

**Central County Transportation Authority
Kalamazoo, Michigan**

FINANCIAL STATEMENTS

September 30, 2018

Central County Transportation Authority

TABLE OF CONTENTS

September 30, 2018

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-iii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iv-vii
BASIC FINANCIAL STATEMENTS	
Business-type Activities	
Statement of Net Position	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3
Fiduciary Fund	
Statement of Plan Net Position	4
Statement of Changes in Plan Net Position	5
Notes to Financial Statements	6-28
REQUIRED SUPPLEMENTARY INFORMATION	
Defined Benefit Pension Plan	
Schedule of Changes in Employer's Net Pension Liability and Related Ratios	29
Schedule of Employer Contributions	30
Schedule of Investment Returns	31
Other Post-Employment Benefits Plan	
Schedule of Proportionate Share of Net OPEB Liability	32
Schedule of Employer Contributions	33
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Local Revenues	34
Schedule of Expenditures of Federal and State Awards	35
Schedule of Federal and State Awards - Operating Revenue Only	36
Schedule of Operating and Contract Expenses	37
Urban Regular Service Revenue Report (OAR Schedule 4R)	38
Urban Regular Service Expense Report (OAR Schedule 4E)	39
Urban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	40
Nonurban Regular Service Revenue Report (OAR Schedule 4R)	41
Nonurban Regular Service Expense Report (OAR Schedule 4E)	42
Nonurban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	43
Specialized Service Revenue Report	44
Specialized Service Expense Report	45
Operating Assistance Calculation	46
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	47-48
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	49-50
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	51
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	52

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Central County Transportation Authority
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Central County Transportation Authority (the Authority), a component unit of Kalamazoo County, 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, 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 financial position of the business-type activities and the aggregate remaining fund information of the Central County Transportation Authority, as of September 30, 2018, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter - Change in Accounting Principles

As discussed in Note O to the financial statements, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, during the year. Our opinions are not modified with respect to this matter.

Also, as discussed in Note O to the financial statements, the Authority implemented GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, during the year. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical pension system and other post-employment benefit system schedules, 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, who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The other supplementary information and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The urban and nonurban regular service nonfinancial reports, as identified in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019, on our consideration of the Central County 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 Authority's internal control over financial reporting and compliance.

Manes Costeiran PC

March 25, 2019

Central County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

As management of the Central County Transportation Authority (the "Authority"), we offer readers of the Central County Transportation Authority's basic financial statements this narrative for the year ended September 30, 2018 and for the year ended September 30, 2017. The intent of the management's discussion and analysis is to provide highlights of the Authority's financial activities. Readers are encouraged to read this section in conjunction with the basic financial statements.

USING THIS AUDIT REPORT

This annual audit report consists of this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the Authority, which include notes that explain in more detail some of the information in the financial statements. This report also contains other supplementary information in addition to the basic financial statements, as required by the State of Michigan.

Basic Financial Statements and Presentation

The basic financial statements presented by the Authority are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The Authority is structured as an enterprise fund, and the statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except for land and construction in progress, over their estimated useful lives.

The Statement of Net Position presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net positions increase when revenues exceed expenses. Improved financial position is indicated by increases in assets and deferred outflows of resources without corresponding increases to liabilities and deferred inflows of resources.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the year. This statement summarizes operating revenue and expenses, along with nonoperating revenue and expenses. In addition, this statement lists capital grant revenue received from federal, state, and local governments.

The Statement of Cash Flows allows financial statement users to assess the Authority's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

Refer to the footnotes of the basic financial statements for additional information on the measurement focus and basis of accounting.

FINANCIAL ANALYSIS - COMPARATIVE

The Central County Transportation Authority's total net position increased 1.3% from the previous fiscal year, increasing from \$27,923,707 to \$28,283,532. In a condensed format, the table below shows a comparison of the net position as of September 30, 2018, to the prior year September 30, 2017.

Central County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2018

CONDENSED SUMMARY OF NET POSITION

	September 30, 2018	September 30, 2017
Current and Other Assets	\$ 20,285,581	\$ 11,055,600
Capital Assets, net	22,438,240	22,105,891
Total Assets	42,723,821	33,161,491
Deferred Outflows of Resources	4,110,775	8,691,126
Current Liabilities	1,879,830	7,272,926
Noncurrent Liabilities	13,847,767	5,879,277
Total Liabilities	15,727,597	13,152,203
Deferred Inflows of Resources	2,823,467	776,707
Net Position		
Investment in capital assets	22,438,240	22,105,891
Unrestricted	5,845,292	5,817,816
Total Net Position	\$ 28,283,532	\$ 27,923,707

Significant variations between the 2017 financial information and the 2018 financial information include the following:

Current and Other Assets

Current and other assets increased 83% due primarily to a timing difference in the recognition of the net pension asset/liability being transferred from the City of Kalamazoo Employees' Retirement System (the ERS) to the Central County Transportation Authority Pension Plan (the Plan). The remainder of the ERS was transferred to the Plan during the year, resulting in a net pension asset instead of a net pension liability.

Capital Assets, Net of Depreciation

As of September 30, 2018, the Authority had capital assets with a historical cost of \$44,969,893. This is an increase of \$1,404,358 from the prior year, as the historical cost of acquisitions of capital assets exceeded that of disposals.

Deferred Outflows of Resources

The Authority's deferred outflows or resources decreased approximately \$4.6 million primarily due to contributions to the pension plan that were made subsequent to the previous measurement date and recognized during the year ending September 30, 2018, as well as recognition of deferred outflows of resources related to OPEB in the current year.

The Central County Transportation Authority Activities

In a condensed format, the following table shows a comparison of the revenues and expenses for September 30, 2018 and September 30, 2017. The Central County Transportation Authority's net position increased \$359,825 during the year ended September 30, 2018, meaning revenues exceeded expenses for the period. Operating revenues held steady; operating expenses decreased approximately \$2,901,815; and nonoperating revenues/(expenses) were consistent with those of the prior year.

Central County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

CONDENSED SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	September 30, 2018	September 30, 2017
Operating Revenue (Expenses)		
Operating revenues	\$ 2,758,166	\$ 2,756,647
Operating expenses	(19,164,994)	(22,066,809)
Operating Loss	(16,406,828)	(19,310,162)
Nonoperating Revenues (Expenses)		
Tax levy	3,731,608	3,858,559
Federal grants and reimbursements	1,273,368	1,478,149
State grants and reimbursements	5,562,981	5,250,406
Local grants and reimbursements	3,377,694	3,924,384
Investment income	26,011	9,352
Interest expense on long-term debt	(173,473)	(174,842)
Gain/(loss) on sale of capital assets	19,141	20,913
Total Nonoperating Revenues	13,817,330	14,366,921
Capital Grant Revenue	2,949,323	503,509
Change in Net Position	359,825	(4,439,732)
Special Item	-	1,376,666
Net position - Beginning of Year	27,923,707	38,788,082
Net position - End of Year	\$ 28,283,532	\$ 35,725,016

Economic Factors

The Central County Transportation Authority (CCTA) receives funding from passenger fares, property taxes, contract services, and state and federal assistance.

As of October 1, 2016, the CCTA became the operator of the public transit system when transferred from the City of Kalamazoo. The CCTA is the direct recipient of State and Federal transit grants.

In August 2015, the urban communities in Kalamazoo County approved a new region-wide transit millage of 0.75 mills and established the funding for the CCTA. The CCTA will work in coordination with the Kalamazoo County Transportation Authority (KCTA) to oversee and fund the system. The KCTA has a voter-approved countywide millage of 0.315 mills. Under the terms of an Operating Agreement between the CCTA and KCTA, KCTA millage revenue is transferred to the CCTA to operate the system.

The CCTA receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The sources of these funds include a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. For the period ending September 30, 2018, the Authority anticipates State operating assistance to fund 32.9303% of eligible urban expenses and 39.1981% of eligible nonurban expenses.

Central County Transportation Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

Public transit services for expanded in 2016 to include Sunday service, later night service on weekdays and additional route frequency for the bus services.

Contacting the Central County Transportation Authority

This audit report is designed to provide our member jurisdictions, customers, investors, and creditors with a general overview of the Authority's finances. If you have questions concerning any of the information provided in this report, or if you need additional financial information, contact the Financial Director or the Executive Director at the following address:

Central County Transportation Authority
530 N. Rose Street
Kalamazoo, MI 49007
Phone: (269) 337-8087

BASIC FINANCIAL STATEMENTS

Central County Transportation Authority

STATEMENT OF NET POSITION

September 30, 2018

ASSETS	
Current assets	
Cash and cash equivalents	\$ 7,698,090
Accounts receivable	179,067
Taxes receivable	396,761
Due from other governmental units	2,087,565
Inventories	495,603
Prepays	15,000
	<hr/>
Total current assets	10,872,086
Noncurrent assets	
Net pension asset	9,413,495
Capital assets not being depreciated	2,245,541
Capital assets, net of accumulated depreciation	20,192,699
	<hr/>
Total noncurrent assets	31,851,735
	<hr/>
TOTAL ASSETS	42,723,821
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	150,710
Deferred outflows of resources related to OPEB	3,960,065
	<hr/>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,110,775
LIABILITIES	
Current liabilities	
Accounts payable	837,922
Accrued interest payable	57,744
Accrued wages payable	458,214
Other accrued expenses	9,350
Unearned revenue	225,252
Current portion of OPEB bonds payable	93,069
Current portion of compensated absences	198,279
	<hr/>
Total current liabilities	1,879,830
Noncurrent liabilities	
Net other post-employment benefits liability	9,758,324
Noncurrent portion of OPEB bonds payable	4,046,193
Noncurrent portion of compensated absences	43,250
	<hr/>
Total noncurrent liabilities	13,847,767
	<hr/>
TOTAL LIABILITIES	15,727,597
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	2,365,268
Deferred inflows of resources related to OPEB	458,199
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TOTAL DEFERRED INFLOWS OF RESOURCES	2,823,467
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NET POSITION	
Investment in capital assets	22,438,240
Unrestricted	5,845,292
	<hr/>
TOTAL NET POSITION	\$ 28,283,532
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See accompanying notes to financial statements.

Central County Transportation Authority

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended September 30, 2018

OPERATING REVENUES	
Passenger fares	\$ 2,468,801
Other operating revenue	289,365
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TOTAL OPERATING REVENUES	2,758,166
OPERATING EXPENSES	
Operations	11,589,604
Maintenance	2,795,080
General administration	4,780,310
	<hr/>
TOTAL OPERATING EXPENSES	19,164,994
OPERATING (LOSS)	(16,406,828)
NONOPERATING REVENUES (EXPENSES)	
Taxes	3,731,608
Intergovernmental	
Federal sources	1,273,368
State sources	5,562,981
Local sources	3,377,694
Interest income	26,011
Interest expense	(173,473)
Gain on sale of capital assets	19,141
	<hr/>
TOTAL NONOPERATING REVENUES (EXPENSES)	13,817,330
NET (LOSS) BEFORE CAPITAL GRANT REVENUE	(2,589,498)
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	2,359,458
State sources	589,865
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TOTAL CAPITAL GRANT REVENUE	2,949,323
CHANGE IN NET POSITION	359,825
Restated net position, beginning of year	27,923,707
	<hr/>
Net position, end of year	<u>\$ 28,283,532</u>

See accompanying notes to financial statements.

Central County Transportation Authority

STATEMENT OF CASH FLOWS

Year Ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,389,624
Other operating cash receipts	289,365
Cash paid to suppliers	(8,707,649)
Cash paid for employee benefits	(3,323,146)
Cash paid to employees	<u>(4,669,786)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	(14,021,592)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment on borrowings	(91,611)
Interest paid on long-term debt	(173,954)
Taxes received	3,558,466
Intergovernmental sources received	<u>10,544,400</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	13,837,301
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(2,740,933)
Proceeds on sale of capital assets	19,141
Capital grants received	<u>3,077,037</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	355,245
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>26,011</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,965
Cash and cash equivalents, beginning of year	<u>7,501,125</u>
Cash and cash equivalents, end of year	<u>\$ 7,698,090</u>
Reconciliation of operating (loss) to net cash (used) by operating activities	
Operating (loss)	\$ (16,406,828)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	2,408,584
(Increase) decrease in:	
Accounts receivable	(79,177)
Inventories	22,476
Prepays	228
Deferred outflows of resources related to pensions	8,374,778
Deferred outflows of resources related to OPEB	(3,794,427)
Net pension asset	(11,115,320)
Increase (decrease) in:	
Accounts payable	(86,414)
Accrued wages payable	33,283
Other accrued expenses	6,071
Net other post-employment benefits liability	4,583,289
Deferred inflows of resources related to pensions	1,588,561
Deferred inflows of resources related to OPEB	458,199
Compensated absences	<u>(14,895)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (14,021,592)</u>

See accompanying notes to financial statements.

Central County Transportation Authority

Fiduciary Fund

STATEMENT OF PLAN NET POSITION

September 30, 2018

	<u>Pension Trust Fund</u>
ASSETS	
Cash	\$ 15,138
Investments	
U.S. Treasuries	3,875,867
Corporate bonds	3,258,977
Collateralized mortgage obligations	765,813
Equity mutual funds	23,444,739
Real estate mutual funds	1,655,923
Other pooled investments	<u>4,485</u>
Total investments	<u>33,005,804</u>
Total assets	33,020,942
LIABILITIES	<u>-</u>
NET POSITION	
Restricted for pension	<u><u>\$ 33,020,942</u></u>

See accompanying notes to financial statements.

Central County Transportation Authority

Fiduciary Fund

STATEMENT OF CHANGES IN PLAN NET POSITION

Year Ended September 30, 2018

	<u>Pension Trust Fund</u>
ADDITIONS TO NET POSITION	
Investment income	
Change in fair value of investments	\$ 1,506,054
Interest and dividends	<u>972,765</u>
Net investment income	2,478,819
Contributions	
Plan members	<u>66,996</u>
Total additions to net position	2,545,815
DEDUCTIONS FROM NET POSITION	
Benefits paid	1,300,686
Administrative expenses	101,321
Other expenses	<u>71,116</u>
Total deductions from net position	<u>1,473,123</u>
CHANGE IN PLAN NET POSITION	1,072,692
Net position - beginning of year	<u>31,948,250</u>
Net position - end of year	<u><u>\$ 33,020,942</u></u>

See accompanying notes to financial statements.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Central County Transportation Authority (the Authority), was established under the applicable laws of the State of Michigan Public Act 196 of 1986, as amended, is governed by an eleven-member board of directors appointed by the County of Kalamazoo, Michigan (the County) Board. The Authority is not required to receive the approval of the County Board before issuing debt and may levy a tax on all of the taxable property within the jurisdictional limits/boundaries of the Authority, for transportation purposes, with the approval of the registered electors residing in the jurisdictional limits/boundaries.

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

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Authority. As required by accounting principles generally accepted in the United States of America, these financial statements present all financial activities of the Authority. The Authority has no activities that would be classified as component units.

2. Basis of Presentation

The accounts of the Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The Authority's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

In addition, the Authority reports a fiduciary fund to account for the activities of the Central County Transportation Authority Pension Plan, a defined benefit pension plan, which accumulates resources for the retirement of eligible employees.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues 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 revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Cash, Cash Equivalents, and Investments

The Authority's cash and cash equivalents consists of governmental checking and money market accounts. Investments are reported at fair value. Investments consist of pension fund securities.

6. Receivables/Due From Other Governmental Units

Accounts receivable and due from other governmental units consist of amounts due for charges for services and various financial assistance programs, respectively.

7. Inventories

Inventories consist of repair parts, supplies, and fuel and are valued at cost, on a first-in, first-out basis, which approximates fair value.

8. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

9. Capital Assets, Depreciation, and Long-Term Liabilities

Capital assets are those with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Property and equipment are recorded at cost or, if donated, at their estimated acquisition cost on the date donated. Depreciation on such capital assets is recorded on a straight-line basis over the estimated useful lives of the assets as defined in the R&E (Revenue and Expense) Manual and/or as approved by OPT (Office of Passenger Transportation). Costs of maintenance and repairs are charged to expense when incurred. Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	5 - 50 years
Building and building improvements	50 years
Vehicles	4 - 10 years
Office equipment	6 - 10 years
Machinery and equipment	3 - 10 years
Intangibles	3 - 10 years

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the Revenue and Expense (R&E) Manual published by the Michigan Department of Transportation (MDOT) and/or as approved by the Office of Passenger Transportation (OPT).

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets, Depreciation, and Long-Term Liabilities - continued

The eligible depreciation for the year ended September 30, 2018, of \$22,045 (\$2,408,584 total depreciation reported in Operating Assistance Report (OAR) code 51300 for both Urban and Nonurban less ineligible depreciation of \$2,386,539 reported in OAR code 55007 Ineligible Depreciation) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by OPT.

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

10. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that it is estimated will be taken as "termination leave" prior to retirement.

11. Unearned Revenue

Certain receipts from the State of Michigan reflect revenue applicable to future accounting periods and are recorded as unearned revenue.

12. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Authority has several items that qualify for reporting in these categories. These items correspond to the Authority's net pension asset and net OPEB liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

13. Cost Allocations

The Authority has three (3) cost allocation plans where the methodology has been approved by the OPT. Those cost allocations are for charter service, urban and nonurban service, and Kalamazoo Transportation Center lease. These cost allocation plans were adhered to in the preparation of the financial statements.

The Authority allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., service miles).

14. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Explanation of Ineligible Expenses per the OPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Any capital money used to pay for operating expenses is subtracted out as ineligible expense and no expenses previously paid with capital money are included in expenses to be reimbursed. All costs associated with earning nontransportation revenue have been subtracted out as ineligible expenses. Eligible pension and other post-employment benefits include only amounts actually expensed on the books and paid with out-of-pocket money (e.g., not actuarial gains). All ineligible expenses, as required by OPT's R&E manual, have been reported.

NOTE B: DEPOSITS AND INVESTMENTS

The Authority is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

CENTRAL COUNTY TRANSPORTATION AUTHORITY (EXCEPT PENSION PLAN)

Deposits

As of September 30, 2018, the carrying amounts and bank balances for the depository accounts are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking and money market accounts	<u>\$ 7,697,390</u>	<u>\$ 7,691,525</u>

The Statement of Net Position caption "cash and cash equivalents" includes \$700 of imprest cash. Deposits of the Authority are at a federally insured bank located in the State of Michigan with all accounts maintained in the name of the Authority. As of September 30, 2018, the Authority accounts were federally insured for \$500,000 and the amount of \$7,191,525 was uninsured and uncollateralized.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

CENTRAL COUNTY TRANSPORTATION AUTHORITY (EXCEPT PENSION PLAN) - CONTINUED

Custodial Credit Risk

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's banking and investment policy does not specifically address this risk, although management believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all bank deposits. As a result, the Authority's management 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 level risk level are used as depositories.

Interest Rate Risk

The Authority's investment policy does not address interest rate risk which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates.

Concentration of Credit Risk

The Authority's investment policy does not indicate how the Authority will minimize the concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer.

PENSION PLAN

The deposits and investments of the Central County Transportation Authority Pension Plan (the Pension Plan) have been pooled with those of the City of Kalamazoo Employees' Retirement System (the System). The purchases, maturities, and investment performance are allocated between the Pension Plan and the System based on the fair value of their respective investments.

Deposits

Checking or other demand/time deposit accounts are not maintained. Amounts reported as cash and cash equivalents in the statement of plan net position include cash and short-term investments in money market accounts held by the investment managers. These accounts are insured by the Securities Investors Protection Corporation for up to \$500,000 each. The carrying amount of these accounts as of September 30, 2018, was \$15,138, which was fully insured.

Investments

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the Pension Plan to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The System's Investment Committee is responsible for recommending the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System. The Authority Board is responsible for approving the recommendations of the Investment Committee. All investment decisions are subject to Michigan law and the investment policy established by the Authority Board.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

PENSION PLAN - CONTINUED

The adopted asset allocation policy as of September 30, 2018, is as follows:

<u>Asset Class</u>	<u>Target</u>	<u>Long Term Expected Rate of Return</u>
Micro Capitalization Domestic Equity	5.00%	6.00%
Small Capitalization Domestic Equity	10.00%	6.00%
Small Capitalization Value International Equity	10.00%	5.00%
S&P Index Funds	30.00%	5.00%
Large Capital Domestic Equity	5.00%	5.00%
Emerging Markets Equity	10.00%	6.75%
Intermediate Fixed Income	12.50%	0.75%
Long Fixed Income	12.50%	0.75%
Real Estate Securities	2.50%	3.75%
Real Estate	2.50%	3.75%

The Pension Plan's investments are held in nine (9) portfolios administered by five (5) investment managers. Following is a summary of the portfolio's investments as of September 30, 2018:

U.S. Treasuries	\$ 3,875,867
Corporate bonds	3,258,977
Collateralized mortgage obligations	765,813
Equity mutual funds	23,444,739
Real estate mutual funds	1,655,923
Other pooled investments	<u>4,485</u>
Total investments	<u>\$ 33,005,804</u>

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

PENSION PLAN - CONTINUED

Fair Value Measurements - continued

As of September 30, 2018, the carrying amount and fair value for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Federal Home Loan	\$ 6,059	\$ -	\$ -	\$ 6,059
Fannie Mae	759,754	-	-	759,754
U.S. Treasury Notes	3,875,867	-	-	3,875,867
Corporate bonds	-	3,258,977	-	3,258,977
Equity mutual funds	23,444,739	-	-	23,444,739
Real estate mutual funds	1,655,923	-	-	1,655,923
Other pooled investments	4,485	-	-	4,485
	<u>\$ 29,746,827</u>	<u>\$ 3,258,977</u>	<u>\$ -0-</u>	<u>\$ 33,005,804</u>

Custodial Credit Risk

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Pension Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Plan's investment policy does not address custodial credit risk. Although uninsured and unregistered, the portfolio's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Pension Plan's name. Short-term investments in money market funds and investments in mutual funds are not subject to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Credit Risk

The Pension Plan's investment policy provides that its investments in bonds must be rated in the top four (4) major investment grades as determined by two nationally recognized statistical rating organizations. As of September 30, 2018, the portfolio's investments in fixed income securities were rated by Standard & Poor's and Moody's as follows:

<u>Standard & Poor's</u>	<u>U.S. Agencies</u>	<u>Corporate Bonds</u>	<u>CMO</u>	<u>Other Pooled Investments</u>
AAA	\$ -	\$ 213,132	\$ -	\$ -
AA	-	331,870	765,813	-
A	-	1,131,519	-	-
BBB	-	1,089,231	-	-
Not rated	3,875,867	493,225	-	4,485
	<u>\$ 3,875,867</u>	<u>\$ 3,258,977</u>	<u>\$ 765,813</u>	<u>\$ 4,485</u>

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

PENSION PLAN - CONTINUED

Credit Risk - continued

<u>Moody's</u>	<u>U.S. Agencies</u>	<u>Corporate Bonds</u>	<u>CMO</u>	<u>Other Pooled Investments</u>
Aaa	\$ 3,875,867	\$ 81,560	\$ 765,813	\$ -
Aa	-	360,835	-	-
A	-	1,162,290	-	-
Baa	-	1,011,991	-	-
Not Rated	-	642,301	-	4,485
	<u>\$ 3,875,867</u>	<u>\$ 3,258,977</u>	<u>\$ 765,813</u>	<u>\$ 4,485</u>

Concentration of Credit Risk

The Pension Plan's investment policy requires that the securities of any one company or government agency should not exceed 5% of the total fund. At September 30, 2018, the portfolio's investments were within that range.

The Pension Plan's investment policy and State statutes provide that no more than 70% of the total investments may be in equity holdings and no more than 5% in real estate. As of September 30, 2018, equity holdings accounted for 70% of the total investment portfolio; the holdings in real estate were 5% at September 30, 2018.

Interest Rate Risk

For investments, the risk that changes in interest rates will adversely affect the fair value of the investment is known as interest rate risk. The Pension Plan's investment policy does not address interest rate risk. As of September 30, 2018, maturities of the portfolio's debt securities were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasuries	\$ 3,875,867	\$ 197,465	\$ 1,302,804	\$ 755,067	\$ 1,620,531
Corporate bonds	3,258,977	246,093	1,342,753	499,138	1,170,993
Collateralized mortgage obligations	765,813	-	-	-	765,813
	<u>\$ 7,900,657</u>	<u>\$ 443,558</u>	<u>\$ 2,645,557</u>	<u>\$ 1,254,205</u>	<u>\$ 3,557,337</u>

Derivatives

The Pension Plan's investment policy permits the prudent use of derivatives to reduce portfolio risk and enhance investment return. Under the terms of the investment agreements, portfolio managers are required to report all derivative holdings on a quarterly basis. The Investment Committee monitors these reports to evaluate the Pension Plan's exposure to credit, market, and legal risk.

The portfolios managed by Jennison Associates have utilized U.S. currency futures contracts, a type of derivative, to reduce overall portfolio volatility caused by interest rate risk. At September 30, 2018, the portfolio had no U.S. currency futures contracts.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

PENSION PLAN - CONTINUED

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Pension Plan's exposure to foreign currency risk derives from its positions in foreign currency-denominated fixed income investments. The Pension Plan's investment policy permits it to invest up to 10 percent of total investments in foreign currency-denominated investments.

The Pension Plan's exposure to foreign currency risk in U.S. dollars as of September 30, 2018, is summarized below:

<u>Currency</u>	<u>Fixed Income</u>
Canadian Dollar	\$ 61,211
Euro	151,447
Mexican Peso	5,804
Norwegian Krone	7,042
Pound Sterling	203,946
Swiss Franc	<u>13,725</u>
	<u>\$ 429,450</u>

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2018, by grant type and grant award year are as follows:

Federal Section 5307 Capital - FY 2018	\$ 147,527
Federal Section 5307 Capital - FY 2017	43,762
Federal Section 5307 Capital - FY 2016	4,177
Federal Section 5310 Operating - FY 2017	4,141
Federal Section 5311 Capital - FY 2018	8,540
Federal Section 5311 Capital - FY 2016	1,996
Federal Section 5307 Operating - FY 2018	1,200,000
State Operating Assistance - FY 2018	39,286
State Operating Assistance - FY 2017	204,806
State Operating Assistance - FY 2017	13,454
Ridesharing Fellowship	23,854
Specialized Services	7,500
Local Community Stabilization Share	106,688
Kalamazoo Community Transportation Authority	270,343
Due from City of Kalamazoo	<u>11,491</u>
Total	<u>\$ 2,087,565</u>

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE D: CAPITAL ASSETS

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

	Balance Oct. 1, 2017	Additions	Deletions	Balance Sept. 30, 2018
Capital assets not being depreciated				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	97,192	153,515	(17,797)	232,910
Subtotal	2,109,823	153,515	(17,797)	2,245,541
Capital assets being depreciated				
Building and improvements	18,133,742	40,453	-	18,174,195
Land improvements	325,335	-	-	325,335
Machinery and equipment	2,109,430	103,883	-	2,213,313
Office furniture and equipment	538,207	82,131	-	620,338
Vehicles	17,408,554	2,378,748	(1,336,575)	18,450,727
Intangible assets	2,940,444	-	-	2,940,444
Subtotal	41,455,712	2,605,215	(1,336,575)	42,724,352
Less accumulated depreciation for:				
Building and improvements	(7,687,938)	(439,173)	-	(8,127,111)
Land improvements	(285,488)	(4,831)	-	(290,319)
Machinery and equipment	(1,610,908)	(98,385)	-	(1,709,293)
Office furniture and equipment	(327,173)	(65,894)	-	(393,067)
Vehicles	(10,237,876)	(1,496,612)	1,336,575	(10,397,913)
Intangible assets	(1,310,261)	(303,689)	-	(1,613,950)
Subtotal	(21,459,644)	(2,408,584)	1,336,575	(22,531,653)
Net capital assets being depreciated	19,996,068	196,631	-0-	20,192,699
Capital assets, net	<u>\$ 22,105,891</u>	<u>\$ 350,146</u>	<u>\$ (17,797)</u>	<u>\$ 22,438,240</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year ended September 30, 2018 Central County Transportation Authority disposed of assets that were Federally and State funded with a historical cost of \$1,336,575 and accumulated depreciation of \$1,336,575. Depreciation expense in the amount of \$2,408,584 was reported for the year ended September 30, 2018.

The Authority has entered into an agreement to lease the land and building that house the transportation operations. In accordance with accounting standards, because the lease term for the property is equal to 75% or more of the estimated economic life, the lease has been classified as a capital lease and the land and building are included in the capital assets scheduled above.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended September 30, 2018:

	Balance Oct. 1, 2017	Additions	Deletions	Balance Sept. 30, 2018	Amounts Due Within One Year
2015 OPEB bonds	\$ 4,230,873	\$ -0-	\$ (91,611)	\$ 4,139,262	\$ 93,069

Significant details regarding the outstanding long-term debt (including the current portion) are presented below:

\$4,420,413 Limited Tax General Obligation Bonds dated January 7, 2015, due in annual installments of \$93,069 to \$254,421 through December 1, 2045, with interest ranging from 1.970% to 4.670%, payable semi-annually. \$ 4,139,262

The annual requirements to pay the debt principal and interest outstanding for the above loan payable are as follows:

Year Ending September 30,	Principal	Interest
2019	\$ 93,069	\$ 172,316
2020	94,770	170,300
2021	96,957	167,935
2022	99,630	165,218
2023	102,546	162,200
2024-2028	564,246	756,442
2029-2033	682,830	633,429
2034-2038	846,126	465,357
2039-2043	1,061,667	244,614
2044-2045	497,421	23,496
	<u>\$ 4,139,262</u>	<u>\$ 2,961,307</u>

NOTE F: COMPENSATED ABSENCES

Compensated absences activity for the year ended September 30, 2018, was as follows:

	Balance Oct. 1, 2017	Additions	Deletions	Balance Sept. 30, 2018	Amounts Due Within One Year
Compensated absences	\$ 256,424	\$ 378,196	\$ (393,091)	\$ 241,529	\$ 198,279

In accordance with the Central County Transportation Authority's personnel policies and/or contracts negotiated with the various employee groups of the Authority, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$241,529 for vacation and sick at September 30, 2018. The amounts of \$198,279 and \$43,250 have been reported as current and noncurrent liabilities, respectively.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G: DEFINED BENEFIT PENSION PLAN

Plan Administration

The Central County Transportation Authority Pension Plan (the Plan) is a single-employer defined benefit contributory plan which provides pension, disability, and death benefits to all full-time employees and some part-time employees of the Central County Transportation Authority (the Authority).

The Plan was established by the Authority on October 1, 2016 and is maintained as a Pension Trust Fund in the Authority's financial statements. The Plan is administered by the Central County Transportation Authority Pension Plan Board of Trustees. The Board consists of the Executive Director of the Authority, two (2) members of the Authority Board of Directors, the Deputy Director for Support Services of the Authority, and the Chief Financial Officer of the City of Kalamazoo. Plan benefit provisions were established and may be amended under the authority of the Board of Trustees. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Board of Directors of the Central County Transportation Authority. The Plan does not issue a publicly available financial report.

Plan Membership

At December 31, 2017, pension plan membership consisted of the following:

Inactive employees or beneficiaries receiving benefits	64
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>99</u>
Total employees covered by the plan	<u><u>170</u></u>

Benefits Provided

A brief summary of the benefit provisions as of December 31, 2017 are as follows:

Benefit Groups:

- Exempt Employees (Non-Union)
- Amalgamated Transit Union (ATU)
- Kalamazoo Municipal Employees Association (KMEA)

Final Average Compensation (FAC): Highest 3 consecutive years out of the last 10.

Benefit Multiplier: Varies by Benefit Group

- Non-Union: 2.3% of FAC
- ATU: 2.1% of FAC
- KMEA: 2.1% of FAC

Normal Retirement:

Non-Union Eligibility:

Hired Prior to 9/1/2010: Age 62 with 5 years of service or age 57 with 25 years of service.

Hired On or After 9/1/2010: Age 62 with 10 years of service or age 57 with 25 years of service.

ATU Eligibility: Age 62 with 10 years of service or age 57 with 25 years of service.

KMEA Eligibility:

Hired Prior to 1/1/2009: Age 62 with 8 years of service or age 57 with 25 years of service.

Hired On or After 1/1/2009: Age 62 with 10 years of service or age 57 with 25 years of service.

Amount of Benefit: Benefit Multiplier x FAC x Years of Credited Service.

September 30, 2018

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Benefits Provided - continued

Early Retirement:

Non-Union Eligibility:

Hired Prior to 9/1/2010: Age 62 with 5 years of service or rule of 70 with minimum age 55.

Hired On or After 9/1/2010: Age 60 with 10 years of service or rule of 70 with minimum age 55.

ATU Eligibility:

Hired Prior to 9/1/2010: Age 62 with 5 years of service or rule of 70 with minimum age 55.

Hired On or After 9/1/2010: Age 60 with 10 years of service or rule of 70 with minimum age 55.

KMEA Eligibility:

Hired Prior to 1/1/2009: Age 62 with 8 years of service or rule of 70 with minimum age 55.

Hired On or After 1/1/2009: Age 60 with 10 years of service or rule of 70 with minimum age 55.

Amount of Benefit: Normal Retirement Benefit reduced for early commencement.

Amount of Reduction: 4/10 of 1% for each month retirement is prior to age 62 (from age 57 if retired with 25 or more years of credited service).

Deferred Vested Retirement:

Eligibility: Satisfaction of the service requirement for Early Retirement.

Amount of Benefit: Normal Retirement Benefit based upon FAC and years of credited service at termination.

Commencement of Benefit: Upon attainment of minimum age requirement for Normal Retirement.

Disability Retirement:

Eligibility: Satisfaction of the minimum service requirement for Early Retirement.

Amount of Benefit: Normal Retirement Benefit based upon FAC and years of credited service at termination.

Duty Disability Special Conditions:

1. Minimum service requirement is waived.
2. Benefit Minimum is Normal Retirement Benefit based upon FAC at termination and the minimum service requirement for a non-duty disability retirement.

Death Retirement:

Eligibility: Satisfaction of the minimum service requirement for Early Retirement.

Amount of Benefit: Normal Retirement Benefit based upon FAC and years of credited service at termination, reduced in accordance with a 100% joint and survivor election.

Duty Disability Special Conditions:

1. Minimum service requirement is waived.
2. Benefit Minimum is:
 - a. 33 1/3% of FAC payable to surviving spouse; plus
 - b. Unmarried children under 18 years of age receive equal shares of 25% of FAC.

Annual Pension Adjustment:

Non-Union:

Eligibility: Members making election by May 30, 2006 who make increased member contributions annually.

Amount of Increase: 1.5% compounded annually granted on the anniversary of retirement. Increases are granted on January 1 annually, following one full year of retirement.

ATU:

Eligibility: Retired on or after March 1, 2000. Participants retiring before the Normal Retirement Date are excluded.

Amount of Increase: 1.0% compounded annually granted on the anniversary of retirement. Upon attainment of age 75, increases are 2.0% compounded annually.

September 30, 2018

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Benefits Provided - continued

Annual Pension Adjustment - continued:

KMEA:

Eligibility: Retired on or after March 13, 2000. Participants retiring before the Normal Retirement Date are excluded.

Amount of Increase: 1.5% compounded annually granted on the anniversary of retirement. Increases begin the later of attainment of age 64 or the first anniversary of the date of retirement.

Member Contributions:

Non-Union Amount: Varies by date of hire. Members electing the annual pension adjustment by May 30, 2006, pay additional 2.0% above the following.

Hired before 6/1/2006: 1.5% of compensation.

Hired on or after 6/1/2006: 3.0% of compensation.

ATU Amount: 1% of compensation.

KMEA Amount: 1% of compensation.

Periodic Payment:

Description: Subject to section 15.5 of the CCTA Pension Plan document, certain retirees are eligible for a nonguaranteed payment, with a potential payment every third year. The payment is subject to additional requirements related to the need for projected employer contributions to the Plan and can be reduced or eliminated based on CCTA Board recommendation.

Contributions

Required non-union member contributions vary by date of hire. Non-union members hired before June 1, 2006, are required to contribute 1.5 percent of their compensation. Non-union members hired on or after June 1, 2006 are required to pay 3.0 percent of their compensation. Members electing the annual pension adjustment by May 30, 2006, pay an additional 2.0 percent above those rates. ATU and KMEA members are required to contribute 1.0 percent of their compensation. The employer is required to contribute such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. No employer contributions were required for the year ended September 30, 2018.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.72 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Asset

The net pension asset reported at September 30, 2018 was determined using a measure of the total pension liability and the pension net position as of December 31, 2017. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of December 31, 2016.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Net Pension Asset - continued

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

<u>Changes in Net Pension (Asset) Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension (Asset) Liability (a)-(b)</u>
Balances at December 31, 2016	\$ 23,416,017	\$ 21,714,192	\$ 1,701,825
Changes for the year			
Service cost	531,951	-	531,951
Interest on total pension liability	1,728,567	-	1,728,567
Difference between expected and actual experience	(846,825)	-	(846,825)
Benefit payments, including employee refunds	(1,268,881)	(1,268,881)	-0-
Employee contributions	-	65,034	(65,034)
Net investment income	-	3,884,913	(3,884,913)
Administrative expense	-	(36,876)	36,876
Other ⁽¹⁾	-	8,615,942	(8,615,942)
Net changes	<u>144,812</u>	<u>11,260,132</u>	<u>(11,115,320)</u>
Balances at December 31, 2017	<u>\$ 23,560,829</u>	<u>\$ 32,974,324</u>	<u>\$ (9,413,495)</u>

⁽¹⁾ Reflects transfers related to the CCTA spin-off from the City of Kalamazoo Employees' Retirement System.

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

For the year ended December 31, 2017, the Authority recognized pension expense of \$(1,151,981). As of September 30, 2018, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,280,071
Changes in assumptions	150,710	-
Net difference between projected and actual earnings on pension plan investments	-	<u>1,085,197</u>
Total	<u>\$ 150,710</u>	<u>\$ 2,365,268</u>

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - continued

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

<u>Year Ending September 30,</u>	<u>Pension Expense</u>
2019	\$ (175,017)
2020	(306,755)
2021	(881,410)
2022	(802,101)
2023	<u>(49,275)</u>
	<u>\$ (2,214,558)</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods including in the measurement:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent-of-Payroll, Open Period
Remaining Amortization Period	10 years
Asset Valuation Method	5-Year smoothed market
Inflation	3.5% (which includes price inflation of 2.75%)
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2014 valuation pursuant to an experience study of the period 2009 - 2013.
Mortality	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Discount Rate - continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Small Cap (Manager 1)	5.00%	4.60%
U.S. Small Cap (Manager 2)	10.00%	4.60%
International Developed Equity	10.00%	4.10%
U.S. Large Cap (Manager 1)	30.00%	4.10%
U.S. Large Cap (Manager 2)	5.00%	4.20%
Emerging Markets	10.00%	6.60%
Domestic Fixed Income	25.00%	1.00%
Real Estate (Manager 1)	2.50%	2.90%
Real Estate (Manager 2)	2.50%	2.90%
 Total	 100.00%	

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the Authority's net pension liability, calculated using the discount rate of 7.50%, as well as what the Authority's net pension asset would be if it were calculated using a discount rate that is 1 percent lower (6.50 percent) or 1 percent higher (8.50 percent) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Total pension liability	\$ 26,323,142	\$ 23,560,829	\$ 21,235,119
Plan fiduciary net position	<u>32,974,324</u>	<u>32,974,324</u>	<u>32,974,324</u>
 Net pension asset	 <u>\$ (6,651,182)</u>	 <u>\$ (9,413,495)</u>	 <u>\$ (11,739,205)</u>

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority participates in the City of Kalamazoo Postretirement Welfare Benefits Plan (the "Plan"), a cost sharing multi-employer defined benefit other post-employment benefit plan administered by the City of Kalamazoo Other Post-Employment Benefits Trust Fund Trustee. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the respective employers. Plan benefit provisions were established and may be amended under the authority of the respective employers. The Plan issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to the City of Kalamazoo Other Post-Employment Benefits Trust, 241 W. South Street, MI 49007.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. The Plan purchases Medicare supplemental insurance for retirees eligible for Medicare. In addition to the healthcare benefits described above, the Plan provides a death benefit of \$1,000 to all eligible retirees.

Contributions

The employers are required to contribute such amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. For the year ended December 31, 2017, the actuarially determined contributions for the employers were \$7,610,636 and actual employer contributions were \$3,500,000.

Investment Policy

The Michigan Public Employees Retirement System Investment Act, Public Act 314 of 1965, as amended, authorizes the Plan to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Plan's Trustee is responsible for recommending to the respective governing bodies the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the Plan. The respective governing bodies are responsible for approving the recommendations of the Plan's Trustee. All investment decisions are subject to Michigan law and the investment policy established by the respective governing bodies. As City of Kalamazoo OPEB Trust Fund and Employees' Retirement System assets are commingled for investment purposes, the Plan's Trustee has adopted the policies, strategies, and approaches used by the Employees' Retirement System's Investment Committee.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Small Cap (Manager 1)	5.00%	4.60%
U.S. Small Cap (Manager 2)	10.00%	4.60%
International Developed Equity	10.00%	4.10%
U.S. Large Cap (Manager 1)	30.00%	4.10%
U.S. Large Cap (Manager 2)	5.00%	4.20%
Emerging Markets	10.00%	6.60%
Domestic Fixed Income	25.00%	1.00%
Real Estate (Manager 1)	2.50%	2.90%
Real Estate (Manager 2)	2.50%	2.90%
Total	100.00%	

Summary of Significant Accounting Policies

For purposes of measuring the net other post-employment benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Plan and additions to/deductions from Plan's fiduciary net position have been determined on the same basis as they are reported for the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Assumptions

The total OPEB liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method:	Individual Entry Age Normal
Amortization Method:	Level Dollar, Closed
Remaining Amortization Period:	25 years
Asset Valuation Method:	5-Year Smoothed Market
Inflation:	3.5% (which includes price inflation of 2.75%)
Salary Increases:	3.5% to 15.5%, including inflation
Investment Rate of Return:	7.5%, net of OPEB plan investment expense
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality:	RP-2000 Mortality Table, projected 20 years with U.S. Projection Scale BB, rates set-forward 7 years for disabled members.
Health Care Trend Rates:	9.0% trend for the first year, gradually decreasing to 3.5% in year 10.
Aging factors:	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death".

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

At September 30, 2018, the Authority reported a liability of \$9,758,324 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of December 31, 2016 and rolled-forward using generally accepted actuarial procedures. The Authority's proportion of the net OPEB liability was based on present value of future benefits. At December 31, 2017, the Authority's proportion was 7.322%.

	<u>December 31, 2017</u>
Total OPEB Liability	\$ 237,505,296
Plan Fiduciary Net Position	104,231,266
Net OPEB Liability	133,274,030
Proportionate Share	7.322%
Net OPEB Liability for the Authority	\$ 9,758,324

For the year ended December 31, 2017, the Authority recognized OPEB expense of \$1,503,331.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 3,794,427	\$ -
Differences between expected and actual experience	-	2,591
Net difference between projected and actual earnings on plan investments	-	455,608
Contributions subsequent to the measurement date*	<u>165,638</u>	<u>-</u>
Total	<u>\$ 3,960,065</u>	<u>\$ 458,199</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability for the year ending September 30, 2019.

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

<u>Year Ending December 31,</u>	<u>OPEB Expense</u>
2018	\$ 1,003,941
2019	1,003,941
2020	1,003,941
2021	324,405

Discount Rate

A single discount rate of 4.60 percent was used to measure the total OPEB liability. This single discount rate was based on an expected rate of return on OPEB plan investments of 7.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to \$3,500,000 per year. Based on these assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2035. As a result, the long-term expected rate of return on OPEB plan investments was applied to projected benefit payments through the year 2035, and the municipal bond rate was applied to all benefit payments after that date.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority, 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 (3.60 percent) or 1-percentage-point higher (5.60 percent) than the current discount rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 12,204,124	\$ 9,758,324	\$ 7,756,160

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

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trends rates that are 1-percentage-point lower (8.00 percent) or 1-percentage-point higher (10.00 percent) than the current healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 7,452,784	\$ 9,758,324	\$ 12,595,071

NOTE I: TAXES

The Authority is permitted by P.A. 196 of 1986, as amended, to levy property taxes to assist in its operations. Property taxes attach an enforceable lien on property as of July 1 for cities and December 1 for townships and are levied on July 1 and December 1, respectively. The County collects taxes for the Authority. Property taxes are levied on the assessed taxable value of the property as established by local units, accepted by the County and equalized under State statute at approximately 50% of the current estimated market value. During the 2018 fiscal year, the Authority levied a millage of \$.75 per \$1,000 of assessed valuation on December 1, 2017, on townships and July 1, 2018, on cities.

Tax Abatements

The Authority received reduced property tax revenues during 2018 as a result of industrial facilities tax exemptions (IFT's) and brownfield redevelopment agreements entered into by cities, villages, townships, and authorities within Kalamazoo County.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property in the county. The abatements amounted to \$34,309 in reduced tax revenues for 2018.

Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties. These agreements were entered into based upon the Brownfield Redevelopment Act, PA 381 of 1996, as amended. Under this Act, a municipality may create a brownfield redevelopment authority to develop and implement brownfield projects. Tax increments financing may be used as a tool for property redevelopment. The abatements amounted to \$17,105 in reduced county tax revenues for the 2017 tax year. The Authority anticipates similar reduced tax revenues in the 2018 tax year.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE J: RISK MANAGEMENT

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA), a self-insured, public-entity risk pool organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships, and special purpose governments. The Authority has not been informed of any special assessments being required.

The Authority is also a member of the Michigan Transit Pool Liability Trust Fund for claims of general and automobile liability. The pool was established for the purpose of creating a self-insurance pool program available for transit agencies and authorities. The Authority pays annually into the pool, which is designed to be self-sustaining through member retentions. Annually, the Authority receives notifications of retrospective claims adjustments based on the actual claims experience of the pool. These retrospective claims adjustments are accrued by the Authority upon notification.

The Authority carries commercial insurance for the risk of loss due to workers compensation claims. Settled claims have not exceeded this commercial coverage in either of the past three years.

NOTE K: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required, and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies. The amount, if any, of expenditures which may be disallowed by grantors cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

NOTE L: COMPLIANCE REQUIREMENTS

The methodology used for compiling mileage on OAR Schedules (Urban and Nonurban) is an adequate and reliable methodology for recording vehicle mileage.

Ineligible expenses are classified appropriately according to the definition in the Michigan Department of Transportation Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal 2 CFR Part 225. Any capital money used to pay for operating expenses is subtracted out as ineligible expense and no expenses previously paid with capital money are included in expenses to be reimbursed. All costs associated with earning nontransportation revenue have been subtracted out as ineligible expenses. Eligible pension and other post-employment benefits include only amounts actually expensed on the books and paid with out-of-pocket money (e.g., not actuarial gains). All ineligible expenses, as required by OPT's R&E manual, have been reported.

NOTE M: DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

A trust was created for the plan assets, thereby insulating the assets from the Authority's general creditors. The Authority's plan administrator, ICMA Retirement Corporation, created the trust and has placed the assets of the plan within the trust. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Authority's financial statements.

Central County Transportation Authority

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

NOTE N: RELATED PARTY

The Authority has a contractual relationship with the Kalamazoo County Transportation Authority (KCTA) where KCTA transfers their property tax collections to the Authority to provide transit services. The Authority and KCTA are under common management control. For the year ended September 30, 2018, these payments amounted to \$2,590,993. At September 30, 2018, \$270,343 was due from KCTA and included in the due from other governmental units caption on the statement of net position.

NOTE O: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented during the year. This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. This Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

The restatement of the beginning of the year net position is as follows:

Beginning net position	\$ 35,725,016
Net other post-employment benefits asset (GASB 45)	(2,791,912)
Net other post-employment benefits liability (GASB 75)	(5,175,035)
Deferred outflows of resources related to OPEB (GASB 75)	<u>165,638</u>
Restated beginning net position	<u>\$ 27,923,707</u>

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No.67, No.68, and No. 73* was also implemented during the year. This Statement addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classifications of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring 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. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

In April 2018, the GASB issued Statements No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement will improve the financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2018-2019 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Central County Transportation Authority

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Last Two Measurement Dates (ultimately ten years will be displayed)
(Amounts were determined as of 12/31 of each fiscal year)

	<u>2017</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 531,951	\$ 488,626
Interest	1,728,567	18,323
Change in benefit terms ⁽¹⁾	-	23,809,450
Difference between expected and actual experience	(846,825)	(900,382)
Benefit payments, including employee refunds	<u>(1,268,881)</u>	<u>-</u>
Net Change in Total Pension Liability	144,812	23,416,017
Total Pension Liability, beginning	<u>23,416,017</u>	<u>-</u>
Total Pension Liability, ending	<u>\$ 23,560,829</u>	<u>\$ 23,416,017</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ -	\$ -
Contributions - employee	65,034	14,189
Net investment income	3,884,913	3
Benefit payments, including employee refunds	(1,268,881)	-
Administrative expense	(36,876)	-
Other ⁽²⁾	<u>8,615,942</u>	<u>21,700,000</u>
Net Change in Plan Fiduciary Net Position	11,260,132	21,714,192
Plan Fiduciary Net Position, beginning	<u>21,714,192</u>	<u>-</u>
Plan Fiduciary Net Position, ending	<u>\$ 32,974,324</u>	<u>\$ 21,714,192</u>
Employer's Net Pension (Asset) Liability	<u>\$ (9,413,495)</u>	<u>\$ 1,701,825</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	139.95%	92.73%
Covered employee payroll	\$ 4,582,818	\$ 4,251,161
Employer's Net Pension (Asset) Liability as a percentage of covered employee payroll	(205.41%)	40.03%

(1) Effective October 1, 2016, the City of Kalamazoo's existing transit operations spun off to become part of CCTA. The CCTA Pension Plan is a separate single-employer retirement system. This schedule reflects CCTA service cost and transfer of liabilities and assets to CCTA.

(2) Reflects transfers related to the CCTA spin-off from the City of Kalamazoo Employees' Retirement System.

Central County Transportation Authority

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Two Fiscal Years (ultimately ten years will be displayed)
(Amounts were determined as of 9/30)

	<u>2018</u>	<u>2017</u>
Actuarially determined contributions	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 3,895,370	\$ 4,251,161
Contributions as a percentage of covered employee payroll	0.00%	0.00%

Central County Transportation Authority

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF INVESTMENT RETURNS

Last Two Fiscal Years (ultimately ten years will be displayed)
(Amounts were determined as of 9/30)

	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	17.72%	0.00%

Central County Transportation Authority

OTHER POST-EMPLOYMENT BENEFITS PLAN

SCHEDULE OF PROPORTIONATE SHARE OF NET OPEB LIABILITY

Last Measurement Date (ultimately ten years will be displayed)
(Amounts were determined as of 12/31 of each fiscal year)

	<u>2017</u>
CCTA's proportion of net OPEB liability (%)	7.322%
CCTA's proportionate share of net OPEB liability	\$ 9,758,324
CCTA's covered employee payroll	4,582,818
CCTA's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	212.93%

Central County Transportation Authority
 OTHER POST-EMPLOYMENT BENEFITS PLAN
 SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Fiscal Year (ultimately ten years will be displayed)
 (Amounts were determined as of 9/30 of each fiscal year)

	2018
Actuarially determined contributions	\$ 557,251
Contributions in relation to the actuarially determined contributions	220,850
Contribution deficiency (excess)	\$ 336,401
CCTA's covered employee payroll	\$ 3,895,370
Contributions as a percentage of covered employee payroll	5.67%

OTHER SUPPLEMENTARY INFORMATION

Central County Transportation Authority

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2018

Passenger fares	\$ 2,468,801
Advertising	54,266
Intercity ticket sales	55,392
Rental of buildings or other property	155,715
Parking lot revenue	520
Gain from sale of capital assets	19,141
Other nontransportation revenue	23,472
Taxes levied	3,731,608
Operating assistance	786,701
Contracts and reimbursements	2,590,993
Interest income	<u>26,011</u>
 TOTAL LOCAL REVENUES	 <u><u>\$ 9,912,620</u></u>

Central County Transportation Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2018

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Restated Program Award Amount	Current Year's Expenditures			Restated Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Direct programs:								
Federal Transit - Formula Grants ^{(a) (b)}	20.507							
Operating Grant - Section 5307		N/A	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ -	\$ -	\$ -0-
Passed through Michigan Department of Transportation								
Federal Transit - Formula Grants ^{(a) (b)}	20.507							
Capital Grant - Section 5307(80/20)		MI-2018-004-00/P3	2,874,838	357,348	285,877	71,471	-	2,517,490
Capital Grant - Section 5307(80/20)		MI-2018-005-01/P7	485,000	147,527	118,022	29,505	-	337,473
Capital Grant - Section 5307(80/20)		MI-90-X677/2012-0112/P8	2,256,406	993,039	794,431	198,608	1,260,428	2,939
Capital Grant - Section 5307(80/20)		MI-2016-031-00/P21	953,979	575,748	460,599	115,149	-	378,231
			<u>6,570,223</u>	<u>2,073,662</u>	<u>1,658,929</u>	<u>414,733</u>	<u>1,260,428</u>	<u>3,236,133</u>
			7,770,223	3,273,662	2,858,929	414,733	1,260,428	3,236,133
Formula Grants for Rural Areas	20.509							
Operating Assistance - Section 5311 (FY 18)		2017-0030/P6/R1	19,999	19,999	19,999	-	-	-0-
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513							
Operating Grant - Section 5310		MI-2018-003-00/2017-0030/P4	57,646	67,269	53,815	13,454	-	(9,623)
Capital Grant - Section 5310 (80/20)		MI-2018-003-00/2017-0030/P4	216,170	-0-	-	-	-	216,170
Capital Grant - Section 5310 (80/20)		MI-16-X012-00/2012-0122/P16	122,645	70,961	56,769	14,192	-	51,684
Capital Grant - Section 5310 (80/20)		MI-2016-035/2012-0112/P20	127,220	81,106	64,885	16,221	-	46,114
			<u>523,681</u>	<u>219,336</u>	<u>175,469</u>	<u>43,867</u>	<u>-0-</u>	<u>304,345</u>
Buses and Bus Facilities ^{(a) (b)}	20.526							
Capital Grant - Section 5339		MI-34-0009-00/P17	723,594	723,594	578,875	144,719	-	-0-
Capital Grant - Section 5339		MI-2016-031-00/P21	386,720	-0-	-	-	-	386,720
			<u>1,110,314</u>	<u>723,594</u>	<u>578,875</u>	<u>144,719</u>	<u>-0-</u>	<u>386,720</u>
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY18)		N/A	5,943,416	5,364,446	-	5,364,446	-	578,970
Ridesharing Fellowship 2017-2018	N/A							
Specialized Services 2017-2018	N/A		48,457	11,351	-	11,351	-	37,106
			<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>-0-</u>
TOTALS			<u>\$ 15,446,090</u>	<u>\$ 9,642,388</u>	<u>\$ 3,633,272</u>	<u>\$ 6,009,116</u>	<u>\$ 1,260,428</u>	<u>\$ 4,543,274</u>

^(a) Denotes major program.

^(b) Denotes programs that are required to be clustered U.S. Department of Transportation.

^(c) The following reconciles the total Federal, State, and Local revenues reported in the September 30, 2018, financial statements to the expenditures reported in the Schedule of Expenditures of Federal and State Awards:

	Revenue Per Financial Statements	Adjustments for Prior Year Reconciliations	Federal and State Award Expenditures
Federal	\$ 3,632,826	\$ 446	\$ 3,633,272
State	<u>6,152,846</u>	<u>(143,730)</u>	<u>6,009,116</u>
	<u>\$ 9,785,672</u>	<u>\$ (143,284)</u>	<u>\$ 9,642,388</u>

Central County Transportation Authority
SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended September 30, 2018

State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	\$ 5,364,446
U.S. Department of Transportation - Section 5310	13,454
Ridesharing	11,351
Specialized Services	<u>30,000</u>
Total State Operating Grants	5,419,251
Federal Operating Grants	
U.S. Department of Transportation - Section 5307	1,200,000
U.S. Department of Transportation - Section 5311	19,999
U.S. Department of Transportation - Section 5310	<u>53,815</u>
Total Federal Operating Grants	<u>1,273,814</u>
TOTAL OPERATING GRANTS - STATE AND FEDERAL	<u><u>\$ 6,693,065</u></u>

Central County Transportation Authority

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2018

	Urban	Nonurban	Specialized Services	Total
Labor	\$ 4,692,495	\$ 1,750	\$ -	\$ 4,694,245
Fringe benefits	3,416,752	1,474	-	3,418,226
Services	1,796,198	2,874	-	1,799,072
Materials and supplies	2,076,559	838	-	2,077,397
Utilities	327,678	2,270	-	329,948
Insurance	568,821	1,487	-	570,308
Taxes and fees	1,384	2	-	1,386
Purchased services	3,616,594	100,358	30,000	3,746,952
Miscellaneous	118,487	389	-	118,876
Interest on long-term debt	173,473	-	-	173,473
Depreciation	2,385,413	23,171	-	2,408,584
Total expenses	\$ 19,173,854	\$ 134,613	\$ 30,000	\$ 19,338,467

Central County Transportation Authority
OAR SCHEDULE 4R
URBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2018

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 2,402,142
406	Auxiliary trans revenues	
40615	Advertising	54,266
40620	Intercity ticket sales	53,896
407	Nontrans revenues	
40720	Rental of buildings or other property	155,715
40725	Parking lot revenue	520
40760	Gain from sale of capital assets	18,624
40799	Other nontransportation revenue	22,838
408	Local revenue	
40800	Taxes levied directly for/by transit agency	3,630,855
409	Local revenue	
40910	Local operating assistance	765,460
40999	Other local contracts and reimbursements	2,521,036
411	State formula and contracts	
41101	State operating assistance (Urban)	5,320,680
41199	Other MDOT/OPT contracts and reimbursements	24,135
413	Federal contracts	
41302	Federal Section 5307 operating	1,200,000
41399	Other federal transit contracts and reimbursements	52,362
414	Other revenue	
41400	Interest income	<u>25,308</u>
	TOTAL URBAN SERVICE REVENUE	<u><u>\$ 16,247,837</u></u>

Central County Transportation Authority

OAR SCHEDULE 4N
URBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2018

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	2,577,290	274,825	138,148	2,990,263

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Central County Transportation Authority

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2018

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 66,659
406	Auxiliary trans revenues	
40620	Intercity ticket sales	1,496
407	Nontrans revenues	
40760	Gain from sale of capital assets	517
40799	Other nontransportation revenue	634
408	Local revenue	
40800	Taxes levied directly for/by transit agency	100,753
409	Local revenue	
40910	Local operating assistance	21,241
40999	Other local contracts and reimbursements	69,957
411	State formula and contracts	
41101	State operating assistance	43,766
41199	Other MDOT/OPT contracts and reimbursement	670
413	Federal contracts	
41301	Federal Section 5311	19,999
41399	Other federal transit contracts and reimbursements	1,453
414	Other revenue	
41400	Interest income	703
TOTAL NONURBAN SERVICE REVENUE		<u>\$ 327,848</u>

Central County Transportation Authority

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2018

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50102	Other salaries and wages	\$ 1,750	\$ -	\$ -	\$ 1,750
502	Fringe benefits				
50200	Fringe benefits	1,412	-	-	1,412
50210	DC pensions	33	-	-	33
50230	Other post-employment benefits	29	-	-	29
503	Services				
50302	Advertising fees	-	-	336	336
50305	Audit cost	-	-	134	134
50399	Other services	921	-	1,483	2,404
504	Materials and supplies				
50401	Fuel and lubricants	487	-	3	490
50499	Other materials and supplies	136	-	212	348
505	Utilities				
50500	Utilities	172	-	2,098	2,270
506	Insurance				
50699	Other insurance	-	-	1,487	1,487
507	Taxes and fees				
50700	Taxes and fees	-	-	2	2
508	Purchased trans service				
50800	Purchased trans service	100,358	-	-	100,358
509	Miscellaneous expenses				
50999	Other miscellaneous expenses	-	-	389	389
513	Depreciation				
51300	Depreciation	-	-	23,171	23,171
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	22,959	22,959
Total expenses					134,613
Total ineligible expenses					<u>22,959</u>
Total eligible expenses					<u><u>\$ 111,654</u></u>

Central County Transportation Authority

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2018

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	32,636	1,217	803	34,656

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Central County Transportation Authority
OAR SCHEDULE 4R
SPECIALIZED SERVICE REVENUE REPORT

Year Ended September 30, 2018

<u>Code</u>	<u>Description</u>	<u>Amount</u>
411	State formula and contracts	
41101	State operating assistance	<u>\$ 30,000</u>
	TOTAL NONURBAN SERVICE REVENUE	<u><u>\$ 30,000</u></u>

Central County Transportation Authority
 OAR SCHEDULE 4E
 SPECIALIZED SERVICE EXPENSE REPORT

Year Ended September 30, 2018

<u>Code</u>	<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Administrative</u>	<u>Total</u>
503	Services				
50399	Other services	\$ 30,000	\$ -	\$ -	\$ 30,000
Total eligible expenses					<u>\$ 30,000</u>

Central County Transportation Authority
 OPERATING ASSISTANCE CALCULATION
 Year Ended September 30, 2018

	Urban	Nonurban
Total expenses	\$ 19,173,854	\$ 134,613
Less ineligible expenses		
Other ineligible State contracts	24,805	-
Ineligible depreciation	2,363,580	22,959
Ineligible percent of association dues	37,621	-
Ineligible expenses associated w/advertising	54,267	-
Ineligible expenses associated w/rentals	156,235	-
Other ineligible operating expenses paid by capital contract	231,046	-
Other ineligible Federal/State/Local	53,821	-
Ineligible defined benefit pension	(1,151,981)	-
Ineligible other post-employment benefits	1,247,061	-
	3,016,455	22,959
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 16,157,399	\$ 111,654
Eligible expenses for State reimbursement	\$ 16,157,399	\$ 111,654
x Reimbursement percentage	32.9303%	39.1981%
State operating assistance	\$ 5,320,680	\$ 43,766
Eligible expenses for Federal reimbursement		\$ 111,654
x Reimbursement percentage	N/A	18.50%
Federal operating assistance	\$ 1,179,344	\$ 20,656

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

Board of Directors
Central County Transportation Authority
Kalamazoo, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Central County Transportation Authority (the Authority), a component unit of Kalamazoo County, 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 March 25, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Manes Costeiran PC

March 25, 2019

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

Board of Directors
Central County Transportation Authority
Kalamazoo, Michigan

Report on Compliance for each Major Federal Program

We have audited the Central County Transportation Authority's (the Authority), a component unit of Kalamazoo County, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 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 programs.

Auditor's Responsibility

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

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

Report on Internal Control Over Compliance

The 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 circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

Maney Costeiran PC

March 25, 2019

Central County Transportation Authority
 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? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ 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 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.507, 20.526	Federal Transit Cluster

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

Central County Transportation Authority
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2018

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with Uniform Guidance.

No prior audit findings.