Capital Area Transportation Authority

Financial Report
with Supplemental Information
September 30, 2018

Contents

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Independent Auditor's Report

To the Board of Directors
Capital Area Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Capital Area Transportation Authority's basic financial statements, 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 opinions on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority as of September 30, 2018 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, during the year ended September 30, 2018, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to the employees of governmental employers. Our opinion is not modified with respect to this matter.

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To the Board of Directors
Capital Area Transportation Authority

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Capital Area Transportation Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The fiduciary funds statements 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, the fiduciary funds statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplemental information schedules, consisting of other supplemental information other than the fiduciary funds statements, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019 on our consideration of the Capital 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 the Capital Area Transportation Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

February 19, 2019

As management of the Capital Area Transportation Authority (the "Authority"), we offer readers this narrative overview and analysis of the financial activities for the year ended September 30, 2018. The management's discussion and analysis is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

Financial Highlights

These statements reflect that the Authority is in very strong financial health. At September 30, 2018 (the Authority's 2018 fiscal year end), the Authority's net position stood at $36,471,236, as compared to a net position of $80,817,167 at fiscal year end 2017. Net position presents the assets of the Authority that can be used to provide for future operations. A portion of these assets is included in the net investment in capital assets, meaning that it has been invested in capital resources (generally vehicles and facilities), while a portion is unrestricted (generally cash and investments). The decrease in net position compared to 2017 can be largely attributed to the implementation of GASB Statement No. 75, which required the net OPEB liability to be recorded by the Authority for the first time.

The Authority's current ratio at September 30, 2018 stood at 6.66, as compared with 5.25 at fiscal year end 2017. Current ratio is a liquidity measurement that reflects whether or not an organization has enough resources to meet its short-term obligations; it compares an organization's current assets to its current liabilities. In general terms, a current ratio in excess of 2.0 is considered to reflect strong liquidity.

At September 30, 2018, the Authority had cash and investments totaling $32,404,186, while cash and investments stood at $31,852,678 at fiscal year end 2017.

The Authority's year-end leverage ratio at September 30, 2018 stood at 1.26, as compared with 0.22 at fiscal year end 2017. Leverage ratio is a measurement of debt burden that reflects an organization's ability to weather significant changes in its financial environment; it compares an organization's total liabilities to its net position. Leverage ratios below 0.50 are generally considered to reflect a healthy financial position. The significant change in the Authority's leverage ratio is a direct result of its implementation of GASB No. 75, as stated earlier. Had GASB No. 75 not been implemented during 2018, the Authority's leverage ratio would have been consistent with prior years.

Revenue (both operating and nonoperating) and grants for the fiscal year ended September 30, 2018 amounted to $48,344,986, while operating expenses amounted to $55,841,770. There was also a special item that reduced net position by $3,762,410. This resulted in a decrease in net position of $11,259,194 for fiscal year end 2018.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to Authority's basic financial statements. The Authority's basic financial statements consist of two kinds of statements, (1) proprietary fund and (2) pension and OPEB trust funds, which are fiduciary funds. This report also includes supplemental information and compliance information intended to furnish additional detail to support the basic financial statements themselves.

- Proprietary funds - The proprietary fund statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The statement of revenue, expenses, and changes in net position accounts for all of the current year's revenue and expenses, regardless of when cash is received or paid.

  The net position of the proprietary fund is reported in the statement of net position. Net position, the difference between the Authority's assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure the Authority's financial health or position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial position is improving or deteriorating. To assess the overall health of the Authority, you must also consider additional factors, such as changes in the Authority's tax base, the condition of its rolling stock and facilities, and changes in federal and state programs.

- Fiduciary funds - The Authority administers pension and OPEB plans that cover substantially all union and administrative employees. The Authority is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the proprietary fund financial statements because the Authority cannot use these assets to finance its operations.

  As of September 30, 2018, the Authority's union and administrative pension plans had fiduciary net positions as a percentage of total pension liabilities of 108 percent and 88 percent, respectively. The plans were evaluated in part based on an assumed 6 percent discount rate. The Authority's OPEB plan had fiduciary net position as a percentage of total OPEB liabilities of 16 percent.

Authority's Net Position

The Authority's total net position at September 30, 2018 was $36.47 million, a decrease from 2017. The change is largely attributable to the implementation of GASB 75, which required the recording of the net OPEB liability for the first time. The following table shows, in a condensed format, the net position as of the current date and the same date of the prior year:

	Business-type Activities			
	2017	2018	Change	Percent Change
Assets				
Current assets	$ 39,826,717	$ 41,501,780	$ 1,675,063	4.2
Capital assets	57,216,798	45,318,973	(11,897,825)	(20.8)
Total assets	97,043,515	86,820,753	(10,222,762)	(10.5)
Deferred Outflows of Resources	3,226,610	4,761,846	1,535,236	47.6
Liabilities				
Current liabilities	7,578,367	5,851,976	(1,726,391)	(22.8)
Noncurrent liabilities	10,289,386	45,274,018	34,984,632	340.0
Total liabilities	17,867,753	51,125,994	33,258,241	186.1
Deferred Inflows of Resources	1,585,205	3,985,369	2,400,164	151.4
Net position				
Net investment in capital assets	57,216,798	45,318,973	(11,897,825)	(20.8)
Unrestricted	23,600,369	(8,847,737)	(32,448,106)	(137.5)
Total net position	**$ 80,817,167**	**$ 36,471,236**	**$ (44,345,931)**	(54.9)

Note: 2018 amounts above include the net OPEB liability of $42.3 million following the implementation of GASB 75. The amounts for 2017 have not been adjusted for the new standard.

Authority's Changes in Net Position

The following table compares the Authority's statement of revenue, expenses, and changes in net position from 2017 to 2018:

	Business-type Activities			
	2017	2018	Change	Percent Change
Revenue				
Operating revenue	$ 7,439,303	$ 12,076,644	$ 4,637,341	62.3
Nonoperating revenue - Net of expenses	36,708,914	35,224,683	(1,484,231)	(4.0)
Total revenue	44,148,217	47,301,327	3,153,110	7.1
Expenses				
Operating expense before depreciation	45,683,401	47,862,525	2,179,124	4.8
Depreciation expense	7,000,287	7,979,245	978,958	14.0
Total expenses	52,683,688	55,841,770	3,158,082	6.0
Capital contributions	9,483,590	1,043,659	(8,439,931)	(89.0)
Special item	-	(3,762,410)	(3,762,410)	DIV/0
Change in Net Position	948,119	(11,259,194)	(12,207,313)	(1,287.5)
Net Position - Beginning of year, as previously reported	79,869,048	80,817,167	948,119	1.2
Cumulative Effect of Change in Accounting	-	(33,086,737)	(33,086,737)	-
Net Position - Beginning of year	79,869,048	47,730,430	(32,138,618)	(40.2)
Net Position - End of year	**$ 80,817,167**	**$ 36,471,236**	**$ (44,345,931)**	(54.9)

Capital Assets and Debt Administration

The Authority continues to invest in capital assets, including vehicles, infrastructure, and equipment. At September 30, 2018 and 2017, the Authority had $45 million and $57 million, respectively, invested in capital assets. During fiscal year 2018, the Authority made capital additions of $1.2 million, of which $121 thousand consisted of revenue-producing vehicles. Additionally, during fiscal year 2018, the Authority disposed of various capital assets with a combined net book value of $5.1 million, including the special item described in Note 13.

Detailed information concerning capital assets can be found in Note 4 in the notes to the financial statements.

As a result of changes to the Authority's long-range transportation plans and pursuant to accounting requirements, the Authority recognized grant-funded planning expenses of $494 thousand during fiscal year 2018 and recognized a special item (expensing of planning assets) of 3.8 million affecting its fiscal year 2018 financial statements (see Note 13).

Long-term Debt

At year end, the Authority had no long-term installment debt. Additional detailed information concerning the Authority's long-term obligations can be found in the notes to the financial statements.

Factors Bearing on the Authority's Future

At the time these financial statements were prepared and audited, the Authority was aware of one circumstance that could significantly affect its financial health in the future - the Authority receives a significant portion of its revenue from property taxes levied on real and personal property located in five local governmental units: City of Lansing, Michigan; City of East Lansing, Michigan; Lansing Charter Township; Delhi Charter Township; and Meridian Charter Township. The millage in support of the Authority is due to expire in 2020. The Authority will be seeking renewal of the millage, through a ballot proposal, at or near the value currently being levied prior to expiration of the existing millage. The Authority's ability to continue its mission will be greatly affected by the results of the ballot proposal.

Requests for Further Information

This financial report is intended to provide a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Capital Area Transportation Authority at 4615 Tranter Ave., Lansing, MI 48910.

Statement of Net Position

	September 30, 2018
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	$ 1,956,827
Investments (Note 3)	30,447,359
Receivables:	
Accrued interest receivable	155,257
Local contributions and contract revenue receivable	1,047,935
Due from federal government	1,298,138
Due from state government	2,000,079
Inventories	1,345,462
Prepaid expenses	459,387
Total current assets	38,710,444
Noncurrent assets	
Net pension asset (Note 6)	2,791,336
Capital assets: (Note 4)	
Assets not subject to depreciation	2,594,373
Assets subject to depreciation - Net	42,724,600
Total noncurrent assets	48,110,309
Total assets	86,820,753
Deferred Outflows of Resources	
Deferred outflows related to pensions (Note 6)	3,513,184
Deferred OPEB costs	1,248,662
Total deferred outflows of resources	4,761,846
Liabilities	
Current liabilities:	
Accounts payable	2,810,916
Due to state government (Note 2)	327,422
Accrued liabilities and other	691,581
Unearned revenue	128,901
Accrued vacation, incentive, and sick pay	1,026,579
Reserve for workers' compensation claims (Note 5)	534,577
Reserve for health insurance costs (Note 5)	332,000
Total current liabilities	5,851,976
Noncurrent liabilities:	
Net pension liability (Note 6)	2,481,286
Net OPEB liability	42,792,732
Total noncurrent liabilities	45,274,018
Total liabilities	51,125,994
Deferred Inflows of Resources	
Deferred inflows related to pensions (Note 6)	3,704,632
Deferred OPEB cost reductions	280,737
Total deferred inflows of resources	3,985,369
Net Position	
Net investment in capital assets	45,318,973
Unrestricted	(8,847,737)
Total net position	**$ 36,471,236**

See notes to financial statements.

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended September 30, 2018
Operating Revenue	
Linehaul	$ 3,290,748
Contract services	7,301,654
Paratransit	870,279
Rural service	69,051
Senior shopping bus	6,291
Other revenue	538,621
Total operating revenue	12,076,644
Operating Expenses	
Labor and fringe benefits	30,112,649
Services	3,359,239
Advertising	479,140
Materials, fuel, and supplies	4,083,933
Grant-funded supplies	940,242
Utilities	684,567
Insurance and self-insured costs	1,331,752
Purchased transportation services	6,544,025
Miscellaneous	298,678
Leases and rentals	28,300
Depreciation	7,979,245
Total operating expenses	55,841,770
Operating Loss	(43,765,126)
Nonoperating Revenue (Expense)	
Investment income - Net	112,991
Property tax revenue	16,664,161
Government operating grants - Federal	1,642,334
Government operating grants - State	17,521,293
Other nonoperating expense	(716,096)
Total nonoperating revenue	35,224,683
Loss - Before capital grants	(8,540,443)
Capital Grants	1,043,659
Special Item (Note 13)	(3,762,410)
Change in Net Position	(11,259,194)
Net Position - Beginning of year, as restated (Note 1)	47,730,430
Net Position - End of year	**$ 36,471,236**

See notes to financial statements.

Statement of Cash Flows

	Year Ended September 30, 2018
Cash Flows from Operating Activities	
Receipts from operations	$ 14,256,557
Payments to suppliers	(13,286,118)
Payments to employees and fringes	(30,044,487)
Payments for purchased transportation	(6,544,025)
Net cash and cash equivalents used in operating activities	(35,618,073)
Cash Flows from Noncapital Financing Activities	
Federal operating grants	1,832,477
State of Michigan grants	16,474,927
Local nonoperating receipts	16,664,161
Net cash and cash equivalents provided by noncapital financing activities	34,971,565
Cash Flows from Capital and Related Financing Activities	
Receipt of capital grants	1,744,577
Proceeds from sale of capital assets	30,026
Purchase of capital assets	(1,231,390)
Net cash and cash equivalents provided by capital and related financing activities	543,213
Cash Flows from Investing Activities	
Investment income	71,036
Purchases of investment securities	(1,316,022)
Net cash and cash equivalents used in investing activities	(1,244,986)
Net Decrease in Cash and Cash Equivalents	(1,348,281)
Cash and Cash Equivalents - Beginning of year	3,305,108
Cash and Cash Equivalents - End of year	**$ 1,956,827**
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	$ (43,765,126)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	7,979,245
Changes in assets and liabilities:	
Receivables	2,179,913
Inventories	(335,707)
Prepaid and other assets	(120,377)
Accrued vacation, incentive, and sick pay	53,503
Accounts payable	(1,623,337)
Net pension and OPEB liabilities and related deferrals	13,813
Total adjustments	8,147,053
Net cash and cash equivalents used in operating activities	**$ (35,618,073)**

See notes to financial statements.

Statement of Fiduciary Net Position

December 31, 2017 and September 30, 2018

	Pension Plans December 31, 2017	Retiree OPEB Trust September 30, 2018	Total Fiduciary Funds
Assets			
Cash and cash equivalents	$ -	$ 3,047	$ 3,047
Investments: (Note 3)			
Mutual funds	-	8,155,213	8,155,213
Group annuity contracts	54,764,775	-	54,764,775
Total assets	54,764,775	8,158,260	62,923,035
Liabilities	-	-	-
Net Position - Restricted for pension and other employee benefits	**$ 54,764,775**	**$ 8,158,260**	**$ 62,923,035**

See notes to financial statements.

Statement of Changes in Fiduciary Net Position

Years Ended December 31, 2017 and September 30, 2018

	Pension Plans December 31, 2017	Retiree OPEB Trust September 30, 2018	Total Fiduciary Funds
Additions			
Investment income (net of expenses):			
Interest and dividends	$ 724,125	$ 168,512	$ 892,637
Change in fair value of investments	5,660,400	672,871	6,333,271
Investment-related expenses	(4,768)	-	(4,768)
Net investment income	6,379,757	841,383	7,221,140
Contributions:			
Employer contributions	1,668,784	1,568,146	3,236,930
Member contributions	1,160,984	-	1,160,984
Total contributions	2,829,768	1,568,146	4,397,914
Total additions	9,209,525	2,409,529	11,619,054
Deductions			
Benefit payments	4,898,449	947,617	5,846,066
Administrative expenses	70,578	-	70,578
Total deductions	4,969,027	947,617	5,916,644
Net Increase in Net Position Held in Trust	4,240,498	1,461,912	5,702,410
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	50,524,277	6,696,348	57,220,625
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	**$ 54,764,775**	**$ 8,158,260**	**$ 62,923,035**

See notes to financial statements.

Note 1 - Significant Accounting Policies

Reporting Entity

The Capital Area Transportation Authority (the "Authority") is a public body organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 55 of 1963. The Authority has the capability and authority to provide public transportation to the general public in the greater Lansing area. Its member municipalities include the cities of Lansing and East Lansing, Michigan and the townships of Delhi, Lansing, and Meridian. The Authority is also authorized by the act to operate within certain service boundaries, which include the counties of Ingham, Eaton, and Clinton, Michigan. The Authority has contracted with the County of Ingham, Michigan to administer and manage transportation services to that area in the county not included in the municipalities listed above.

The Authority's operating fund and Retiree OPEB Trust fund have a September 30 year end. The pension plan funds are maintained on a calendar year reporting basis. The September 30, 2018 financial statements of the Authority include certain pension plan data as of December 31, 2017.

Accounting and Reporting Principles

The Capital Area Transportation Authority follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Authority:

Report Presentation

This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

Fund Accounting

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The Authority reports its operations in a single enterprise fund.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our Authority's programs. The Authority reports pension and OPEB trust funds that account for the activities of the Union and Administrative Employees pension plans and the Retiree OPEB Trust as fiduciary funds.

Basis of Accounting

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Note 1 - Significant Accounting Policies (Continued)

Investments

Investments are reported at fair value or estimated fair value. Pension plan investments in group annuity contracts are valued at net asset value, which approximates fair value.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, vehicles, and equipment, are reported in the proprietary fund financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than $1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Interest incurred during the construction of capital assets is included as part of the capitalized value of the assets constructed.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings	10-40
Equipment	3-10
Vehicles	4-12
Bus shelters	15
Furniture, fixtures, and equipment	5-12

Local Contributions and Contract Revenue

In accordance with the property tax levies in each of the member municipalities, the Authority has recorded accounts receivable for amounts levied but not yet remitted to the Authority. In addition, the Authority has recorded accounts receivable related to contract services provided and not yet paid in accordance with the contracts in place with the contracted service providers.

Grant Activities

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

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

Note 1 - Significant Accounting Policies (Continued)

Deferred Outflows/Inflows 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 a future period and will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources related to pensions and OPEB.

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 a future period and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources related to pensions and OPEB.

Net Position Flow Assumption

The Authority will sometimes fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Property Tax Revenue

Property taxes are levied on each December 1 or July 1 and become an enforceable lien at that time by the counties of Ingham, Eaton, and Clinton, Michigan; cities of Lansing and East Lansing, Michigan; and townships of Delhi, Lansing, and Meridian. Property taxes are recognized as revenue when levied, with proper allowances made for estimated adjustments and Michigan Tax Tribunal refunds.

Pension

The Authority offers defined benefit pension plans to its employees. The Authority records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plans' fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Union and Administrative Employee Pension Plans and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by the pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Other Postemployment Benefit Costs

The Authority offers retiree healthcare benefits to eligible retirees. 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.

Accrued Vacation, Incentive, and Sick Pay

It is the Authority's policy to not permit employees to accumulate unused vacation time from year to year. The liability recorded at year end represents earned vacation, incentive, and paid personal time earned but not yet paid. The operating fund is used to liquidate these obligations.

Note 1 - Significant Accounting Policies (Continued)

Accrued Severance Pay

The Authority has recorded a liability for estimated benefits due to employees who had salaried and/or administrative status on May 1, 1990 and are expected to retire at age 55 or older with at least 10 years of continuous service. Employees meeting these requirements are entitled to 90 days of pay. The operating fund is used to liquidate these obligations.

Proprietary Funds Operating Classification

The Authority distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement

During the current year, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaces GASB Statement No. 45. As a result, the statement of net position now includes a liability for the Authority's estimated unfunded other postemployment benefit (OPEB) 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 the other postemployment benefit plan disclosure (see Note 7) for further details.

The financial statements for the year ended September 30, 2017 have been restated in order to adopt GASB Statement No. 75. The effect of this new standard was a decrease in net position to record the net OPEB liability at September 30, 2017. Additionally, the net OPEB obligation previously recorded in accordance with GASB Statement No. 45 has been eliminated, and the overall result was a decrease in net position as of the beginning of the current fiscal year.

	Business-type Activities
Net position - Beginning of year, as previously reported	$ 80,817,167
Adjustment for GASB Statement No. 75 - To record the net OPEB liability	(40,546,423)
Adjustment for GASB Statement No. 75 - To eliminate the net OPEB obligation recorded under GASB 45	7,459,686
Net position - Beginning of year, as restated	$ 47,730,430

The impact on prior year changes in net position could not be determined.

Note 1 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

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

Note 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. The Authority has recorded operating grant revenue under Act 51 based on a formula that takes into account the eligible costs incurred by the Authority and preliminary information made available by the Michigan Department of Transportation (MDOT) as to the eligible expenses reimbursement percentage for the fiscal year ended September 30, 2018.

The latest "final" determination of State of Michigan operating assistance allocable to the Authority in accordance with the Act 51 funding formula was for the fiscal year ended September 30, 2015. The resulting decrease in revenue has been finalized with the State and has been paid back by the Authority. Furthermore, the Authority awaits the “final” determination for the years ended September 30, 2016, 2017, and 2018 (open years). The Authority has recorded a liability or receivable based on MDOT’s preliminary eligible expenses reimbursement percentage for each of the open years. Management estimates the results of the State’s final determination of the Act 51 funding formula for the open years will not materially change the amounts already recorded; therefore, no additional liability or receivable has been recorded.

Note 3 - Deposits and Investments

Deposits and investments are reported in the financial statements as follows:

	Business-type Activities	Fiduciary	Total
Cash and cash equivalents	$ 1,956,827	$ 3,047	$ 1,959,874
Investments	30,447,359	62,919,988	93,367,347
Total deposits and investments	$ 32,404,186	$ 62,923,035	$ 95,327,221

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Note 3 - Deposits and Investments (Continued)

The pension trust funds and retiree healthcare fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed $250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, commercial paper rated at the time of purchase within the two highest classifications established, and investment pools organized by a financial institution whose deposits are insured by an agency of the United States government.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had $1,684,604 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not have specific limits in excess of state law on investment maturities, other than limiting investments in commercial paper, which can only be purchased with a 270-day maturity.

At year end, the Authority had the following investments:

Investment	Fair Value	Weighted-average Maturity (Years)
Primary Government		
U.S. Treasury securities	$ 25,242,861	1.92
U.S. government agency securities	5,204,497	0.76
Total	$ 30,447,358	

Investment	Carrying Value	Weighted-average Maturity (Years)
Fiduciary Funds		
Group annuity contracts	$ 54,764,775	N/A
Mutual funds	2,312,145	7.88
Total	$ 57,076,920	

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices, other than limiting commercial paper to mature not more than 270 days after the date of purchase.

Investment	Carrying Value	Rating	Rating Organization
Primary Government			
U.S. Treasury securities	$ 5,204,497	AA+	S&P
U.S. government agency securities	25,242,861	AA+	S&P
Total	$ 30,447,358		

Investment	Carrying Value	Rating	Rating Organization
Fiduciary Funds			
Group annuity contracts	$ 54,764,775	N/A	N/A
Mutual funds	2,312,145	3 stars	Morningstar
Total	$ 57,076,920		

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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 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.

Note 3 - Deposits and Investments (Continued)

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

	Assets Measured at Fair Value on a Recurring Basis at September 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2018
Assets				
Trading securities:				
Debt securities - U.S. agency securities	$ -	$ 25,242,861	$ -	$ 25,242,861
Debt securities - U.S. treasury securities	-	5,204,497	-	5,204,497
Mutual funds - Fixed income	2,312,144	-	-	2,312,144
Mutual funds - Equities	5,843,069	-	-	5,843,069
Group annuity contracts measured at net asset value				54,764,775
Total assets	$ 8,155,213	$ 30,447,358	$ -	$ 93,367,346

Mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of U.S. debt securities at September 30, 2018 was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using quotes prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, and inputs other than quotes prices that are observable for the asset, such as interest rates and yield curves, that are observable at commonly quoted intervals.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the table below.

Investments in Entities that Calculate Net Asset Value per Share

The Authority holds shares or interests in group annuity contracts whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At September 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Group annuity contracts	$ 54,764,775	$ -	N/A	None

The group annuity contracts are investment contracts with principal and stated rate of returns guaranteed by Principal Life Insurance Company. The group annuity contracts invest the majority of their assets in common stocks and bonds. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

	Balance October 1, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Capital assets not being depreciated:				
Land	$ 2,133,207	$ 309,060	$ -	$ 2,442,267
Construction in progress	3,967,685	152,106	(3,967,685)	152,106
Subtotal	6,100,892	461,166	(3,967,685)	2,594,373
Capital assets being depreciated:				
Buildings	40,996,159	16,483	(282,407)	40,730,235
Vehicles	64,189,775	121,019	(3,316,368)	60,994,426
Furniture, fixtures, and computers	9,564,843	228,399	(1,493,557)	8,299,685
Bus shelters and signs	1,516,686	170,349	(551,726)	1,135,309
Equipment	2,029,900	233,974	(219,257)	2,044,617
Subtotal	118,297,363	770,224	(5,863,315)	113,204,272
Accumulated depreciation:				
Buildings	18,719,894	1,362,118	(139,751)	19,942,261
Vehicles	39,562,939	5,350,313	(2,716,829)	42,196,423
Furniture, fixtures, and computers	7,197,428	998,383	(1,371,265)	6,824,546
Bus shelters and signs	794,127	95,612	(348,117)	541,622
Equipment	907,069	173,958	(106,207)	974,820
Subtotal	67,181,457	7,980,384	(4,682,169)	70,479,672
Net capital assets being depreciated	51,115,906	(7,210,160)	(1,181,146)	42,724,600
Net business-type activity capital assets	$ 57,216,798	$ (6,748,994)	$ (5,148,831)	$ 45,318,973

Depreciation expense recognized in fiscal year 2018 is $7,979,245.

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has established a limited risk management program for workers' compensation. An excess coverage insurance policy covers individual claims in excess of $500,000, aggregate claims in excess of $1,505,000, and maximum insurance of $5,000,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 5 - Risk Management (Continued)

The Authority estimates the liability for workers' compensation and health and related benefits claims that have been incurred through the end of the fiscal year, including claims that have been reported, as well as those that have not yet been reported. Changes in the estimated liability for the current fiscal and prior years were as follows:

	Workers' Compensation		Health and Related Benefit Claims	
	2018	2017	2018	2017
Estimated liability - Beginning of year	$ 250,509	$ 297,577	$ 384,000	$ 289,000
Estimated claims incurred, including changes in estimates	523,098	285,143	544,192	4,517,881
Claim payments	(239,030)	(332,211)	(596,192)	(4,422,881)
Estimated liability - End of year	$ 534,577	$ 250,509	$ 332,000	$ 384,000

Note 6 - Pension Plans

Plan Description

The Capital Area Transportation Authority provides a monthly retirement benefit to union and administrative employees who meet the eligibility requirements, including age and years of service. The benefits are provided through the Union Employees' Pension Plan and the Administrative Employees' Pension Plan, single-employer plans administered by the Authority.

The financial statements of each pension system are included in these financial statements as a pension trust fund (a fiduciary fund).

Benefits Provided

The Union Employees' Pension Plan and Administrative Employees' Pension Plan provide retirement, disability, and death benefits to union and administrative retirees. Retirement benefits are calculated as years of accrued service multiplied by scheduled rates, as determined by the employee's retirement date. To be eligible, employees must have a minimum number of years of service (100 percent vested after 10 years of service), as well as meeting minimum retirement age (59, or early retirement beginning at age 55). The benefits also include disability, single-sum death, and survivor annuity death.

Benefit terms are generally established and amended by authority of the Authority's board of directors, subject to the terms of collective bargaining.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Union Employees' Pension Plan	Administrative Employees' Pension Plan
Date of member count	December 31, 2017	December 31, 2017
Inactive plan members or beneficiaries currently receiving benefits	100	38
Inactive plan members entitled to but not yet receiving benefits	40	34
Active plan members	207	54
Total employees covered by the plan	347	126

Note 6 - Pension Plans (Continued)

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The Authority hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees are required to make pension contributions of $83.50 per week to the Union Employees' Pension Plan and 7 percent of compensation paid per month to the Administrative Employees' Pension Plan. The Authority's required contribution is determined after consideration of the required contribution rate of employees, including a required match of all participant contributions to the Union Employees' Pension Plan. For the year ended September 30, 2018, the Authority’s average contribution rate was 7 percent and 22 percent of annual payroll for the Union Employees' Pension Plan and Administrative Employees' Pension Plan, respectively.

Net Pension Liability

The Authority chooses a date for each pension plan to measure its net pension liability. This is based on the measurement date of each pension plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

	Union Employees' Pension Plan	Administrative Employees' Pension Plan
Measurement date used for the Authority NPL	December 31, 2017	December 31, 2017

Changes in the net pension liability (asset) during the measurement year were as follows:

Union Employees' Pension Plan

	Increase (Decrease)		
Changes in Net Pension Liability (Asset)	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance at January 1, 2017	$ 32,221,042	$ 32,154,390	$ 66,652
Changes for the year:			
Service cost	778,029	-	778,029
Interest	1,929,620	-	1,929,620
Differences between expected and actual experience	137,767	-	137,767
Changes in assumptions	49,796	-	49,796
Contributions - Employer	-	968,784	(968,784)
Contributions - Employee	-	968,784	(968,784)
Net investment income	-	3,856,679	(3,856,679)
Benefit payments, including refunds	(1,734,240)	(1,734,240)	-
Administrative expenses	-	(41,047)	41,047
Net changes	1,160,972	4,018,960	(2,857,988)
Balance at December 31, 2017	$ 33,382,014	$ 36,173,350	$ (2,791,336)

The Union Employees' Pension Plan's fiduciary net position represents 108.4 percent of the total pension liability.

Note 6 - Pension Plans (Continued)

Administrative Employees' Pension Plan

Changes in Net Pension Liability	Increase (Decrease) Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at January 1, 2017	$ 20,837,015	$ 18,116,293	$ 2,720,722
Changes for the year:			
Service cost	441,360	-	441,360
Interest	1,181,777	-	1,181,777
Differences between expected and actual experience	1,751,137	-	1,751,137
Changes in assumptions	25,631	-	25,631
Contributions - Employer	-	700,000	(700,000)
Contributions - Employee	-	192,200	(192,200)
Net investment income	-	2,776,672	(2,776,672)
Benefit payments, including refunds	(3,164,209)	(3,164,209)	-
Administrative expenses	-	(29,531)	29,531
Net changes	235,696	475,132	(239,436)
Balance at December 31, 2017	$ 21,072,711	$ 18,591,425	$ 2,481,286

The Administrative Employees' Pension Plan's fiduciary net position represents 88.2 percent of the total pension liability.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the Authority recognized combined pension expense of $337,654 from both plans.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 2,235,146	$ -
Changes in assumptions	179,938	-
Net difference between projected and actual earnings on pension plan investments	-	3,704,632
Employer contributions to the plan subsequent to the measurement date	1,098,100	-
Total	$ 3,513,184	$ 3,704,632

Note 6 - Pension Plans (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending September 30		Amount
2019	$	(117,074)
2020		46,225
2021		(631,361)
2022		(661,339)
2023		71,441
Thereafter		2,560

Actuarial Assumptions

The total pension liability (asset) in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Union Employees' Pension Plan	Administrative Employees' Pension Plan
Inflation	2.00%	2.00%
Salary increases (including inflation)	2.00%	4.00%
Investment rate of return (net of investment expenses)	6.00%	6.00%
Mortality rates	As set forth in IRS regulations for 2018, based on RP-2000 Mortality Table projected to 2018 with Scale AA	As set forth in IRS regulations for 2018, based on RP-2000 Mortality Table projected to 2018 with Scale AA

Discount Rate

As shown below, the discount rate used to measure the total pension liability (asset) was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 6 - Pension Plans (Continued)

Investment Rate of Return

Best estimates of arithmetic real rates of return as of the December 31, 2017 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Union Employees' Pension Plan

	Union Employees' Pension Plan		Administrative Employees' Pension Plan	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Large Cap S&P 500 Index Fund	55.00 %	6.00 %	60.00 %	6.00 %
General Investment Fund	45.00	1.50	40.00	2.00

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Authority, calculated using the discount rate of 6.0 percent, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.0%)	Current Discount Rate (6.0%)	1 Percent Increase (7.0%)
Net pension liability (asset) of the Union Employees' Pension Plan	$ 1,239,655	$ (2,791,336)	$ (6,149,955)
Net pension liability of the Administrative Employees' Pension Plan	4,449,400	2,481,286	814,298

Assumption Changes

With the most recent actuarial valuations, the mortality assumptions were updated to be projected to 2018.

Investment Policy

The pension plans' policy in regard to the allocation of invested assets is established and may be amended by the authority board by a majority vote of its members. It is the policy of the authority board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the authority board’s adopted asset allocation policy as of September 30, 2018:

Asset Class	Target Allocation - Union Employees' Pension Plan	Target Allocation - Administrative Employees' Pension Plan
Large Cap S&P 500 Index Fund	55.00 %	60.00 %
General Investment Fund	45.00	40.00
Total	100.00 %	100.00 %

Note 6 - Pension Plans (Continued)

Rate of Return

For the year ended September 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.52 percent for the union plan and 16.57 percent for the administrative plan. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 7 - Other Postemployment Benefit Plan

Plan Description

The Authority administers the retiree healthcare benefits plan (the "Plan"), a single-employer defined benefit OPEB plan that is used to provide postemployment benefits other than pensions (OPEB) for union and administrative employees of the Authority.

Management of the Plan is vested with the Authority's board, which consists of 10 members.

Benefits Provided

The Plan provides healthcare for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	September 30, 2017
Inactive plan members or beneficiaries currently receiving benefits	128
Active plan members	214
Total plan members	342

Contributions

The contribution requirements of the plan members and the Authority are established and may be amended by the authority board. Actively employed plan members have no obligation to contribute to the plan. Retiree healthcare costs are recognized when paid by the Authority on a "pay-as-you-go" basis. The Authority has no obligation to make contributions in advance of when the insurance premiums are due for payment. At its discretion, the Authority will contribute to the trust as able.

The Authority has chosen to use the September 30 measurement date as its measurement date for the net OPEB liability. The September 30, 2018 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the September 30, 2017 measurement date. The September 30, 2017 measurement date total OPEB liability was determined by an actuarial valuation performed as of that date.

Note 7 - Other Postemployment Benefit Plan (Continued)

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

	Increase (Decrease)		
Changes in Net OPEB Liability	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at October 1, 2016	$ 47,242,771	$ 6,696,348	$ 40,546,423
Changes for the year:			
Service cost	1,781,196	-	1,781,196
Interest	1,377,737	-	1,377,737
Differences between expected and actual experience	341,423	-	341,423
Changes in assumptions	1,155,482	-	1,155,482
Contributions - Employer	-	1,568,146	(1,568,146)
Net investment income	-	841,383	(841,383)
Benefit payments, including refunds	(947,617)	(947,617)	-
Net changes	3,708,221	1,461,912	2,246,309
Balance at September 30, 2017	$ 50,950,992	$ 8,158,260	$ 42,792,732

The Plan's fiduciary net position represents 16.0 percent of the total OPEB liability.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Authority recognized OPEB expense of $2,846,530.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 284,802	$ -
Changes in assumptions	963,860	-
Net difference between projected and actual earnings on OPEB plan investments	-	280,737
Total	$ 1,248,662	$ 280,737

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

Years Ending September 30	Amount
2019	$ 178,059
2020	178,059
2021	178,059
2022	178,059
2023	248,243
Thereafter	7,447
Total	$ 967,926

Note 7 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in the September 30, 2018 actuarial valuation was determined using an inflation assumption included in the expected return; assumed salary increases (including inflation) of 4 percent; an investment rate of return (net of investment expenses, including inflation) of 7.0 percent; a healthcare cost trend rate of 8.5 percent, graded 0.25 percent per year to an ultimate rate of 4.5 percent; and the RP-2014 mortality tables with the MP-2018 improvement scale. The only assumption change from the beginning of the year related to eligibility requirements for participants. All other assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.86 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the Plan's net position was not projected to be sufficient to make projected future benefit payments of current plan members beyond 2029. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the September 30, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Stock market index fund	6.50 %
Bond and corporate index fund	2.75

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 3.86 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (2.86%)	Current Discount Rate (3.86%)	1 Percent Increase (4.86%)
Net OPEB liability of the Plan	$ 51,333,839	$ 42,792,732	$ 35,971,735

Note 7 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Authority, calculated using the healthcare cost trend rate of 8.5 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1 Percent Increase (9.5%)
Net OPEB liability of the Plan	$ 34,831,527	$ 42,792,732	$ 52,956,295

Assumption Changes

Since the prior valuation, the mortality assumption was updated and the discount rate increased from 3.74 percent to 3.86 percent.

Investment Policy

The OPEB plan's policy in regard to the allocation of invested assets is established and may be amended by the OPEB board by a majority vote of its members. It is the policy of the OPEB board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the OPEB board's adopted asset allocation policy as of September 30, 2018:

Asset Class	Target Allocation
Stock market index fund	60.00 %
Bond and corporate index fund	40.00
Total	100.00 %

Concentrations

At September 30, 2018, the Plan held approximately 100 percent of its investment portfolio in three Vanguard mutual funds.

Rate of Return

For the year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 11.35 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 8 - Commitments

Bus tires are to be furnished to the Authority under the terms of a supplier agreement effective July 1, 2013, which expired on June 30, 2018 and has been extended until December 31, 2018. Payments for the use of the tires are to be made monthly and are based on the number of miles run. Bus tire expense under this agreement for the year ended September 30, 2018 was $222,970.

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Authority's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

Note 10 - Cost Allocation Plan

The Authority has a cost allocation plan for all allocated expenses. The three allocation plans were approved by the State's Bureau of Passenger Transportation (BPT). The first allocation plan is the 2012 Administrative Cost Plan approved in 2012, which was the allocation plan used in the preparation of the financial statements for all expenses except for Meals on Wheels expenses and Job Access and Reverse Commute (JARC) program expenses. There are separate allocation plans for the Meals on Wheels service (approved in 2013) and JARC program expenses (approved in 2015).

Note 11 - Eligible and Ineligible Costs

The State's BPT (Bureau of Passenger Transportation) requires the Authority to include supplemental schedules to the financial statements. These supplemental schedules are included among the other supplemental information of this report. These schedules include eligible expenses to be reimbursed with state funds that have been appropriate for mass transit operating assistance under Act 51. The schedules also detail ineligible expenses that cannot be reimbursed. The supplemental schedules detail any Section 5307 (capital funding) and any other grant funding used to pay operating expenses and either subtracts them out as ineligible or does not include them in the total expenses to be reimbursed.

Depreciation expense on assets purchased with state or federal grant funds is shown as ineligible expenses. The ineligible depreciation amount of $7,976,571 on assets purchased with state or federal funds has been reported in PTMS (Public Transportation Management System) code 55007. Depreciation expense of assets purchased with local funds and where the useful life of the asset purchased has been approved by the BPT is reported as an eligible expense.

The revenue schedules report $85,593 as building rental and $447,833 in other nontransportation revenue. Expenses of $103,687 associated with building rental are shown as ineligible under PTMS code 56004. Expense of $229,110 associated with other nontransportation revenue associated is shown as ineligible under PTMS code 55010.

Other expenses in the amount of $4,071,145 are reported as ineligible under PTMS code 55008. These expenses include items such as gifts and donations and include an adjustment for prior year cost (see Note 13). In addition, expenses related to the PTMS revenue code 40400 for Meals on Wheels has been reported as ineligible expense under PTMS code 55008.

A portion of ineligible association dues in the amount of $9,127 was reported as ineligible under PTMS code 55009.

Note 11 - Eligible and Ineligible Costs (Continued)

Other operating expenses that were paid for by capital contract are subtracted out as ineligible. Expenses include: Planning/Capital expenses of $940,242 (PTMS code 57602), preventive maintenance expenses of $765,000 (PTMS code 55011), and administrative expenses paid by capital contract of $250,033 (PTMS code 57603).

Loss on disposal of assets in the amount of $798,448 was included in expenses and shown as ineligible under PTMS code 58009.

The Authority expensed $337,654 in pension expense, of which ($1,264,572) has been shown as ineligible under PTMS code 58010 - Ineligible DB Pension. The amount of $1,602,225 was paid into the pension trust in fiscal year 2018 by the Authority.

The Authority expensed $2,905,467 in other postemployment benefits, of which $1,278,384 has been shown as ineligible expense under PTMS code 58020 - Ineligible DB OPEB. An amount of $620,529 was paid to the OPEB trust in fiscal year 2018. An additional $1,006,554 was also paid in retirement healthcare expenses in fiscal year 2018 and is reported in fringe benefit expenses.

Note 12 - Tax Abatements

The Authority receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Act 328 personal property exemptions granted by local cities and townships within the Authority's service area. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; Act 328 personal property exemptions can be given to eligible businesses within a designated eligible distressed district, as determined by the local governing body.

For the fiscal year ended September 30, 2018, the Authority's property tax revenue was reduced by approximately $245,000 known property tax abatements.

At the time of this report being published, the City of Lansing, Michigan could not provide IFT and Public Act 328 tax abatement information for the 2017 tax levy year, but the amounts are not believed to be material to the Authority. The Authority is ineligible to give a tax abatement directly.

Note 13 - Special Item

Transportation management and administration in the tri-county region (Ingham, Clinton, and Eaton, Michigan counties) is provided by the Tri-County Regional Planning Commission (TCRPC). This commission is the Metropolitan Planning Organization (MPO), as defined by the US Department of Transportation (USDOT), and provides guidance and oversight for the Authority's operations. It is the responsibility of the TCRPC to define the transportation (including transit) development that is performed within the Lansing metropolitan area. Approximately every five years, the MPO's are commissioned by the USDOT to develop a long-range plan (Regional Transportation Plan, hereinafter the "Plan") that defines the transportation objectives for the area over the next 25 years. The TCRPC last developed such a Plan in 2015 that covered the time period from 2015 through 2040. That Plan contained two significant transit-oriented projects: the Bus Rapid Transit Project (BRT Project) and the Shaping the Avenue Project (Avenue Project) (collectively, the "Projects"). Together, the Projects were approved by the TCRPC at an estimated cost of $160.7 million, with $5.7 million of that total being planning expenditures and $155.0 million being construction and physical changes to the corridors. The majority of the cost of these projects was to be borne by the federal and state governments through grant funding.

The planning portion of both of these projects was spearheaded by the Authority, but the physical changes envisioned by the projects were to be managed and performed by the Authority along with various other governmental units, including the City of Lansing, Michigan and the Michigan Department of Transportation.

Note 13 - Special Item (Continued)

The planning portion began in 2013. As of September 30, 2018, the Authority had $4.3 million in planning expenditures related to these projects. Of the approximately $4.3 million, approximately $500,000 was incurred during fiscal 2018, while the remainder was incurred between the initiation of the Projects in 2013 and the end of fiscal 2017.

Planners believed that the Projects would result in the BRT becoming the transportation method of choice for many citizens living and working along the designated corridors. One of the initial activities of the Projects was to justify the approach through feedback from the citizenry in the tri-county region. During the feedback sessions, it became obvious that the citizens in some of the communities affected by the Projects were not in favor of the BRT Project for myriad reasons. The focus of their pushback was directed at the BRT Project rather than the Avenue Project. One of the key concepts of the BRT Project involved the commitment of the center-portion of the roadway for exclusive use by buses. In some cases, this would result in a reduction in the number of usable lanes for automobiles. It was this concept for which the citizenry was particularly opposed.

Based upon this feedback, the Authority halted the construction portion of the BRT Project in 2017 pending a thorough review and analysis of the entire project by the Authority and the TCRPC. During fiscal year 2018, both the Authority and TCRPC came to the conclusion that certain portions of the project have great value and should be continued, but the majority of the construction, including the center-lane redevelopment should be discontinued.

The planning work performed during the BRT Project and Avenue Project is of significant use to the various governmental units that plan to make changes along the corridor. However, since the Authority does not plan to move forward in constructing any significant physical assets as part of the Projects, accounting rules require that the Authority expense the planning assets that have been capitalized as part of the Projects to date. This is required, as the Authority will no longer have significant physical assets that result from the planning work. In essence, this would be similar to having architectural design performed to build a home and then electing not to do so.

As a result of these changes, the Authority incurred grant-funded planning expenses of approximately $500,000 during fiscal year 2018 and recognized a special item (expensing of planning assets) of approximately $3.8 million affecting its 2018 financial statements.

Required Supplemental Information

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Union Employees' Retirement Plan

Last Four Fiscal Years
Measurement Date is December 31 of the Previous Year

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 778,029	$ 769,047	$ 901,345	$ 878,914
Interest	1,929,620	1,835,268	1,731,432	1,566,841
Differences between expected and actual experience	137,767	474,688	600,589	336,591
Changes in assumptions	49,796	54,395	45,762	-
Benefit payments, including refunds	(1,734,240)	(1,442,944)	(1,408,792)	(1,698,741)
Net Change in Total Pension Liability	1,160,972	1,690,454	1,870,336	1,083,605
Total Pension Liability - Beginning of year	32,221,042	30,530,588	28,660,252	27,576,647
Total Pension Liability - End of year	**$ 33,382,014**	**$ 32,221,042**	**$ 30,530,588**	**$ 28,660,252**
Plan Fiduciary Net Position				
Contributions - Employer	$ 968,784	$ 871,474	$ 897,960	$ 825,579
Contributions - Member	968,784	871,474	897,960	825,579
Net investment income	3,856,679	3,964,867	569,654	2,632,772
Administrative expenses	(41,047)	(51,928)	(1,408,792)	(63,761)
Benefit payments, including refunds	(1,734,240)	(1,442,944)	(73,743)	(1,698,741)
Other	-	(6,907)	-	-
Net Change in Plan Fiduciary Net Position	4,018,960	4,206,036	883,039	2,521,428
Plan Fiduciary Net Position - Beginning of year	32,154,390	27,948,354	27,065,315	24,543,887
Plan Fiduciary Net Position - End of year	**$ 36,173,350**	**$ 32,154,390**	**$ 27,948,354**	**$ 27,065,315**
Authority's Net Pension (Asset) Liability - Ending	**$ (2,791,336)**	**$ 66,652**	**$ 2,582,234**	**$ 1,594,937**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	108.36 %	99.79 %	91.54 %	94.44 %
Covered Payroll	$ 13,242,033	$ 13,751,977	$ 13,051,323	$ 12,216,374
Authority's Net Pension (Asset) Liability as a Percentage of Covered Payroll	(21.08)%	0.48 %	19.79 %	13.06 %

This schedule is intended to show information for 10 years. Additional years' information will be reported as it becomes available.

Required Supplemental Information
Schedule of Pension Contributions
Union Employees' Retirement Plan

Last Ten Fiscal Years

Years Ended September 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 874,181	$ 446,533	$ 897,960	$ 825,579	$ 770,772	$ 804,565	$ 767,572	$ 743,022	$ 718,263	$ 705,196
Contributions in relation to the actuarially determined contribution	886,727	902,096	897,960	825,579	770,772	804,565	767,572	743,022	718,263	705,196
Contribution Excess	**$ 12,546**	**$ 455,563**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Payroll	$ 13,242,033	$ 13,751,977	$ 13,212,642	$ 12,216,374	$ 9,670,101	$ 9,450,642	$ 9,207,858	$ 9,307,010	$ 9,451,596	$ 9,230,364
Contributions as a Percentage of Covered Payroll	6.70 %	6.56 %	6.80 %	6.76 %	7.97 %	8.51 %	8.34 %	7.98 %	7.60 %	7.64 %

Notes to Schedule of Pension Contributions - Union Employees' Retirement Plan

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarial determined contribution rates are calculated as of January 1.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal - Frozen initial liability
Asset valuation method	Equal to market value of assets
Inflation	2.00 percent
Salary increase	2.00 percent
Investment rate of return	6.00 percent, net of investment expense, including inflation
Retirement age	59 - Normal retirement age, as defined in the summary of plan provisions
Mortality	As set forth in IRS regulations for 2017

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios
Administrative Employees' Retirement Plan

Last Four Fiscal Years
Measurement Date is December 31 of the Previous Year

	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 441,360	$ 505,572	$ 414,794	$ 424,887
Interest	1,181,777	1,192,736	1,137,093	1,065,211
Differences between expected and actual experience	1,751,137	110,949	232,973	329,293
Changes in assumptions	25,631	23,815	432,360	-
Benefit payments, including refunds	(3,164,209)	(738,853)	(2,022,338)	(952,299)
Net Change in Total Pension Liability	235,696	1,094,219	194,882	867,092
Total Pension Liability - Beginning of year	20,837,015	19,742,796	19,547,914	18,680,822
Total Pension Liability - End of year	**$ 21,072,711**	**$ 20,837,015**	**$ 19,742,796**	**$ 19,547,914**
Plan Fiduciary Net Position				
Contributions - Employer	$ 700,000	$ 633,906	$ 395,223	$ 409,598
Contributions - Member	192,200	88,907	180,979	193,090
Net investment income	2,776,672	846,742	144,288	1,556,717
Administrative expenses	(29,531)	(51,063)	(42,357)	(35,930)
Benefit payments, including refunds	(3,164,209)	(738,853)	(2,022,338)	(952,299)
Other	-	(4,358)	-	-
Net Change in Plan Fiduciary Net Position	475,132	775,281	(1,344,205)	1,171,176
Plan Fiduciary Net Position - Beginning of year	18,116,293	17,341,012	18,685,217	17,514,041
Plan Fiduciary Net Position - End of year	**$ 18,591,425**	**$ 18,116,293**	**$ 17,341,012**	**$ 18,685,217**
Authority's Net Pension Liability - Ending	**$ 2,481,286**	**$ 2,720,722**	**$ 2,401,784**	**$ 862,697**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.23 %	86.94 %	87.83 %	95.59 %
Covered Payroll	$ 3,153,829	$ 2,344,817	$ 2,981,719	$ 3,039,472
Authority's Net Pension Liability as a Percentage of Covered Payroll	78.68 %	116.03 %	80.55 %	28.38 %

This schedule is intended to show information for 10 years. Additional years' information will be reported as it becomes available.

Required Supplemental Information
Schedule of Pension Contributions
Administrative Employees' Retirement Plan

Last Ten Fiscal Years

Years Ended September 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 563,505	$ 645,500	$ 395,223	$ 409,598	$ 692,291	$ 714,923	$ 632,097	$ 678,087	$ 815,421	$ 621,738
Contributions in relation to the actuarially determined contribution	700,000	545,000	395,223	409,598	692,291	714,923	632,097	678,087	815,421	621,738
Contribution Excess (Deficiency)	**$ 136,495**	**$ (100,500)**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Covered Payroll	$ 3,153,829	$ 2,344,817	$ 3,227,611	$ 3,039,472	$ 2,420,272	$ 2,400,379	$ 2,179,465	$ 2,338,028	$ 2,322,827	$ 2,304,396
Contributions as a Percentage of Covered Payroll	22.20 %	23.24 %	12.25 %	13.48 %	28.60 %	29.78 %	29.00 %	29.00 %	35.10 %	26.98 %

Notes to Schedule of Pension Contributions - Administrative Employees' Pension Plan

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarial determined contribution rates are calculated as of January 1.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal - Frozen initial eligibility
Asset valuation method	Equal to market value of assets
Inflation	2.00 percent
Salary increase	4.00 percent
Investment rate of return	6.00 percent, net of investment expense, including inflation
Retirement age	Varies from 59 to 62 based on hire date and years of service
Mortality	As set forth in IRS regulations for 2017
Other information	The schedule above is as of the Authority's September 30 fiscal year end; however, the actuarially determined contributions are calculated on a calendar year basis. The Authority made additional contributions in October 2017. For the year ended December 31, 2017, there was no contribution deficiency.

Required Supplemental Information
Schedule of Pension Investment Returns

Last Four Fiscal Years

Years Ended December 31

	2017	2016	2015	2014
Union Employees' Retirement Plan - Annual money-weighted rate of return - Net of investment expense	12.52 %	7.38 %	2.07 %	10.20 %
Administrative Employees' Retirement Plan - Annual money-weighted rate of return - Net of investment expense	16.57 %	8.07 %	0.80 %	8.60 %

Required Supplemental Information
Schedule of Changes in the Net OPEB Liability and Related Ratios

Last Two Fiscal Years

	2018	2017
Total OPEB Liability		
Service cost	$ 1,781,196	$ 1,738,555
Interest	1,377,737	1,299,584
Differences between expected and actual experience	341,423	75,294
Changes in assumptions	1,155,482	-
Benefit payments, including refunds	(947,617)	(1,185,270)
Net Change in Total OPEB Liability	3,708,221	1,928,163
Total OPEB Liability - Beginning of year	47,242,771	33,602,319
Total OPEB Liability - End of year	**$ 50,950,992**	**$ 35,530,482**
Plan Fiduciary Net Position		
Contributions - Employer	$ 1,568,146	$ 1,725,577
Contributions - Employee	-	50,673
Net investment income	841,383	794,781
Benefit payments, including refunds	(947,617)	(1,185,271)
Other	-	3,047
Net Change in Plan Fiduciary Net Position	1,461,912	1,388,807
Plan Fiduciary Net Position - Beginning of year	6,696,348	5,307,541
Plan Fiduciary Net Position - End of year	**$ 8,158,260**	**$ 6,696,348**
Net OPEB Liability - Ending	**$ 42,792,732**	**$ 28,834,134**
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	16.01 %	18.85 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

This schedule is intended to show information for 10 years. Additional years' information will be reported as it becomes available.

During 2018, the Authority and actuary identified an addition to the total OPEB liability that should have been included in the 2017 total OPEB liability. This adjustment was added to the beginning liability for 2018, but as a result, that amount does not equal the 2017 ending liability.

Required Supplemental Information
Schedule of OPEB Contributions

Last Ten Fiscal Years

Years Ended September 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 5,138,595	$ 4,705,924	$ 2,848,496	$ 2,529,661	$ 2,529,661	$ 2,551,485	$ 2,448,454	$ 2,167,552	$ 1,634,661	$ 1,704,589
Contributions in relation to the actuarially determined contribution	1,568,146	1,725,577	2,168,986	983,504	1,422,339	1,304,228	1,548,837	1,644,702	1,479,282	1,189,256
Contribution Deficiency	**$ (3,570,449)**	**$ (2,980,347)**	**$ (679,510)**	**$ (1,546,157)**	**$ (1,107,322)**	**$ (1,247,257)**	**$ (899,617)**	**$ (522,850)**	**$ (155,379)**	**$ (515,333)**

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Contributions for the Authority's fiscal year ended September 30, 2018 were determined based on the actuarial valuation as of September 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal (level percent)
Amortization method	Level dollar, closed
Remaining amortization period	23 years
Asset valuation method	Equal to market value of assets
Inflation	Not stated
Healthcare cost trend rates	5.0 percent
Salary increase	4.0 percent
Investment rate of return	7.0 percent (net of investment expense, including inflation)
Retirement age	60 years
Mortality	IRS 1.430(h) Annuitant and Nonannuitant tables

Required Supplemental Information
Schedule of OPEB Investment Returns

Last Fiscal Year

Year Ended September 30

	2018
Annual money-weighted rate of return - Net of investment expense	11.35 %

Other Supplemental Information

Other Supplemental Information
Statement of Fiduciary Net Position
Fiduciary Funds

December 31, 2017 and September 30, 2018

	Union Pension Plan December 31, 2017	Admin Pension Plan December 31, 2017	Retiree OPEB Trust September 30, 2018	Total Fiduciary Funds
Assets				
Cash and cash equivalents	$ -	$ -	$ 3,047	$ 3,047
Investments:				
Mutual funds	-	-	8,155,213	8,155,213
Group annuity contracts	36,173,350	18,591,425	-	54,764,775
Total assets	36,173,350	18,591,425	8,158,260	62,923,035
Liabilities	-	-	-	-
Net Position - Restricted for pension and other employee benefits	**$ 36,173,350**	**$ 18,591,425**	**$ 8,158,260**	**$ 62,923,035**

Other Supplemental Information
Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Years Ended December 31, 2017 and September 30, 2018

	Union Pension Plan December 31, 2017	Admin Pension Plan December 31, 2017	Retiree OPEB Trust September 30, 2018	Total Fiduciary Funds
Additions				
Investment income (net of expenses):				
Interest and dividends	$ 540,698	$ 183,427	$ 168,512	$ 892,637
Change in fair value of investments	3,319,833	2,340,567	672,871	6,333,271
Investment-related expenses	(3,852)	(916)	-	(4,768)
Net investment income	3,856,679	2,523,078	841,383	7,221,140
Contributions:				
Employer contributions	968,784	700,000	1,568,146	3,236,930
Member contributions	968,784	192,200	-	1,160,984
Total contributions	1,937,568	892,200	1,568,146	4,397,914
Total additions	5,794,247	3,415,278	2,409,529	11,619,054
Deductions				
Benefit payments	1,734,240	3,164,209	947,617	5,846,066
Administrative expenses	41,047	29,531	-	70,578
Total deductions	1,775,287	3,193,740	947,617	5,916,644
Net Increase in Net Position Held in Trust	4,018,960	221,538	1,461,912	5,702,410
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	32,154,390	18,369,887	6,696,348	57,220,625
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	**$ 36,173,350**	**$ 18,591,425**	**$ 8,158,260**	**$ 62,923,035**

Other Supplemental Information
Schedule of Operating Expenses

Year Ended September 30, 2018

	Operations	Maintenance	Administration	Total
Labor:				
Operator salaries and wages	$ 12,172,219	$ -	$ -	$ 12,172,219
Other salaries and wages	-	1,791,453	4,420,381	6,211,834
Fringe Benefits	5,622,258	822,288	2,031,415	8,475,961
Pension	223,744	32,724	81,186	337,654
Other Post Retirement Benefits	1,925,286	281,583	698,598	2,905,467
Purchased Services:				
Advertising	-	-	401,682	401,682
Other	25,890	283,354	3,011,299	3,320,543
Materials and supplies consumed:				
Fuel and Lubricants	-	2,005,133	58,473	2,063,606
Tires and tubes	-	221,916	1,054	222,970
Other materials and supplies	685	1,231,625	5,443,371	6,675,681
Utilities	-	-	684,567	684,567
Casualty and liability costs:				
Premiums for public liability and property damage insurance	-	-	994,329	994,329
Other casualty and liability costs	-	-	337,422	337,422
Purchased transportation services	6,544,025	-	-	6,544,025
Miscellaneous expenses	-	147	247,675	247,822
Interest	-	-	846	846
Leases and rentals	-	3,676	24,624	28,300
Depreciation	5,157,933	-	2,821,317	7,979,250
	$ 31,672,040	**$ 6,673,899**	**$ 21,258,239**	**$ 59,604,178**

Other Supplemental Information

Schedule of Operating and Contract Expenses

Year Ended September 30, 2018

Expense	Urban	Nonurban	Specialized Services	Total
Labor	$ 17,899,961	$ 466,421	$ 17,671	$ 18,384,053
Fringes	8,252,019	215,767	8,175	8,475,961
Pension	328,723	8,605	326	337,654
Other post retirement benefits	2,828,622	74,040	2,805	2,905,467
Purchased services:				
Advertising	385,187	15,893	602	401,682
Other	3,163,816	151,006	5,721	3,320,543
Materials & Supplies	8,666,596	284,868	10,793	8,962,257
Utilities	648,168	35,070	1,329	684,567
Casualty and liability costs	1,260,941	68,225	2,585	1,331,751
Purchased transportation	5,538,609	974,750	30,666	6,544,025
Miscellaneous expenses	238,129	9,343	350	247,822
Interest	846	-	-	846
Leases and rentals	26,991	1,261	48	28,300
Depreciation	7,740,327	230,199	8,724	7,979,250
Total	**$ 56,978,935**	**$ 2,535,448**	**$ 89,795**	**$ 59,604,178**

Other Supplemental Information
Schedule of Expense by Contract and General Operations

Year Ended September 30, 2018

Description	MI-95-X105 2012-0055-P012 FY 15 S-5307 Public Education (1)	MI-95-X105 2012-0055-P012 FY 15 S-5307 Clean Commute (1)	MI-95-X127 2012-0055-P28a FY 16 S-5307 Public Education (1)	MI-95-X127 2012-0055-P28a FY 16 S-5307 Clean Commute (1)	Not Available Preventative Maintenance (2)	2012-005-P019 FY 18 Specialized Services	General Operations Urban Large	General Operations Nonurban	Total
Labor	$ -	$ 29,192	$ -	$ 10,930	$ -	$ 17,671	$ 17,859,839	$ 466,421	$ 18,384,053
Fringes	-	-	-	-	-	11,306	11,409,364	298,412	11,719,082
Purchased services:	-	-	-	-	-	-	-	-	
Advertising	52,641	32,450	895	5,457	-	602	293,744	15,893	401,682
Other	41,380	29,720	17,974	7,214	-	5,721	3,067,528	151,006	3,320,543
Materials & Supplies	11,615	6,440	3,000	956	765,000	9,308	7,920,262	245,677	8,962,257
Utilities	-	-	-	-	-	1,329	648,168	35,070	684,567
Casualty and liability costs	-	-	-	-	-	2,585	1,260,941	68,225	1,331,751
Purchased transportation	-	-	-	-	-	30,666	5,538,609	974,750	6,544,025
Miscellaneous expenses	-	-	-	169	-	1,900	936,283	50,247	988,599
Interest	-	-	-	-	-	-	6,191	-	6,191
Leases and rentals	-	-	-	-	-	48	26,991	1,261	28,300
Depreciation	-	-	-	-	-	8,724	7,740,327	230,199	7,979,250
Total	**$ 105,637**	**$ 97,801**	**$ 21,869**	**$ 24,726**	**$ 765,000**	**$ 89,860**	**$ 56,708,246**	**$ 2,537,161**	**$ 60,350,300**

(1) Includes all expenses associated with this contract

(2) Includes only expenses reimbursed under this contract

Other Supplemental Information
Schedule of Operating Revenues

Year Ended September 30, 2018

			2018
40100	Linehaul - Farebox (Urban)	$	3,290,748
40100	Paratransit - Farebox (Urban)		870,279
40100	Rural Services - Farebox		69,051
40100	Senior Shopping Bus - Fare Box		6,291
40400	Meals on Wheels		5,195
40720	Rental of Building		85,593
40799	Other Miscellaneous Revenue		447,833
40950	Contract Services		7,301,654
	Total	**$**	**12,076,644**

Other Supplemental Information
Schedule of Nonoperating Revenues

Year Ended September 30, 2018

		2018
Local nonoperating revenues:		
40800 Property tax	$	16,664,161
Total local nonoperating revenues		16,664,161
State of Michigan operating grants:		
41101 Operating grant (Act 51) - Urban		14,145,058
41101 Operating grant (Act 51) - Urban - PY		1,703,247
41101 Operating grant (Act 51) - Rural		763,561
41101 Operating grant (Act 51) - Rural - PY		50,328
41101 Specialized Services		28,577
41111 Operating grant - Preventative Maintenance		153,000
41112 Planning/Capital Cost of Contracting		107,353
41113 Capital Contract Reimbursement for Admin Expense		25,501
40799 Local Community Stabilization		544,668
Total State of Michigan operating grants		17,521,293
Federal operating grants:		
41301 Operating grant - Rural - 5311		385,374
41311 Federal grant - Preventative Maintenance		612,000
41312 Other federal revenue		224,532
41113 Capital grants for noncapitalized items		420,429
Total Federal operating grants		1,642,334
Investment Income		112,991
Total nonoperating revenue	**$**	**35,940,779**

Other Supplemental Information
Schedule of Nonoperating Expenses

Year Ended September 30, 2018

	Urban	Nonurban	Specialized Services	Total
Revenue:				
40760 Gain on sale of assets	$ 30,026	$ -	$ -	30,026
				0
Total nonoperating revenue	30,026	-	-	30,026
Expenses:				
50999 Other miscellaneous	57,671	-	-	57,671
58009 Loss on sale of asset	(755,994)	(40,904)	(1,550)	(798,448)
51102 Interest on short term debt	(5,345)	-	-	(5,345)
				0
Total nonoperating expense	(703,668)	(40,904)	(1,550)	(746,122)
Net nonoperating expense	**$ (673,642)**	**$ (40,904)**	**$ (1,550)**	**$ (716,096)**

Other Supplemental Information
Urban Regular Service Revenue Report

Year Ended September 30, 2018

Code	Description		Amount
401:	**Fare Revenue**		
40100	Passenger fares	$	4,161,028
407:	**Non transportation Revenue**		
40720	Rental of buildings or other properties		85,593
40760	Gain from sale of capital assets		30,026
40799	Other non-transportation revenue		992,501
408:	**Local Revenue**		
40800	Taxes levied directly for/by transit agency		16,664,161
409:	**Local Revenue**		
40950	Local Service Contracts/Local Source		6,350,188
411:	**State Revenue**		
41101	State operating assistance		15,848,305
41111	Preventative maintenance		153,000
41112	Planning/capital cost of contracting		107,353
41113	Capital contract reimbursement for admin expense		25,501
413:	**Federal Revenue**		
41311	Preventative maintenance		612,000
41312	Planning/capital cost of contracting		224,532
41313	Capital contract reimbursement for admin expense		420,429
414:	**Other Revenue**		
41400	Interest Income		112,991
Total Revenue		**$**	**45,787,607**

Other Supplemental Information
Urban Regular Service Expense Report

Year Ended September 30, 2018

Code	Description	Operations	Maintenance	General Administration	Total
501:	**Labor:**				
50101	Operator salaries & wages	$ 11,955,530	$ -	$ -	$ 11,955,530
50102	Other salaries & wages	-	1,748,886	4,195,545	5,944,431
502:	**Fringe Benefits**				
50200	Other fringe benefits	5,517,727	807,148	1,927,144	8,252,019
50201	Pension	219,583	32,121	77,019	328,723
50202	Other post retirement benefits	1,889,485	276,398	662,739	2,828,622
503:	**Services**				
50302	Advertising	-	-	385,187	385,187
50305	Audit costs	-	-	94,209	94,209
50399	Other	25,890	280,996	2,762,721	3,069,607
504:	**Materials and supplies**				
50401	Fuel and Lubricants	-	1,971,861	55,472	2,027,333
50402	Tires and tubes	-	219,313	1,000	220,313
50499	Other materials and supplies	685	1,204,907	5,213,358	6,418,949
505:	**Utilities**				
50500	Utilities	-	-	648,168	648,168
506:	**Insurance**				
50603	Liability insurance	-	-	941,460	941,460
50699	Other insurance	-	-	319,481	319,481
507:	**Taxes and fees**				
50700	Taxes and fees	-	-	285	285
508:	**Purchased transportation services**				
50800	Purchased transportation services	5,538,609	-	-	5,538,609
509:	**Miscellaneous expenses**				
50902	Travel, meetings & training	-	-	82,903	82,903
50903	Association dues & subscriptions	-	-	84,087	84,087
50909	Loss on disposal of assets	-	-	755,994	755,994
50999	Other miscellaneous expense	-	147	13,036	13,183
511:	**Interest on short term debt**				
51102	Interest on short term debt	-	-	6,191	6,191
512:	**Operating leases & rentals**				
51200	Operating leases & rentals	-	3,676	23,315	26,991
513:	**Depreciation**				
51300	Depreciation	5,072,103	-	2,668,224	7,740,327
550:	**Ineligible expenses**				
55007	Ineligible depreciation	5,072,103	-	2,665,691	7,737,794
55008	Other ineligible	-	-	3,756,688	3,756,688
55009	Ineligible percent of assoc dues	-	-	8,641	8,641
55010	Ineligible expense associated with other revenue	-	-	229,110	229,110
55011	Ineligible preventative maintenance	-	765,000	-	765,000
56004	Ineligible expenses associated with rentals	-	-	103,687	103,687
57602	Ineligible planning/capital costs of contracting	-	-	940,242	940,242
57603	Ineligible admin expense paid by capital contract	-	-	250,033	250,033

Other Supplemental Information
Urban Regular Service Expense Report

Year Ended September 30, 2018

Code	Description	Operations	Maintenance	General Administration	Total
580:	**Ineligible expenses**				
58009	Loss on disposal of assets	-	-	755,994	755,994
58010	Ineligible DB Pension	(822,377)	(120,300)	(288,449)	(1,231,126)
58020	Ineligible DB OPEB	831,359	121,613	291,600	1,244,572
Total Expenses		30,219,612	6,545,453	20,917,538	57,682,603
Total Ineligible Expenses		5,081,085	725,638	8,713,237	14,519,960
Total Eligible Expenses		**$ 25,138,527**	**$ 5,819,815**	**$ 12,204,301**	**$ 43,162,643**

Other Supplemental Information
Urban Regular Service Nonfinancial Report

Year Ended September 30, 2018

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicles hours	434,863	39,572	24,763	**499,198**
611	Vehicle miles	5,840,297	531,072	339,137	**6,710,506**

Other Supplemental Information
Nonurban County Regular Service Revenue Report

Year Ended September 30, 2018

Code	Description		Amount
401:	**Fare Revenue**		
40100	Passenger fares	$	69,050
404:	**Package Delivery/Meal Delivery Programs**		
40400	Package delivery/meal delivery programs		5,195
409:	**Local Service Contract**		
40950	Local service contract/local source		951,466
411:	**State Revenue**		
41101	State operating assistance		813,889
413:	**Federal Revenue**		
41301	Section 5311 Operating		385,374
Total Revenue		**$**	**2,224,974**

Other Supplemental Information
Nonurban County Regular Service Expense Report

Year Ended September 30, 2018

Code	Description	Operations	Maintenance	General Administration	Total
501:	**Labor:**				
50101	Operator salaries & wages	$ 208,779	$ -	$ -	$ 208,779
50102	Other salaries & wages	-	32,806	224,836	257,642
502:	**Fringe Benefits**				
50200	Other fringe benefits	96,356	15,140	104,271	215,767
50201	Pension	3,835	603	4,167	8,605
50202	Other post retirement benefits	32,996	5,185	35,859	74,040
503:	**Services**				
50302	Advertising	-	-	15,893	15,893
50305	Audit costs	-	-	5,097	5,097
50399	Other	-	2,358	143,551	145,909
504:	**Materials and supplies**				
50401	Fuel and Lubricants	-	31,948	3,001	34,949
50402	Tires and tubes	-	2,506	54	2,560
50499	Other materials and supplies	-	17,346	230,013	247,359
505:	**Utilities**				
50500	Utilities	-	-	35,070	35,070
506:	**Insurance**				
50603	Liability insurance	-	-	50,939	50,939
50699	Other insurance	-	-	17,286	17,286
507:	**Taxes and fees**				
50700	Taxes and fees	-	-	15	15
508:	**Purchased transportation services**				
50800	Purchased transportation services	974,750	-	-	974,750
509:	**Miscellaneous expenses**				
50902	Travel, meetings & training	-	-	4,070	4,070
50903	Association dues & subscriptions	-	-	4,550	4,550
50909	Loss on disposal of assets	-	-	40,904	40,904
50999	Other miscellaneous expense	-	-	708	708
512:	**Operating leases & rentals**				
51200	Operating leases & rentals	-	-	1,261	1,261
513:	**Depreciation**				
51300	Depreciation	85,830	-	144,369	230,199
550:	**Ineligible expenses**				
55007	Ineligible depreciation	85,830	-	144,231	230,061
55008	Other ineligible expenses	-	-	306,771	306,771
55009	Ineligible percent of association dues	-	-	468	468
580:	**Ineligible expenses**				
58009	Ineligible loss on disposal of assets	-	-	40,904	40,904
58010	Ineligible DB Pension	(14,361)	(2,257)	(15,606)	(32,224)
58020	Ineligible DB OPEB	14,518	2,281	15,779	32,578
Total Expenses		1,402,546	107,892	1,065,914	2,576,352

Other Supplemental Information
Nonurban County Regular Service Expense Report
Year Ended September 30, 2018

Code	Description	Operations	Maintenance	General Administration	Total
Total Ineligible Expenses		85,987	24	492,547	578,558
Total Eligible Expenses		**$ 1,316,559**	**$ 107,868**	**$ 573,367**	**$ 1,997,794**

Other Supplemental Information
Nonurban County Regular Service Nonfinancial Report

Year Ended September 30, 2018

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicles hours	18,953	554	-	19,507
611	Vehicle miles	447,951	13,949	-	461,900

Other Supplemental Information
Specialized Services Revenue Report

Year Ended September 30, 2018

Code	Description		Amount
401:	**Fare Revenue**		
40100	Passenger fares	$	6,291
411:	**State Revenue**		
41101	Specialized services		28,577
Total Revenue		**$**	**34,868**

Other Supplemental Information
Specialized Services Expense Report

Year Ended September 30, 2018

Code	Description	Operations	Maintenance	General Administration	Total
501:	**Labor:**				
50101	Operator salaries & wages	$ 7,910	$ -	$ -	$ 7,910
50102	Other salaries & wages	-	9,761	-	9,761
502:	**Fringe Benefits**				
50200	Other fringe benefits	8,175	-	-	8,175
50201	Pension	326	-	-	326
50202	Other post retirement benefits	2,805	-	-	2,805
503:	**Services**				
50302	Advertising	-	-	602	602
50305	Audit costs	-	-	193	193
50399	Other	-	-	5,528	5,528
504:	**Materials and supplies**				
50401	Fuel and Lubricants	-	1,324	-	1,324
50402	Tires and tubes	-	97	-	97
50499	Other materials and supplies	-	9,372	-	9,372
505:	**Utilities**				
50500	Utilities	-	-	1,329	1,329
506:	**Insurance**				
50603	Liability insurance	-	-	1,930	1,930
50699	Other insurance	-	-	655	655
507:	**Taxes and fees**				
50700	Taxes and fees	-	-	1	1
508:	**Purchased transportation services**				
50800	Purchased transportation services	30,666	-	-	30,666
509:	**Miscellaneous expenses**				
50902	Travel, meetings & training	-	-	154	154
50903	Association dues & subscriptions	-	-	172	172
50909	Loss on disposal of asset	-	-	1,550	1,550
50999	Other miscellaneous expense	-	-	23	23
512:	**Operating leases & rentals**				
51200	Operating leases & rentals	-	-	48	48
513:	**Depreciation**				
51300	Depreciation	-	-	8,724	8,724
550:	**Ineligible expenses**				
55007	Ineligible depreciation	-	-	8,716	8,716
55008	Other ineligible	-	-	7,686	7,686
55009	Ineligible percent of association dues	-	-	18	18
580:	**Ineligible expenses**				
58009	Loss on disposal of assets	-	-	1,550	1,550
58010	Ineligible DB Pension	-	-	(1,221)	(1,221)
58020	Ineligible DB OPEB	-	-	1,234	1,234

Other Supplemental Information
Specialized Services Expense Report

Year Ended September 30, 2018

Total Expenses	49,882	20,554	20,909	91,345
Total Ineligible Expenses	-	-	17,983	17,983
Total Eligible Expenses	**$ 49,882**	**$ 20,554**	**$ 2,926**	**$ 73,362**

Other Supplemental Information
Specialized Services Nonfinancial Report

Year Ended September 30, 2018

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicles hours	2,007	-	-	2,007
611	Vehicle miles	14,931	-	-	14,931

Other Supplemental Information
Operating Assistance Calculation

Year Ended September 30, 2018

	Urban	Nonurban
Total Expenses	$ 57,682,603	$ 2,576,352
Less: Ineligible expenses		
Depreciation	7,737,794	230,061
Association dues	8,641	468
Associated with other revenue	229,110	0
Preventative maintenance	765,000	0
Other ineligible	3,756,688	306,771
Associated with rentals	103,687	0
Planning/capital costs of contracting	940,242	0
Admin expense paid by capital contract	250,033	0
Loss on disposal of assets	755,994	40,904
Pension adjustment	(1,231,126)	(32,224)
OPEB adjustment	1,244,572	32,578
Total Ineligible Expenses Per R&E Manual	14,560,635	578,558
Total State Eligible Expenses	43,121,968	1,997,794

	Urban	Nonurban
Eligible Expenses for State Reimbursement	43,121,968	1,997,794
X Reimbursement Percentage	X 32.7790%	X 38.9955%
State Operating Assistance	14,134,950	779,050

Total Federal Eligible Expenses

	Nonurban
Eligible Expenses for Federal Reimbursement	1,997,794
X Reimbursement Percentage	X 18.50%
State Operating Assistance	369,592

Other Supplemental Information
Schedule of Mileage Data

Year Ended September 30, 2018

	Public Transportation Mileage	Purchased Transportation Mileage	Total Transportation Mileage
Linehaul:			
1st quarter	932,127	-	932,127
2nd quarter	938,126	-	938,126
3rd quarter	839,992	-	839,992
4th quarter	848,707	-	848,707
Total Linehaul	3,558,952	-	3,558,952
Demand Response			
1st quarter	220,806	534,384	755,190
2nd quarter	243,106	542,444	785,550
3rd quarter	229,823	577,907	807,730
4th quarter	222,304	580,780	803,084
Total Demand Response	916,039	2,235,515	3,151,554
Nonurban County Regular Service			
1st quarter	-	108,016	108,016
2nd quarter	-	113,118	113,118
3rd quarter	-	121,850	121,850
4th quarter	-	118,916	118,916
Total Nonurban County	-	461,900	461,900
Nonurban County Specialized Services			
1st quarter	-	3,601	3,601
2nd quarter	-	3,780	3,780
3rd quarter	-	3,782	3,782
4th quarter	-	3,768	3,768
Total Nonurban County Spec Services	-	14,931	14,931
Total Operation	**4,474,991**	**2,712,346**	**7,187,337**

Other Supplemental Information
Schedule of Vehicle Hours and Passengers

Year Ended September 30, 2018

	Vehicle Hours	Regular Passengers	Senior Passengers	Handicapped Passengers
Linehaul:				
1st quarter	73,893	2,381,107	-	327,358
2nd quarter	73,686	2,735,049	-	322,750
3rd quarter	65,229	1,639,388	-	343,434
4th quarter	65,731	1,677,135	-	360,004
Total Linehaul	278,539	8,432,679	-	1,353,546
Demand Response				
Regular				
1st quarter	18,926	17,773	3,507	19,274
2nd quarter	19,929	18,739	3,727	21,630
3rd quarter	18,464	14,623	4,151	20,011
4th quarter	18,237	11,916	4,342	18,319
Total Regular Demand Response	75,556	63,051	15,727	79,234
Purchased Transportation				
1st quarter	35,007	3,931	10,367	54,996
2nd quarter	35,120	4,066	9,599	56,847
3rd quarter	37,955	4,026	10,655	56,893
4th quarter	37,021	4,078	10,890	55,702
Total PT Demand Response	145,103	16,101	41,511	224,438
Nonurban County Regular Service				
1st quarter	4,602	7,391	454	5,010
2nd quarter	4,799	7,893	394	4,839
3rd quarter	5,164	7,156	395	4,965
4th quarter	4,942	7,842	531	4,286
Total Nonurban County	19,507	30,282	1,774	19,100
Nonurban County Specialized Services				
1st quarter	497	232	1,668	121
2nd quarter	499	313	1,529	108
3rd quarter	516	233	1,671	303
4th quarter	495	64	1,940	104
Total Nonurban County Spec Services	2,007	842	6,808	636
Total Operation	**520,712**	**8,542,955**	**65,820**	**1,676,954**

Capital Area Transportation Authority

Federal Awards
Supplemental Information

September 30, 2018

Contents

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and State Awards

Independent Auditor's Report

To the Board of Directors
Capital Area Transportation Authority

We have audited the financial statements of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated February 19, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to February 19, 2019.

The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

February 19, 2019

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Capital Area Transportation Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the enterprise fund and fiduciary funds of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2018-001, 2018-002, and 2018-003, that we consider to be material weaknesses.

Compliance and Other Matters

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

The Authority's Responses to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

PRAXITY™ Empowering Business Globally

To Management and the Board of Directors
Capital Area Transportation Authority

Purpose of this Report

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

Plante & Moran, PLLC

February 19, 2019

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

Independent Auditor's Report

To the Board of Directors
Capital Area Transportation Authority

Report on Compliance for Each Major Federal Program

We have audited the Capital Area Transportation Authority's (the "Authority") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2018. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the OMB Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs as Finding 2018-005. Our opinion on the major federal program is not modified with respect to these matters.

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

PRAXITY™ Empowering Business Globally

To the Board of Directors
Capital Area Transportation Authority

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.

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 of 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 significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2018-004 and 2018-005, that we consider to be material weaknesses.

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

Plante & Moran, PLLC

February 19, 2019

Schedule of Expenditures of Federal and State Awards

Year Ended September 30, 2018

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Project Number	State Project Number	Federal Expenditures	State Expenditures	Total Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation - Direct Programs:							
Federal Transit Cluster:							
Federal Transit - Capital Investment Grants	20.500	MI-2016-0002	2012-0055-P027	$ 288,663	$ 72,166	$ 360,829	$ -
Federal Transit - Capital Investment Grants	20.500	MI-04-0085	No State match	86,718	-	86,718	-
Federal Transit - Formula Grants	20.507	MI-2017-014-04	2012-0055-PXXX	34,189	8,547	42,736	-
Federal Transit - Formula Grants	20.507	Not available	Not available	612,000	153,000	765,000	-
Federal Transit - Formula Grants	20.507	MI-2016-034-03 MI-0090-X782	2012-0055-P28C	76,284	19,071	95,355	-
Federal Transit - Formula Grants	20.507	MI-0095-X127	2012-0055-P28A	42,221	4,374	46,595	
Federal Transit - Formula Grants	20.507	MI-0090-X672	2012-0055-P015	414,577	103,644	518,221	-
Federal Transit - Formula Grants	20.507	MI-0095-X105	2012-0055-P012	182,311	21,127	203,438	-
Total Federal Transit Cluster				1,736,963	381,929	2,118,892	-
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	MI-16-X010	2012-0055-P013	65,040	16,260	81,300	-
Formula Grants for Rural Areas -							
Section 5311 Operating Formula Grant	20.509	MI-2017-030-01	N/A	362,244	-	362,244	-
Total federal awards				**$ 2,164,247**	**$ 398,189**	**$ 2,562,436**	**$ -**

See notes to schedule of expenditures of federal and state awards.

Notes to Report on Schedule of Expenditures of Federal and State Awards

Year Ended September 30, 2018

Note 1 - Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies

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

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ Yes __X__ None reported

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.500 and 20.507	Federal Transit Cluster

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

Auditee qualified as low-risk auditee? ____ Yes __X__ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
2018-001	**Finding Type** - Material weakness

Criteria - Appropriate segregation of duties over cash collections should exist.

Condition - Lack of segregation of duties over cash collections

Context - Currently, there is not adequate segregation of duties or oversight related to the daily farebox cash receipting process. The daily farebox receipts are not reconciled to GFI reports, one person initially counts and reports the cash, and multiple employees within the finance department have keys to the vault where physical cash is maintained, as well as access to bus passes.

Cause - The current accounting and control procedures surrounding cash collected within the fareboxes does not include an independent review of the cash collected and counted to what is being reported as revenue through the GFI system, as well as physical access controls to farebox cash on hand and bus passes.

Effect - Lack of accounting and control procedures surrounding cash collected within the fareboxes and lack of physical access controls to the farebox cash on hand and bus passes

Recommendation - We recommend that accounting and control procedures be implemented to perform a review of farebox cash and a reconciliation to the GFI system and physical access controls be implemented surrounding cash on hand.

Views of Responsible Officials and Planned Corrective Actions - The Authority spent a significant portion of the past year attempting to get our GFI farebox system to work properly. This effort included working with Genfare (the makers of the GFI system) to identify and resolve the discrepancies that the Authority was experiencing with the system. By fiscal year 2018 year end, the Authority had abandoned that effort, as it was not proving fruitful. The long-term resolution is to upgrade our antiquated farebox system. The Authority has plans to do that in fiscal year 2021. In the meantime, however, the Authority has revised its cash management process to include dual control over all cash activities. This means that two employees will always be present when cash is counted and deposits are prepared. Based upon this change, the Authority believes that this finding will be fully mitigated by January 31, 2019.

Reference Number	Finding
2018-002	**Finding Type** - Material weakness

Criteria - Appropriate IT (information technology) logical access controls, segregation of duties, or compensating controls should exist within the payroll and human resources systems.

Condition - There is a lack of segregation of duties, IT logical access controls, or compensating controls within the payroll and human resources systems.

Context - Multiple accounting and HR employees have full access, including the ability to make pay rate changes and add new employees, to the payroll and human resources systems, and there is no periodic review or other compensating control in place to identify discrepancies.

Cause - The current control procedures in place do not include IT logical access controls, segregation of duties, or compensating controls within the payroll and human resources systems.

Effect - Without IT logical access controls or compensating controls in place within the payroll and human resources systems, an employee could make changes to his or her pay rate or other payroll or human resources data, potentially resulting in a misappropriation of assets. The lack of these items puts the Authority as risk for potential manipulation of data or fraudulent activities.

Recommendation - We recommend that IT logical access controls or compensating controls be implemented so that changes within the payroll and human resources systems are restricted or reviewed as part of a compensating control. We are happy to review or talk through any suggested changes to the Authority's current process to ensure adequate controls are implemented by the Authority.

Views of Responsible Officials and Planned Corrective Actions - During fiscal year 2018, the Authority revised its processes for controlling access to financial software, including its accounting and payroll applications. Furthermore, the Authority’s financial management team performed a thorough review of employee access to all financial software applications during the third quarter of fiscal year 2018. Changes were made following that review to restrict employee access to only those programs/modules necessary for each employee to perform his/her function(s). However, one of the Authority’s operational software applications controls pay rates for union employees. Due to the method in which the Authority uses this application, it is nearly impossible to restrict access to certain fields that are used to generate the payroll. To ensure that the payroll generated through this application is proper, the Authority instituted a new process in the second quarter of 2019 wherein payroll staff and the finance manager perform certain reviews of the payroll to ensure that there are no anomalies or discrepancies. As a result of these changes to the process, the Authority believes that this finding will be fully mitigated by the end of the second quarter of 2019.

Reference Number	Finding
2018-003	**Finding Type** - Material weakness

Criteria - Management should have a process in place for an independent review of quarterly reconciliations performed for pension and OPEB trust fund investment statements.

Condition - The Authority currently reports the pension and OPEB trust fund balances outside of the general ledger system in an Excel schedule that is maintained by one individual. That same individual reconciles the pension and OPEB trust fund investments each quarter. During fiscal year 2018, no review process was in place over the quarterly reconciliations of pension and OPEB trust fund investments.

Context - Currently, only one person at the Authority receives the investment statements, records the transactions, and reconciles the investment accounts quarterly. There is no segregation of duties over this process.

Cause - Duties surrounding pension and OPEB investments have not been segregated.

Effect - The lack of a quarterly review and segregation of duties of the reconciliations performed could lead to differences in reported balances or misappropriation of assets.

Recommendation - We recommend that procedures and controls be implemented to ensure an independent and timely review of the preparation of the quarterly investment reconciliations and ensure that custody, authorization, and recordkeeping of these assets are properly segregated.

Views of Responsible Officials and Planned Corrective Actions - The Authority revised its process for accounting for pension and OPEB trust plan assets (hereinafter, the "Plan Assets") in the third quarter of fiscal year 2018. In the past, transactions affecting the Plan Assets were accounted for by the director of finance once each year at year end. Furthermore, the process did not require oversight by other authority management. Consequently, the risk existed that fraudulent or erroneous activities would not be detected in a meaningful time frame. The new process requires that the accounting be done each quarter by the director of finance and reviewed by the finance manager prior to the publication of the Authority's financial statements for the quarter. However, these reconciliations that showed the approval were unable to be located during audit time. As a result of these changes to the process, the Authority believes that this finding was fully mitigated at 2018 fiscal year end.

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
2018-004	**CFDA Number, Federal Agency, and Program Name** - Federal Transit Cluster (CFDA 20.500 and 20.507) and Formula Grants for Rural Areas (CFDA 20.509)	None

Federal Award Identification Number and Year - Federal expenditures in total for grants noted above were incorrect when the initial version of the SEFA was provided to the auditors.

Pass-through Entity - N/A

Finding Type - Material weakness

Repeat Finding - Yes, previously reported as Finding 2017-006

Criteria - 2 CFR Section 200.502(a) requires organizations to properly reflect federal expenditures in the schedule of expenditures of federal awards (SEFA)

Condition - The SEFA required adjustments related to a prior year expense recorded on the 2018 SEFA and other minor adjustments. The total adjustment to the SEFA for Federal Transit Cluster (CFDA 20.500 and 20.507) was a reduction of approximately $180,000.

In addition, the SEFA required adjustments related to reporting 2018 expenditures for Formula Grants for Rural Areas (CFDA 20.509) that were initially not reported on the SEFA. The adjustment resulted in an increase of approximately $360,000.

Questioned Costs - None

Identification of How Questioned Costs Were Computed - N/A

Context - The auditors identified errors requiring adjustments to the expenditures reported on the schedule of expenditures of federal awards. The changes to the schedule of expenditures for federal awards did not impact major program determination.

Cause and Effect - Internal control procedures related to the identification of federal expenditures to be reported on the SEFA did not operate effectively. The Authority's schedule of expenditures of federal awards provided to the auditors was inaccurate on a program and total expenditure basis.

Recommendation - Internal control procedures should be implemented to ensure the accuracy of the expenditures reported in the schedule of expenditures of federal awards.

Reference Number	Finding	Questioned Costs
2018-004 (Cont.)	**Views of Responsible Officials and Corrective Action Plan** - This finding identified two separate issues:	

The first issue involved the Authority's failure to receive goods/services pursuant to a purchase order in a timely manner. This resulted in an invoice for approximately $180,000 being recorded in the wrong accounting period. The Authority has controls in place that should have caught this error. The Authority's management believes that this was an isolated instance and that the existing controls are sufficient to prevent or detect such an error in the future.

The second issue involves the exclusion of one of the grants from the SEFA. This error was the result of a lack of knowledge on the part of the Authority's finance department as to whether or not the grant in question was required to be included on the SEFA. Members of the Authority's finance department regularly attend training sessions with the Federal Transit Administration and the MI Department of Transportation. Consequently, our knowledge base regarding grant requirements is continually expanding.

We do not believe that these errors will occur again.

Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2018

Reference Number	Finding	Questioned Costs
2018-005	**CFDA Number, Federal Agency, and Program Name** - Federal Transit Cluster (CFDA 20.500 & CFDA 20.507)	None

Federal Award Identification Number and Year - MI-04-0085 and MI-90-X672

Pass-through Entity - N/A

Finding Type - Material weakness and material noncompliance with laws and regulations

Repeat Finding - Yes, previously reported as Finding 2017-008

Criteria - Recipients must have procedures in place for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR sections 52.209-6).

Condition - Contracts were entered into with vendors without verification that the entity was not debarred, suspended, or otherwise excluded.

Questioned Costs - None

Identification of How Questioned Costs Were Computed - N/A

Context - Of the sample of six contracts procured this year that we selected for testing, two of the procurements did not include adequate documentation regarding review that the vendor was not debarred, suspended, or otherwise excluded.

Cause and Effect - Internal control procedures related to procurement did not operate effectively. During audit testing, adequate evidence was obtained to indicate that this vendor was not debarred, suspended, or otherwise excluded. However, without effective procedures in place, the Authority could have awarded the contract to a vendor that was suspended or debarred.

Recommendation - Internal control procedures should be implemented to ensure that all procurements include verification that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded and maintain documentation of this review in the contract file.

Views of Responsible Officials and Planned Corrective Actions - The Authority has a process in place to check the debarment status of each new vendor and to check debarment status of vendors receiving purchase orders or contracts from the Authority for goods or services that meet or exceed the limit required by federal purchasing regulations and that are being purchased pursuant to a federal grant award. It is the Authority's belief that the debarment status was properly performed on the two instances cited in the finding, but that the paperwork evidencing that action was misfiled and was not available for audit review. We believe that these two instances were anomalies and that adequate controls exist to ensure compliance with federal purchasing requirements.

CAPITAL AREA TRANSPORTATION AUTHORITY
Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-001

Fiscal Year in Which the Finding Initially Occurred: 2014

Federal Program, CFDA Number and Name: Not applicable

Original Finding Description: Management did not have an adequate system of procedures and controls to ensure that balance sheet amounts are adequately supported and to ensure that expenditures and revenues are recorded in the proper period, including accruals for obligations not yet paid or revenues not yet receipted as of the balance sheet date.

Status/Partial Corrective Action (as applicable): Procedures were implemented towards the end of fiscal 2017 and the beginning of fiscal 2018 to ensure that all balance sheet accounts are being reconciled monthly and that support exists for all balances. Consequently, it is management's belief that, as of the date of this report, this internal control deficiency has been fully mitigated.

Planned Corrective Action: Not applicable

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CAPITAL AREA TRANSPORTATION AUTHORITY
Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-002

Fiscal Year in Which the Finding Initially Occurred: 2017

Federal Program, CFDA Number and Name: Not applicable

Original Finding Description: The Authority does not have procedures and controls in place to review, record, and reconcile the investment statements for the pension and retiree OPEB trust funds. As a result, the ending asset balances shown in last year's financial statements in both pension funds did not reconcile to the beginning balance on current year's investment statements in total by $1,551,406. That amount was adjusted in the fiscal year 2017 income statement in order to reconcile ending balances to the investment statement. The adjustment made by the Authority to the beginning balance is unsupported as no one is able to identify why a difference existed in prior year's balances and without the activity in these funds being recorded in the general ledger throughout the year, it makes it even more difficult. In addition, the Authority did not have procedures and controls in place to review the census data report provided to the actuary to prepare the actuarial valuations. We also noted that in the first quarter of the current fiscal year, the investment statement for the OPEB trust shows a redemption of an investment for $3,047 was made out of the Trust and a check was sent to CATA. However, the Authority is unable to locate this check and therefore the balance is currently recorded in the OPEB trust yet the investment statement shows a zero balance. Management of the Authority has contacted the investment advisor and is trying to rectify this discrepancy.

Status/Partial Corrective Action (as applicable): CATA revised its process for accounting for pension and OPEB trust plan assets (hereinafter "Plan Assets") in the third quarter of fiscal year 2018. In the past, transactions affecting the Plan Assets were accounted for by the Director of Finance once each year at year-end. Further, the process did not require oversight by other CATA management. Consequently, the risk existed that fraudulent or erroneous activities would not be detected in a meaningful timeframe. The new process requires that the accounting be done each quarter by the Director of Finance and reviewed by the Finance Manager prior to the publication of the Authority's financial statements for the quarter. As a result of these changes to the process, CATA believes that this finding was fully mitigated at 2018 fiscal year-end.

Planned Corrective Action: Not applicable.

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CAPITAL AREA TRANSPORTATION AUTHORITY
Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-003

Fiscal Year in Which the Finding Initially Occurred: 2017

Federal Program, CFDA Number and Name: Not applicable

Original Finding Description: Lack of segregation of duties over cash collections and timely bank reconciliations of all cash accounts for a three month period during the year.

Status/Partial Corrective Action (as applicable): bank reconciliations were up-to-date as of January 2017 and have continued to be reconciled in a timely manner since that time.

CATA spent a significant portion of the past year attempting to get our GFI farebox system to work properly. This effort included working with Genfare (the makers of the GFI system) to identify and resolve the discrepancies that CATA was experiencing with the system. By fiscal year 2018 year-end, CATA had abandoned that effort as it was not proving fruitful. The long-term resolution is to upgrade our antiquated farebox system. CATA has plans to do that in fiscal year 2021. In the meantime, however, CATA has revised its cash management process to include dual control over all cash activities. This means that two employees will always be present when cash is counted and deposits are prepared. Based upon this change, CATA believes that this finding will be fully mitigated by January 31, 2019.

Planned Corrective Action: Not applicable

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CAPITAL AREA TRANSPORTATION AUTHORITY
Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-004

Fiscal Year in Which the Finding Initially Occurred: 2017

Federal Program, CFDA Number and Name: Not applicable

Original Finding Description: There is lack of segregation of duties, IT logical access controls or compensating controls within the payroll, human resources, and purchasing systems.

Status/Partial Corrective Action (as applicable): During fiscal 2018, CATA revised its processes for controlling access to financial software, including its accounting and payroll applications. Further, CATA's financial management team performed a thorough review of employee access to all financial software applications during the third quarter of fiscal 2018. Changes were made following that review to restrict employee access to only those programs/modules necessary for each employee to perform his/her function(s). However, one of CATA's operational software applications controls pay rates for union employees. Due to the method in which CATA uses this application, it is nearly impossible to restrict access to certain fields that are used to generate the payroll. To ensure that the payroll generated through this application is proper, CATA instituted a new process in the second quarter of 2019 wherein payroll staff and the Finance Manager perform certain reviews of the payroll to ensure that there are no anomalies or discrepancies. As a result of these changes to the process, CATA believes that this finding will be fully mitigated by the end of the second quarter of 2019.

Planned Corrective Action: Not applicable

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CAPITAL AREA TRANSPORTATION AUTHORITY
Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-005

Fiscal Year in Which the Finding Initially Occurred: 2015

Federal Program, CFDA Number and Name:

Original Finding Description: Costs of $30,641 were submitted for reimbursement from the FTA. However, the expenditure had not yet been paid by the Authority as of the date of the reimbursement request. Also, of this amount, $19,748 was never paid by the Authority to a vendor.

Status/Partial Corrective Action (as applicable): The grant draw process was fully re-engineered during the first quarter of fiscal 2018. The re-engineering included the adoption of administrative rules (policies) and procedures to ensure adequate controls over draws. Administrative Rule 0005 ("AROOOS") was adopted by the Authority on November 28, 2017. AROOOS states "All draws of Federal Grant funds shall be performed in accordance with Federal Grant award rules governing such draws. Draws on Federal Grant awards shall be prepared by the Grants Accountant, shall be reviewed and approved by the Grants Administrator, and either the Deputy Executive Director or Executive Director of the Authority prior to the actual draw, and shall be performed by the Director of Finance or his/her designee. However, in no case shall the person performing the draw be the preparer or approver. A detailed schedule shall be prepared by the Grants Accountant reflecting the expenditures and corresponding grants associated with each draw. Documentary evidence, including but not limited to, the detailed grant schedule, copies of vendor invoices that gave rise to the draw, approvals for the draw, and the documentation obtained from the Federal Grant website evidencing the draw, shall be retained in electronic format within the grants folder.... Responsibility for the accuracy of the draws and the retention of the proper documentation rests with the Director of Finance." The Authority has made more than a dozen draws since the adoption of this administrative rule and each was performed in accordance with the rule. Consequently, management believes that this finding has been fully remediated as of the date of this report.

Planned Corrective Action: Not applicable

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CAPITAL AREA TRANSPORTATION AUTHORITY
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Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-006

Fiscal Year in Which the Finding Initially Occurred: 2017

Federal Program, CFDA Number and Name: Federal Transit Clusters CFDA 20.500, 20.507, 20.526; Transit Services Program Cluster CFDA 20.516; and Metropolitan Transportation Planning & State & Non-Metropolitan Planning and Research CFDA 20.505.

Original Finding Description: The SEFA required adjustments related to expenditures and other transactions that occurred at year-end, resulting in revisions to correct the SEFA. The expenditures presented on the SEFA for Federal Transit Cluster (CFDA 20.500, 20.507, 20.526), Transit Services Program Cluster (CFDA 20.516), and Metropolitan Transportation Planning & State & Non- Metropolitan Planning and Research (CFDA 20.505) were adjusted by approximately $610,000. The adjustment was made as a result of expenditures that were identified during year-end reconciliations that should have been included on the SEFA. The final SEFA expenditures did not reconcile to the related general ledger revenues by approximately $300,000, with amounts relating to various federal award identification numbers and years.

Status/Partial Corrective Action (as applicable): Procedures were implemented subsequent to the Authority's 2017 fiscal year-end, to ensure that all state and federal reports are being properly reviewed by management prior to the submission of the report to the governing agency and that documentation supporting the reported values be retained for audit purposes.

However, we noted that a similar finding, 2018-004, was generated during the FY 2018 audit. As reported with that finding, the error was the result of a lack of knowledge on the part of CATA's Finance Department as to whether or not the grant in question was required to be included on the SEFA. Members of CATA's Finance Department regularly attend training sessions with the Federal Transit Administration and the MI Department of Transportation. Consequently, our knowledge base regarding grant requirements is continually expanding. We do not expect these errors to continue in future years.

Planned Corrective Action: Not applicable

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February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-007

Fiscal Year in Which the Finding Initially Occurred: 2017

Federal Program, CFDA Number and Name: Not applicable

Original Finding Description: A contract was entered into with a transit vehicle manufacturer where the certification of FTA compliance was not required as a condition to bid or obtained as part of the procurement process.

Status/Partial Corrective Action (as applicable): Purchasing processes, including Requests for Quotes and Requests for Proposals processes were re-engineered during the first quarter of fiscal 2018. Under the new processes, there are numerous managerial reviews that should mitigate the risk of failure to comply with required conditions. The new processes went into effect on January 1, 2018. Numerous purchases have been performed using the new processes and no issues have been noted by the Authority. Consequently, it is management's belief that this finding has been fully remediated as of the date of this report.

Planned Corrective Action: Not applicable

CAPITAL AREA TRANSPORTATION AUTHORITY
Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Summary Schedule of Prior Audit Findings
Fiscal Year Ended September 30, 2017

Prior Year Finding Number: 2017-008

Fiscal Year in Which the Finding Initially Occurred: 2017

Federal Program, CFDA Number and Name: Not applicable

Original Finding Description: A contract was entered into with a vendor where the verification that the entity was not debarred, suspended, or otherwise excluded did not take place.

Status/Partial Corrective Action (as applicable): Management believes that this was an isolated incident as procedures are in place that govern compliance with FTA purchasing guidelines.

However, we noted that a similar finding, 2018-005, was generated during the FY 2018 audit. As reported with that finding, CATA was unable to produce evidence that the debarment status had been checked on two contracts.

CATA has a process in place to check the debarment status of each new vendor and to check debarment status of vendors receiving purchase orders or contracts from CATA for goods or services that meet or exceed the threshold required by federal purchasing regulations and that are being purchased pursuant to a federal grant award. It is CATA's belief that the debarment status was properly performed on the two instances cited in the finding, but that the paperwork evidencing that action was misfiled and was not available for audit review.

We believe that, for the most part, the procedures for the assessment of debarment are in place and are adequate. However, we have determined that the existing procedures fail to effectively file the electronic copy of the audit evidence. CATA intends to revise its procedures in the first quarter of fiscal 2019 to ensure that the process effectively retains the scanned copies of the debarment checks for audit purposes.

Planned Corrective Action: Not applicable

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CAPITAL AREA TRANSPORTATION AUTHORITY
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February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Corrective Action Plan
Fiscal Year Ended September 30, 2018

Finding Number 2018-001

Condition: Lack of segregation of duties over cash collections. Currently, there is not adequate segregation of duties or oversight related to the daily farebox cash receipting process. The daily farebox receipts are not reconciled to GFI reports, one person initially counts and reports the cash and multiple employees within the finance department have keys to the vault where physical cash is maintained as well as access to bus passes.

Planned Corrective Action: We concur with the auditor's assessment of conditions during fiscal 2018. CATA spent a significant portion of the past year attempting to get our GFI farebox system to work properly. This effort included working with Genfare (the makers of the GFI system) to identify and resolve the discrepancies that CATA was experiencing with the system. By fiscal year 2018 year-end, CATA had abandoned that effort as it was not proving fruitful. The long-term resolution is to upgrade our antiquated farebox system. CATA has plans to do that in fiscal year 2021. In the meantime, however, CATA has revised its cash management process to include dual control over all cash activities. This means that two employees will always be present when cash is counted and deposits are prepared. Based upon this change, CATA believes that this finding will be fully mitigated by January 31, 2019.

Contact Person Responsible for Corrective Action: Patrick S. Lemon, Director of Finance

Anticipated Completion Date: January 31, 2019

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CAPITAL AREA TRANSPORTATION AUTHORITY

Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Corrective Action Plan
Fiscal Year Ended September 30, 2018

Finding Number 2018-002

Condition: There is lack of segregation of duties, IT logical access controls, or compensating controls within the payroll and human resources systems. Multiple accounting and HR employees have full access, including the ability to make pay rate changes and add new employees, to the payroll and human resources systems and there is no periodic review or other compensating control in place to identify discrepancies

Planned Corrective Action: We concur with the auditor's assessment of conditions during fiscal 2018. During fiscal 2018, CATA revised its processes for controlling access to financial software, including its accounting and payroll applications. Further, CATA's financial management team performed a thorough review of employee access to all financial software applications during the third quarter of fiscal 2018. Changes were made following that review to restrict employee access to only those programs/modules necessary for each employee to perform his/her function(s). However, one of CATA's operational software applications controls pay rates for union employees. Due to the method in which CATA uses this application, it is nearly impossible to restrict access to certain fields that are used to generate the payroll. To ensure that the payroll generated through this application is proper, CATA instituted a new process in the second quarter of 2019 wherein payroll staff and the Finance Manager perform certain reviews of the payroll to ensure that there are no anomalies or discrepancies. As a result of these changes to the process, CATA believes that this finding will be fully mitigated by the end of the second quarter of 2019.

Contact Person Responsible for Corrective Action: Patrick S. Lemon, Director of Finance

Anticipated Completion Date: March 31, 2019

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February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Corrective Action Plan
Fiscal Year Ended September 30, 2018

Finding Number 2018-003

Condition: The Authority currently reports the pension and retiree OPEB trust fund balances outside of the general ledger system in an excel schedule and that during a portion of fiscal 2018 there was no review process in place over the quarterly reconciliations of pension and OPEB trust fund investments. The Authority aggregates the quarterly data for the pension and retiree OPEB trust funds from the quarterly investment statements within a spreadsheet and does not record them in the general ledger system and does not perform a review of the spreadsheets. Until the 3rd quarter of fiscal 2018, only one person at the Authority received the investment statements, recorded the transactions and reconciled the investment accounts, with no oversight process.

Planned Corrective Action: We concur with the auditor's assessment of conditions during fiscal 2018. CATA revised its process for accounting for pension and OPEB trust plan assets (hereinafter "Plan Assets") in the third quarter of fiscal year 2018. In the past, transactions affecting the Plan Assets were accounted for by the Director of Finance once each year at year-end. Further, the process did not require oversight by other CATA management. Consequently, the risk existed that fraudulent or erroneous activities would not be detected in a meaningful timeframe. The new process requires that the accounting be done each quarter by the Director of Finance and reviewed by the Finance Manager prior to the publication of the Authority's financial statements for the quarter. As a result of these changes to the process, CATA believes that this finding was fully mitigated at 2018 fiscal year-end.

Contact Person Responsible for Corrective Action: Patrick S. Lemon, Director of Finance

Anticipated Completion Date: N/A – condition was fully mitigated by 2018 fiscal year-end.

CAPITAL AREA TRANSPORTATION AUTHORITY

Nathan Triplett, Board Chair • **Bradley T. Funkhouser**, AICP, Chief Executive Officer

February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Corrective Action Plan
Fiscal Year Ended September 30, 2018

Finding Number 2018-004

Condition: Federal expenditures in total for Federal Transit Cluster (CFDA 20.500 and 20.507) and Formula Grants for Rural Areas (CFDA 20.509) were incorrect when the initial version of the SEFA was provided to the auditors. The SEFA required adjustments related to a prior year expense recorded on the 2018 SEFA and other minor adjustments. The total adjustment to the SEFA for Federal Transit Cluster (CFDA 20.500 and 20.507) was a reduction of approximately $180,000. In addition, the SEFA required adjustments related to reporting 2018 expenditures for Formula Grants for Rural Areas (CFDA 20.509) that were initially not reported on the SEFA. The adjustment resulted in an increase of approximately $360,000.

Planned Corrective Action: We concur with the auditor's assessment of this finding. This finding identified two separate issues:

The first issue involved CATA's failure to receive goods/services pursuant to a purchase order in a timely manner. This resulted in an invoice for approximately $180,000 being recorded in the wrong accounting period. CATA has controls in place that should have caught this error. CATA's management believes that this was an isolated instance and that the existing controls are sufficient to prevent or detect such an error in the future.

The second issue involves the exclusion of one of the grants from the SEFA. This error was the result of a lack of knowledge on the part of CATA's Finance Department as to whether or not the grant in question was required to be included on the SEFA. Members of CATA's Finance Department regularly attend training sessions with the Federal Transit Administration and the MI Department of Transportation. Consequently, our knowledge base regarding grant requirements is continually expanding.

We do not believe that these errors will occur again.

Contact Person Responsible for Corrective Action: Patrick S. Lemon, Director of Finance

Anticipated Completion Date: N/A

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CAPITAL AREA TRANSPORTATION AUTHORITY

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February 19, 2019

Federal Audit Clearinghouse
RE: CAPITAL AREA TRANSPORTATION AUTHORITY
Corrective Action Plan
Fiscal Year Ended September 30, 2018

Finding Number 2018-005

Condition: Recipients must have procedures in place for verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR sections 52.209-6). Contracts were entered into with vendors without verification that the entity was not debarred, suspended, or otherwise excluded.

Planned Corrective Action: We concur with the auditor's assessment of this finding. CATA has a process in place to check the debarment status of each new vendor and to check debarment status of vendors receiving purchase orders or contracts from CATA for goods or services that meet or exceed the limit required by federal purchasing regulations and that are being purchased pursuant to a federal grant award. It is CATA's belief that the debarment status was properly performed on the two instances cited in the finding, but that the paperwork evidencing that action was misfiled and was not available for audit review. We believe that these two instances were anomalies and that adequate controls exist to ensure compliance with federal purchasing requirements.

Contact Person Responsible for Corrective Action: Patrick S. Lemon, Director of Finance

Anticipated Completion Date: N/A

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February 19, 2019

To the Board of Directors
Capital Area Transportation Authority

We have audited the financial statements of the Capital Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2018 and have issued our report thereon dated February 19, 2019. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communication with Those Charged with Governance

Section II - Legislative and Informational Items

Section III - Other Recommendations

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the members of the board of directors of the Authority.

Section II contains updated legislative and informational items that we believe will be of interest to you.

Section III presents recommendations related to internal control, procedures, and other matters noted during the current year audit. These comments are offered in the interest of helping the Authority in its efforts toward continuous improvement, not just in areas of internal control and accounting procedures, but also in operational and administrative efficiency and effectiveness.

We would like to take this opportunity to thank the Authority's staff, especially Patrick and Marilyn, for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism were critical to the completion of the engagement and were much appreciated.

This information is intended solely for the use of the members of the board of directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Pamela J. Hill

Pamela Hill, CPA
Partner

Keith Szymanski

Keith Szymanski, CPA
Senior Manager

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Section I - Required Communication with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 13, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Capital Area Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Capital Area Transportation Authority's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Authority, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated February 19, 2019 regarding our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 18, 2018.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus.

For the year ended September 30, 2018, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to the employees of governmental employers. For more information, this implementation is further described in Notes 1 and 7 to the financial statements.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The net other postemployment benefits (OPEB) liability is based on an actuarial valuation that includes significant assumptions related to healthcare costs, life expectancies, and future rates of return on investments. The net pension liability and asset recorded are based on actuarial valuations that include significant assumptions related to life expectancies, future salary increases, and future rates of return on investments. The estimated reserve for Act 51 operating assistance revenue is based on the estimated reduction of the collective qualifying expenditures by the Authority and other member agencies, which could result in less total eligible expenditures to be reimbursed by Act 51 monies from the State of Michigan. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 19, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Legislative and Informational Items

New Legislation

Public Act 530 of 2016 - Additional Legacy Cost Reporting

On December 31, 2016, the governor signed Public Act 530 of 2016, which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act is effective on March 29, 2017.

Under the existing act, governmental entities were required to publish a summary annual report setting forth key information related to pension and retiree healthcare plans. The amendment requires that this summary annual report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree health care) that is not funded at a level of at least 60 percent, the community must now post a report to its website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable time frame.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the state.

Pension and OPEB Reporting under Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the "Act"), which was a primary component of the Act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

The releases by the Department of Treasury included Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at: http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html.

For local units with fiscal years ending after June 30, 2017, Form 5572 is due no later the six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information on its website, or in a public place if the local unit does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

Public Act 202 defines that a local unit of government is in "underfunded status" if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government's governmental funds operations revenue.

2. Retirement Pension Plans - Total plan assets are less than 60 percent of plan total liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a “waiver” under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury. The template for the waiver has not yet been provided by the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

As of the most recent valuations, the Authority’s union and administrative pension plans are 108 and 88 percent funded, respectively, while the OPEB plan is 16 percent funded.

Questions should be directed via email to the Treasury offices at: LocalRetirementReporting @michigan.gov or by visiting their website at: www.Michigan.gov/LocalRetirementReporting.

FTA Reporting Requirement

The Federal Transit Administration (FTA) has communicated to transit agencies the requirement to have a “financial data review” performed every 10 years beginning in 2018. This work is to be performed by an independent auditor and was previously only required for new agencies or agencies with new accounting systems. This requirement has generated a lot of questions and uncertainty among transit agencies and their auditors. Additionally, the illustrative auditor report in the NTD Policy Manual did not meet the American Institute of Certified Public Accountants’ (AICPA) professional standards. In mid-October, updated procedures and a new illustrative report were released by the AICPA Governmental Audit Quality Center that the FTA has agreed to accept as an alternative to the “financial data review.” We will perform these procedures for the Authority concurrently with the annual NTD procedures.

GASB Statement No. 87 - Leases

This new accounting pronouncement related to leases will be effective beginning with the Authority’s fiscal year 2021. 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.

We recommend the Authority begin accumulating information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

Cybersecurity

It is every organization's nightmare - discovering your network and member data have been compromised. Whether sensitive taxpayer/employee records are disclosed, credit and debit card information is stolen, IT systems are out of service, or any other cybersecurity incident occurs, the threat is all too real. In the current online environment, cybersecurity should be of critical concern for all governmental entities. The increasing use of mobile devices and mobile platforms (tablets, iPads, etc.) amplifies and creates new vulnerabilities. Hackers are becoming more sophisticated and better at targeting their attacks. In a large percentage of cases, it takes victims weeks to discover an intrusion and, often, the tip-off comes from an external, rather than internal, source.

However you crunch the numbers, the cost of a breach is painfully high. According to the 2015 Cost of Data Breach Study by the Ponemon Institute, the average cost of a data breach increased 23 percent since 2013 to $3.8 million. Compounding this is the significant damage done to an organization's reputation and brand when a breach occurs. This damage often creates mistrust in the minds of donors, members, employees, and partners. If there is a silver lining, it is that nearly all breaches are due to factors within an organization's control - weak infrastructure, poor end-user judgment, third-party vendor vulnerabilities, and technology advances, such as mobile and cloud use. Therefore, with proper strategies, organizations that successfully control these factors can minimize the potential for breaches.

The first step in protecting the Authority is to assume it is only a matter of time until the Authority is attacked. The second step is to ensure you have good controls in place to quickly detect a breach and ideally prevent falling prey to it. During this process, we recommend you consider performing the following activities:

- Conduct an IT risk assessment to determine where the weak spots are.
- Secure and test your network devices to ensure controls are operating as designed.
- Test and strengthen user awareness to prevent inadvertent sharing of sensitive information.
- Conduct due diligence with vendor-supported services to ensure key vendors have adequate controls to protect the Authority.

We are happy to discuss this further with management if the board and management deem it appropriate to follow up further on the Authority's current processes and procedures over these risks.

Section III - Other Recommendations

We would like to commend the Authority for its actions taken since the last audit. While there is still more work to be done, we noted significant improvements made over the last year. The Authority's team has worked really hard and spent a substantial amount of time on implementing best practices and improvements to the systems of the Authority. The books and records were in better shape, several corrective actions had already been implemented, we were able to complete the audit in a more timely manner, and we understand the Authority has put a lot of work into documenting policies and procedures, which had not been done in the past.

During our audit, we noted one additional area where we believe there are opportunities for the Authority to further strengthen internal controls. Our observation is noted below:

Investment Compliance - The pension and OPEB trusts are permitted to invest in various investment types that are less restrictive than those in which the Authority's operating funds are invested; however, the investments must still be in compliance with state law (Public Act 347 of 2012). While we did not note any unallowable investments, there was no system in place to ensure compliance. We recommend the Authority implement a control in which someone at the Authority or an investment advisor takes responsibility for ensuring compliance with PA 347 of 2012.