-00	M190-X822	40,000	0	0	0	0	0	\$40,000
Operating Assistance (Section 5307) (FY 2018) (50/50)	20.507	MI-2018-X28-00	M190-0082	3,250,000	6,500,000	3,250,000	0	3,250,000	0	\$0
Operating Assistance (Section 5307) (FY 2019) (50/50)	20.507	MI-2019-X34-00	M190-X822	3,400,000	0	0	0	0	0	\$3,400,000
JARC Trip Assistance (50/50)	20.516	MI-37-X044-02	M137-4044	608,988	50,329	50,329	0	0	422,610	\$136,049
JARC Mobility Management (80/20)	20.516	MI-37-X044-02	M137-0044	155,139	1,841	1,841	0	0	153,298	\$0
New Freedom Mobility Management (Section 5317) (80/20)	20.521	MI-57-X016-02	M157-0016	75,424	8,076	8,076	0	0	67,348	\$0
Enhanced Mobility (Section 5310) (FY 2015) (80/20 or 50/50)	20.513	MI-16-X011-00	M116-X011	179,503	0	0	0	0	83,503	\$96,000
Enhanced Mobility (Section 5310) (FY 2016 & 2017) (80/20 or 50/50)	20.513	MI-2016-X40-01	M116-X019	228,717	0	0	0	0	79,382	\$149,335
Enhanced Mobility (Section 5310) (FY 2018) (80/20)	20.513	MI-2018-X31-00	M116-0035	110,000	0	0	0	0	0	\$110,000
Enhanced Mobility (Section 5310) (FY 2019) (80/20)	20.513	MI-2019-X39-00	M116-0039	48,000	0	0	0	0	0	\$48,000
Passed Through Michigan Department of Transportation:										
Nonurban Operating Assistance (Section 5311) (FY 2019)	20.509	2017-0008/P10	2017-0008/P10	351,764	351,764	351,764	0	0	0	0
Passed Through Southeast Michigan Council of Governments:										
Unified Planning (Section 5303) (81.85/18.15)	20.205	19001	19001	24,555	30,000	24,555	0	5,445	0	\$0
Unified Planning (Section 5303) (81.85/18.15)	20.205	20001	20001	32,171	12,183	9,972	0	2,211	0	\$22,199
Unified Planning (Section 5303) (81.85/18.15)	20.205	19005	19005	50,583	61,800	50,583	0	11,217	0	\$0
Unified Planning (Section 5303) (81.85/18.15)	20.205	20005	20005	49,583	42,518	34,801	0	7,717	0	\$14,782
Metropolitan Planning (Section 5303) (80/20)	20.505	17014	17014	400,000	2,722	2,722	0	0	397,278	\$0
Metropolitan Planning (Section 5303) (80/20)	20.505	17015	17015	400,000	31,924	31,924	0	0	368,076	\$0
Subtotal - Federal Operating				11,736,802	8,529,665	5,253,075	0	3,276,590	1,879,362	4,604,365
TOTAL FEDERAL EXPENDITURES				\$49,086,349	\$10,361,609	\$7,085,019	\$0	\$3,276,590	\$27,549,130	\$14,452,200

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF STATE AWARDS (Continued)
YEAR ENDED SEPTEMBER 30, 2019**

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Grant or Number	Program or Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Amount Remaining	
				Total	Federal	State			Local
Michigan Department of Transportation (State):									
Direct assistance - Capital grants:									
Capital (FY 2011 and FY 2012)	N/A	2007-0162/Z32	\$2,920,600	\$375	\$0	\$375	\$0	\$2,918,692	\$1,533
Capital (FY 2013)	N/A	2012-0033/P9	633,203	0	0	0	0	619,558	13,645
Capital (Section 5339 Match) (FY 2013)	N/A	2012-0033/P8	542,774	0	0	0	0	519,261	23,513
Capital (FY 2014)	N/A	2012-0033/P11	749,080	0	0	0	0	609,844	139,236
Capital (FY 2014 and FY 2015)	N/A	2012-0033/P17	1,340,673	38,688	0	38,688	0	1,262,967	39,019
Capital (FY 2016 and FY 2017)	N/A	2012-0033/P24	1,385,880	210,738	0	210,738	0	990,049	185,093
Capital (Section 5310 Match) (FY 2016)	N/A	2012-0033/P25	86,334	18,384	0	18,384	0	23,012	44,938
Capital (FY 2018)	N/A	2017-0008/P5	1,052,781	100,038	0	100,038	0	451,211	501,532
Capital (Section 5310 Match) (FY 2018)	N/A	2017-0008/P6	27,000	17,999	0	17,999	0	0	\$9,001
Capital (FY 2019)	N/A	2017-0008/P13	1,527,141	58,517	0	58,517	0	0	1,468,624
Capital (Section 5310 Match) (FY 2019)	N/A	2017-0008/P14	46,000	0	0	0	0	0	46,000
Capital (Section 5307-STP) (FY 2019)	N/A	2017-0008/P15	15,046	0	0	0	0	0	15,046
Capital (MI Mobility Challenge) (FY 2019)	N/A	2017-0008/P8	120,000	119,110	0	119,110	0	0	890
Capital (MI Mobility Challenge) (FY 2019)	N/A	2017-0008/P9	207,200	198,744	0	198,744	0	0	8,456
Subtotal - Direct State Capital			10,653,711	762,593	0	762,593	0	7,394,594	2,496,525
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	12,893,461	12,893,461	0	12,893,461	0	0	0
Operating assistance - Act 51 Nonurban	N/A	N/A	746,367	746,367	0	746,367	0	0	0
Prior year formula adjustments	N/A	N/A	580,988	580,988	0	580,988	0	0	0
Planning (FY 2017)	N/A	2012-0033/P24	80,000	33,033	0	33,033	0	46,967	0
Capital Cost of Contracting (FY 2015)	N/A	2012-0033/P17	39,344	13,023	0	13,023	0	0	26,321
Capital Cost of Contracting (FY 2018)	N/A	2017-0008/P5	141,000	140,875	0	140,875	0	0	125
Capital Cost of Contracting (FY 2019)	N/A	2017-0008/P13	147,000	0	0	0	0	0	147,000
Preventive Maintenance (FY 2017)	N/A	2012-0033/P24	166,000	136,000	0	136,000	0	30,000	0
Preventive Maintenance (FY 2018)	N/A	2017-0008/P5	10,000	10,000	0	10,000	0	0	0
Preventive Maintenance (FY 2019)	N/A	2017-0008/P13	10,000	0	0	0	0	0	10,000
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27	647,773	50,789	0	50,789	0	460,935	136,049
Enhanced Mobility (Section 5310) (FY 2015)	N/A	2012-0033/P18	24,000	0	0	0	0	0	24,000
Enhanced Mobility (Section 5310) (FY 2016 & 2017)	N/A	2012-0033/P25	12,068	0	0	0	0	0	12,068
Enhanced Mobility (Section 5310) (FY 2018)	N/A	2017-0008/P6	27,500	0	0	0	0	0	27,500
Enhanced Mobility (Section 5310) (FY 2019)	N/A	2017-0008/P14	12,000	0	0	0	0	0	12,000
Specialized Services (FY 2019)	N/A	2017-0008/P7	94,461	294,844	0	94,461	200,383	0	\$0
Operating (MI Mobility Challenge) (FY 2019)	N/A	2017-0008/P8	37,000	15,006	0	15,006	0	0	21,994
Operating (MI Mobility Challenge) (FY 2019)	N/A	2017-0008/P9	249,767	239,605	0	239,605	0	0	10,162
Subtotal - Direct State Operating			15,918,729	15,153,991	0	14,953,608	200,383	537,902	427,219
TOTAL DIRECT STATE EXPENDITURES			\$26,572,440	\$15,916,584	\$0	\$15,716,201	\$200,383	\$7,932,495	\$2,923,744
STATE PASS-THROUGH:									
Specialized Services (FY 2018)	N/A	2017-0008/P3	13,507	42,160	0	13,507	28,653	0	0
Specialized Services (FY 2019)	N/A	2017-0008/P7	82,379	82,379	0	82,379	0	0	0
Total - State Pass-through Specialized Services			\$95,886	\$124,539	\$0	\$95,886	\$28,653	\$0	\$0

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES
YEAR ENDED SEPTEMBER 30, 2019, WITH COMPARATIVE TOTALS FOR 2018**

	Specialized Services 2018-0008/P3 2018-0008/P7	Job Access/ Reverse Commute	New Freedom MI57-0016 MI57-4016	Nonurban Operations (Sec. 5311: 2017-0008/P10 FY 2019	Urban Operations		2019 Total	2018 Total
		MI37-0044 MI37-4044 2007-0162/Z27			Demand-response	Fixed-route		
OPERATING EXPENSES:								
Labor		\$ 21,418		\$ 30,631	\$ 477,844	\$ 15,093,120	\$ 15,623,013	\$ 15,035,517
Fringe benefits		13,976		13,056	269,841	9,231,921	9,528,794	9,316,478
Services				16,184	-	2,548,673	2,564,857	2,558,780
Materials and supplies		201		6,394	29,017	3,997,733	4,033,345	3,576,251
Utilities		-		-	17,809	575,834	593,643	520,177
Casualty and liability costs		-		3,092	11,630	876,224	890,946	809,179
Purchased transportation	\$ 337,005	309,021	\$ 8,076	1,886,756	5,857,555	2,274,888	10,673,301	9,559,800
Other	-	-	-	4,568	8,232	574,342	587,142	574,205
Leases and rentals	-	-	-	-	-	94,127	94,127	83,080
Depreciation	-	-	-	-	186,257	6,806,537	6,992,794	6,815,239
TOTAL OPERATING EXPENSES	\$ 337,005	\$ 344,616	\$ 8,076	\$ 1,960,682	\$ 6,858,185	\$ 42,073,399	\$ 51,581,962	\$ 48,848,706

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES
YEAR ENDED SEPTEMBER 30, 2019**

Code	Description	Fixed-route	Demand-response	Total Urban
401 : Farebox Revenue				
40100	Passenger Fares	\$ 3,113,171	\$ 813,331	\$ 3,926,501
40200	Contract Fares	2,706,978	-	2,706,978
406 : Auxiliary Transit Revenue				
40615	Advertising Revenue	340,282	-	340,282
407 : NonTransit Revenue				
40799	Gain on Sale/Disposal of Equipment	22,060	-	22,060
40799	Other Revenue	34,979	-	34,979
408 : Local Revenue				
40800	Taxes Levied Directly for Transit Agency	14,401,958	2,541,522	16,943,480
409 : Local Revenue				
40910	Local Operating Assistance	1,194,079	210,720	1,404,799
40999	Other Local - Local Match	344,557	-	344,557
411 : State Formula and Contracts				
41101	State Operating Assistance	11,063,445	1,830,016	12,893,461
41101	Prior Year Formula Adjustments	580,988	-	580,988
41111	Preventive Maintenance	146,000	-	146,000
41112	Capital Cost of Contracting	-	195,838	195,838
41112	Planning	33,033	-	33,033
41199	State Mobility Challenge	254,611	-	254,611
413 : Federal Contracts				
41302	Operating Assistance (Sec 5307)	3,250,001	-	3,250,001
41311	Preventive Maintenance (Sec 5307)	584,000	-	584,000
41312	Capital Cost of Contracting (Sec 5307)	-	720,375	720,375
41312	Planning (Sec 5307)	132,133	-	132,133
41312	Unified Planning (Sec 5303)	154,557	-	154,557
41399	Enhanced Mobility (Section 5310)	-	223,721	223,721
414 : Other Revenue				
41400	Interest Revenue	208,403	-	208,403
Total		\$ 38,565,234	\$ 6,535,522	\$ 45,100,756

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES
YEAR ENDED SEPTEMBER 30, 2019**

Code	Description	Operations		Maintenance		General Administration		Total
		Fixed-route	Demand-response	Fixed-route	Demand-response	Fixed-route	Demand-response	
501: Labor								
50101	Operators Salaries & Wages	\$8,845,881						\$ 8,845,881
50102	Other Salaries & Wages	1,279,783	\$ 236,942	\$ 2,526,406	\$ 73,301	\$ 2,441,050	\$ 167,601	6,725,083
502: Fringe Benefits								
50200	Other Fringe Benefits	4,911,583	111,420	1,340,415	34,469	1,046,173	78,813	7,522,873
50210	Defined Contribution Pension	930,404	21,703	237,975	6,714	228,512	15,351	1,440,659
50240	Defined Contribution OPEB	385,273	680	91,151	210	60,435	481	538,229
503: Services								
50302	Advertising Fees	-	-	-	-	23,974	-	23,974
50305	Audit Costs	-	-	-	-	43,705	-	43,705
50399	Other Services	165,115	-	900,625	-	1,415,252	-	2,480,992
504: Materials and Supplies								
50401	Fuel & Lubricants	1,981,328	-	12,160	-	-	-	1,993,488
50402	Tires & Tubes	172,798	-	1,097	-	-	-	173,895
50499	Other Materials & Supplies	925,343	14,668	353,106	5,597	551,902	8,752	1,859,368
505: Utilities								
50500	Utilities	35,359	-	-	-	540,475	17,809	593,643
506: Insurance								
50603	Liability Insurance	612,656	6,188	-	-	-	-	618,844
50699	Other Insurance	-	-	-	-	263,569	5,442	269,011
508: Purchased Transportation								
50800	Purchased Transportation	2,274,888	5,857,555	-	-	-	-	8,132,443
509: Miscellaneous Expenses								
50902	Travel, Meeting & Training	3,586	-	3,136	-	65,491	-	72,213
50903	Association Dues & Subscriptions	-	-	-	-	81,775	-	81,775
50999	Other Misc Expenses	8,781	172	21,350	418	390,222	7,642	428,585
512: Operating Leases & Rentals								
51200	Operating Leases & Rentals	60,840	-	350	-	32,937	-	94,127
513: Depreciation								
51300	Depreciation	5,498,348	186,257	37,138	-	1,271,052	-	6,992,794
	Total Urban Expenses	28,091,967	6,435,584	5,524,908	120,709	8,456,523	301,892	48,931,584
550: Ineligible Expenses								
55007	Ineligible Depreciation	4,845,235	186,257	33,190	-	1,143,874	-	6,208,556
55008	Ineligible other (bad debt/employee events)	8,393	-	-	-	1,658	-	10,050
55009	Ineligible Association Dues	-	-	-	-	7,872	-	7,872
55010	Ineligible Nontransportation Revenue	-	-	-	-	34,979	-	34,979
55011	Ineligible Preventive Maintenance (5307)	-	-	730,000	-	-	-	730,000
570: Ineligible Expenses								
57099	Ineligible - Planning (Sec 5307)	-	-	-	-	165,166	-	165,166
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	188,830	-	188,830
57602	Ineligible - Capital Cost of Contracting	180,094	736,119	-	-	-	-	916,213
57602	Ineligible - State Demo Planning	-	-	-	-	254,611	-	254,611
57604	Ineligible - Enhanced Mobility (Sec 5310)	-	223,721	-	-	-	-	223,721
580: Ineligible Expenses								
58050	Ineligible - Postretirement Benefit Accrual	34,633	-	10,626	-	-	-	45,259
58050	Ineligible - Postretirement Benefits Paid	(75,336)	-	(23,114)	-	-	-	(98,450)
						Fixed-route	Demand-response	Total
	Total Expenses					\$42,073,399	\$ 6,858,185	\$ 48,931,584
	Total Ineligible Expenses					(7,540,710)	(1,146,097)	(8,686,807)
	Total Eligible Expenses					<u>\$34,532,688</u>	<u>\$ 5,712,088</u>	<u>\$ 40,244,777</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES
YEAR ENDED SEPTEMBER 30, 2019**

Code	Description	Total Nonurban
401 :	Farebox Revenue	
40100	Passenger Fares	\$ 117,092
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	745,459
40999	Other Local	-
411 :	State Formula and Contracts	
41101	State Operating Assistance	746,367
411	Prior Year Formula Adjustments	-
413 :	Federal Contracts	
41301	Federal Section 5311	351,764
414 :	Other Revenue	
41400	Interest Revenue	-
	Other	-
Total		\$ 1,960,682

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES
YEAR ENDED SEPTEMBER 30, 2019**

Code	Description	DEMAND-RESPONSE			Total
		Operations	Maintenance	General Administration	
501: Labor					
50102	Other Salaries & Wages			\$ 30,631	\$ 30,631
502: Fringe Benefits					
50200	Other Fringe Benefits			9,680	9,680
50210	Defined Contribution Pension			2,686	2,686
50240	Defined Contribution OPEB			690	690
503: Services					
50305	Other Services	\$ 1,079	\$ 5,875	9,232	16,186
504: Materials and Supplies					
50499	Other Materials & Supplies	3,232	1,233	1,928	6,393
506: Insurance					
50699	Other Insurance	-	-	3,091	3,091
508: Purchased Transportation					
50800	Purchased Transportation	1,886,756	-	-	1,886,756
509: Miscellaneous Expenses					
50999	Other Misc Expenses	95	232	4,241	4,568
550: Ineligible Expenses					
570: Ineligible Expenses					
				Total Expenses	\$ 1,960,682
				Total Ineligible Expenses	-
				Total Eligible Expenses	<u>\$ 1,960,682</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

**ADDITIONAL INFORMATION - URBAN AND NONURBAN SERVICE NONFINANCIAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2019**

PUBLIC SERVICE - URBAN FIXED-ROUTE

Code	Description	Total
610	Vehicle Hours	319,031
611	Vehicle Miles	4,417,190

PUBLIC SERVICE - URBAN DEMAND-RESPONSE

Code	Description	Total
610	Vehicle Hours	203,178
611	Vehicle Miles	3,693,041

PUBLIC SERVICE - NONURBAN DEMAND-RESPONSE

Code	Description	Total
610	Vehicle Hours	34,243
611	Vehicle Miles	666,885

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION YEAR ENDED SEPTEMBER 30, 2019

	Urban		Nonurban
	Line-haul	Demand Response	
Total Expenses	\$ 42,073,399	\$ 6,858,185	\$ 1,960,682
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	\$ 584,000		
Federal Planning (Section 5307)	132,133		
Federal Planning (Section 5303, w/Local Match)	188,830		
Federal Capital Cost of Contracting (Sec 5307)	180,094	\$ 540,281	
Federal and State Depreciation Expense	6,022,299	186,257	
Federal Enhanced Mobility (Section 5310)	-	223,721	
State Preventive Maintenance	146,000		
State Planning (Section 5307 Match)	33,033		
State Demonstration (Mobility Challenge)	254,611		
State Capital Cost of Contracting	-	195,838	
Post-Retirement Medical Benefits Accrual	45,259		
Post-Retirement Medical Benefits Paid	(98,450)		
Other revenue	34,979		
Other expenses (bad debts, ineligible interest)	10,050		
Association Dues (Ineligible Portion)	7,872		\$ -
Total Ineligible Expenses	\$ 7,540,710	\$ 1,146,097	\$ -
Total State Eligible Expenses	\$ 34,532,689	\$ 5,712,088	\$ 1,960,682
Eligible Expenses for State Reimbursement	\$ 34,532,689	\$ 5,712,088	\$ 1,960,682
x Reimbursement Percentage	32.0376%	32.0376%	38.0067%
State Operating Assistance	\$ 11,063,445	\$ 1,830,016	\$ 745,190
Total Operating Assistance - Urban		<u>\$ 12,893,461</u>	
Total Federal Eligible Expenses			
Total Eligible Expenses for State Reimbursement			\$ 1,960,682
Less: Ineligible Auditing Expenses			6,435
Eligible Expenses for Federal Reimbursement			\$ 1,954,247
x Reimbursement Percentage			18.0000%
Federal Operating Assistance (Section 5311)			<u>\$ 351,764</u>

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION - YEAR ENDED SEPTEMBER 30, 2019

A. ITEMS REIMBURSED BY FEDERAL GRANTS

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

B. FEDERAL AND STATE DEPRECIATION AND AMORTIZATION EXPENSE

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

C. POSTRETIREMENT MEDICAL BENEFITS PLAN EXPENSE

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

D. OTHER REVENUES AND ADVERTISING REVENUES

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

E. ASSOCIATION DUES

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 10.0% and 20.10%, respectively, to influencing legislation which is not eligible for reimbursement according to the Uniform Guidance issued by the Office of Management and Budget.

F. MILEAGE INFORMATION

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Ann Arbor Area Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ann Arbor Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon date February 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 Organization'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 entity'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.

To the Board of Directors
Ann Arbor Area Transportation Authority

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive.

Farmington Hills, Michigan
February 28, 2020

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Ann Arbor Area Transportation Authority

Report on Compliance for Each Major Federal Program

We have audited Ann Arbor Area Transportation Authority’s (the “Authority”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority’s major federal programs for the year ended September 30, 2019. The Authority’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Board of Directors
Ann Arbor Area Transportation Authority

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

To the Board of Directors
Ann Arbor Area Transportation Authority

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive.

Farmington Hills, Michigan
February 28, 2020

ANN ARBOR AREA TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through		Total Amount Provided to Subrecipients	Federal Expenditures
		Entity Identifying Number	Project Number		
Department of Transportation:					
<i>Federal Transit Cluster - Direct Awards:</i>					
Bus and Bus Facilities Formula Program (Bus Program)	20.526		MI34-0023	\$ -	\$ 269,969
Bus and Bus Facilities Formula Program (Bus Program)	20.526		MI34-0077	-	153,559
Subtotal					423,528
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507		MI90-X641	-	2,399
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507		MI90-X684	-	364,216
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507		MI90-X778	-	1,279,328
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507		MI90-0082	-	4,222,941
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507		MI90-X822	-	80,508
Subtotal				-	5,949,392
Total Federal Transit Cluster				-	6,372,920
<i>Transit Services Programs Cluster - Direct Awards:</i>					
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		MI16-X019	73,538	73,538
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		MI16-0035	71,994	71,994
Job Access and Reverse Commute Program	20.516		MI37-0044	-	1,841
Job Access and Reverse Commute Program	20.516		MI37-4044	12,038	50,329
New Freedom Program	20.521		MI57-0016	-	8,076
Total Transit Services Programs Cluster				157,570	205,778
<i>Passed Through Michigan Department of Transportation</i>					
Formula Grants for Rural Areas	20.509	2017-0008/P10	MI-2017-030-03	338,458	351,764
<i>Passed through Southeastern Michigan Council of Governments (SEMCOG):</i>					
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	17014		-	2,722
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	17015		-	31,924
Total				-	34,646
<i>Passed through Southeastern Michigan Council of Governments (SEMCOG):</i>					
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	19005		-	50,583
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	20005		-	34,801
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	19001		-	24,555
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	20001		-	9,972
Total Highway Planning and Construction Cluster					119,911
Total Department of Transportation					
Total Expenditures of Federal Awards				\$ 496,028	\$ 7,085,019

ANN ARBOR AREA TRANSPORTATION AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2019

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, 2019. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2 –Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting as the financial statements. Such expenditures are recognized following the cost principles contained 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.

NOTE – 3 Sub-Recipients

The Authority provided federal awards to sub-recipients in the amount of \$496,028 as presented in the Schedule.

NOTE – 4 Indirect Cost Rate

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

NOTE – 5 Subsequent Events

All subsequent events relative to the major programs were evaluated through February 28, 2020, the date the accompanying reports were available to be issued.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported
- Noncompliance material to the financial statements noted? Yes No

Federal Awards

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

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA# 20.526 and 20.507 – Federal Transit Cluster

CFDA# 20.509 – Section 5311, Operating Assistance

Dollar threshold used to distinguish between

Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes No

Section II – Financial Statement Audit Findings

Current Year – None

Section III – Federal Program Audit Findings

Current Year – Yes

ANN ARBOR AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) YEAR ENDED SEPTEMBER 30, 2019

FEDERAL AWARD AUDIT FINDING

**Reference
Number**

Finding

2019-001

CFDA Number, Federal Agency, and Program Name:

20.509, Department of Transportation, Formula Grants for Rural Areas

Federal Award Identification Number and Year: 2017-0008/P10

Pass Through Entity – Michigan Department of Transportation

Finding Type – Significant Deficiency and noncompliance

Repeat Finding - No

Criteria – Per 2 CFR § 200.331 all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

Federal Award Identification such as:

- a) Subrecipient name (which must match registered name in DUNS),
- b) Subrecipient's DUNS number,
- c) Federal Award Identification Number (FAIN),
- d) Federal Award date,
- e) Subaward period of performance start and end date,
- f) Amount of Federal funds obligated by this action,
- g) Total amount of federal funds obligated to the subrecipient,
- h) Total amount of the Federal award,
- i) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA),
- j) Name of Federal awarding agency, pass-through entity, and contact information for awarding official,

ANN ARBOR AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) YEAR ENDED SEPTEMBER 30, 2019

FEDERAL AWARD AUDIT FINDING (Continued)

**Reference
Number**

Finding

2019-001

Criteria

- k) CFDA number and name, the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement,
- l) Identification of whether the award is R&D, and
- m) Direct cost rate for the Federal award (including if the de minimis rate is charged).

Condition – The Authority did not identify the required federal award information in the subaward agreement/contracts.

Questioned Costs – None

Identification of How Questioned Costs Were Computed – Not applicable, as there are no questioned costs.

Context – The Authority executed agreements with two subrecipients. During testing performed, it was noted that the subaward agreements/contracts did not include the required Federal Award Identification information such as:

- a) Federal Award date,
- b) Total amount of the Federal award,
- c) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA),
- d) CFDA number and name, the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement,
- e) Identification of whether the award is R&D, and
- f) Direct cost rate for the Federal award (including if the de minimis rate is charged).

Cause and Effect – A review of the subaward agreement/contracts was not performed; therefore, the Authority did not comply with the sub-recipient monitoring requirements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) YEAR ENDED SEPTEMBER 30, 2019

FEDERAL AWARD AUDIT FINDING (Continued)

**Reference
Number**

Finding

2019-001

Recommendation – We recommend that the Authority should modify its sub-award contracts to properly identify the Federal award information as required by the Uniform Guidance.

View of Responsible Officials and Corrective Action Plan – The above finding was noted in the Authority’s recent 2018 FTA (Federal Transit Administration) Triennial Review as well. This deficiency was addressed as part of the FTA Correction Action Plan as of February 1, 2019. The Finance department updated the subrecipient agreement template and began using the new template for all new subrecipient agreements. The selected agreements for the 2019 Single Audit were executed prior to the control remediation and therefore were missing the key elements. However, management views this deficiency to be resolved based on the correction actions already taken.



Dawn Gabay Operations Center
2700 S. Industrial Highway
Ann Arbor, MI 48104

734-973-6500 **Phone**
734-973-6338 **Fax**
TheRide.org **Online**

February 28, 2020

FEDERAL AUDIT CLEARINGHOUSE
RE: Ann Arbor Area Transportation Authority
CORRECTIVE ACTION PLAN
FISCAL YEAR ENDED: SEPTEMBER 30, 2019

RE: CORRECTIVE ACTION PLAN (CAP)

Federal Award Finding Number: 2019-001

Condition: The Authority did not identify the required federal award information in the subaward agreement/contracts.

Planned Corrective Action: The above finding was noted in the Authority's recent 2018 FTA (Federal Transit Administration) Triennial Review as well. This deficiency was addressed as part of the FTA Correction Action Plan as of February 1, 2019. The Finance department updated the subrecipient agreement template and began using the new template for all new subrecipient agreements. The selected agreements for the 2019 Single Audit were executed prior to the control remediation and therefore were missing the key elements. However, management views this deficiency to be resolved based on the correction actions already taken.

Completion Date: February 2019

Point of Contact: LaTasha Thompson, Controller

Sincerely,

A handwritten signature in black ink, appearing to read 'John Metzinger', written over a horizontal line.

John Metzinger
Deputy CEO, Finance and Administration