



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

TOPEKA METROPOLITAN TRANSIT AUTHORITY

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

TOPEKA METROPOLITAN TRANSIT AUTHORITY

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

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TOPEKA METROPOLITAN TRANSIT AUTHORITY

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Topeka Metropolitan Transit Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Topeka Metropolitan Transit Authority (the Authority), as of and for the year ended June 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 an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the applicable provisions of the Kansas Municipal Audit and Accounting Guide. 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2018 and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on July 1, 2017, the Authority adopted Governmental Accounting Standards Board Statement No. 75: *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Our opinion is 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 the required supplementary information listed 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.

Supplementary 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 supplementary schedules listed in the accompanying table of contents, including the schedule of expenditures of federal awards as required by the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of 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.

Berwick Trahan + Co., P.A.

November 9, 2018
Topeka, Kansas

Topeka Metropolitan Transit Authority Management's Discussion and Analysis

BOARD OF DIRECTORS

Elsie Eisenbarth, Chair
Jim Ogle, Vice-Chair
Jim Daniel
Beverly Hall
Rodney Miller
Scott Tummons
--vacant—

EXECUTIVE STAFF

Susan Duffy, GM
Chip Falldine, CFO
John Cassidy, General Counsel

INTRODUCTION

This discussion and analysis is intended to serve as an introduction to Topeka Metro's basic financial statements for the year ending June 30, 2018, with selected comparative information for the year ending June 30, 2017. Topeka Metro uses an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto.

OVERVIEW OF THE FINANCIAL STATEMENTS

The **Statement of Net Position** presents information regarding Topeka Metro's assets, liabilities, deferred outflows and deferred inflows. The difference between these is reported as net position. The increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The **Statement of Revenues, Expenses and Changes in Net Position** presents information showing how Topeka Metro's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Notes to the Financial Statements provide additional information that is essential to obtain a full understanding of the data provided in the financial statements.

Required Supplementary Information includes Topeka Metro's progress in funding its obligation to provide pension and OPEB benefits to its employees.

Other Supplementary Information includes the budgetary schedule and the schedule of expenditures of federal awards and related compliance reports.

OPERATIONAL HIGHLIGHTS

Metro continued its multi-phase bus stop project, and 28 ADA-accessible stops were installed.

Topeka Metro continued the student pass program in FY2018 with Unified School District 501. The district purchased 3,000 annual student passes for the 2017-2018 school year. Students may also use their bus passes during school holidays. Topeka Metro also continued its contract with Washburn University to allow 8,000 students, faculty and staff to ride during the school year.

During fiscal year 2018, Topeka Metro continued the “Kids Ride Free” summer program and the “Lift to Fixed Route” programs. In January 2018, Topeka Metro introduced the SOTO (South Topeka workforce) program operated by Capital City Taxi to provide rides 24/7 to businesses located at the Kanza Fire Industrial Park.

TOPEKA METRO FINANCIAL MANAGEMENT

This financial report is designed to provide the Topeka Metro Board of Directors, management, stakeholders, funding sources and other interested parties with a general overview of Topeka Metro’s finances, and to demonstrate Topeka Metro’s accountability for the funds it receives and expends. For additional information about this report:

Susan Duffy, General Manager
 201 N. Kansas Avenue
 Topeka, KS 66603
 785-233-2011 x101
sduffy@topekametro.org

Chip Falldine, Financial Officer
 201 N. Kansas Avenue
 Topeka, KS 66603
 785-233-2011 x107
cfalldine@topekametro.org

ACTIVITY HIGHLIGHTS

RIDERSHIP

Various attributes are summarized on the following pages for each type of service offered by Topeka Metro.

<u>Fiscal Year</u>	<u>Fixed Route</u>	<u>Lift</u>	<u>Eve/Sun</u>	<u>Total</u>
2014	1,204,350	63,897	0	1,268,247
2015	1,205,569	55,751	0	1,261,320
2016	1,154,838	53,572	0	1,208,410
2017	1,197,319	51,614	0	1,248,933
2018	1,221,110	47,024	0	1,268,134

SERVICE HOURS

<u>Fiscal year</u>	<u>Fixed Route</u>	<u>Lift</u>	<u>Eve/Sun</u>	<u>Total</u>
2014	54,303	22,866	0	77,169
2015	54,336	20,942	0	75,278
2016	57,867	19,853	0	77,720
2017	60,115	18,838	0	78,953
2018	60,023	16,491	0	76,514

SERVICE AND RIDERSHIP CHANGES

Topeka Metro continued to make minor changes to the fixed route system in 2018, based on level of ridership and operational efficiency. In FY2018, fixed route ridership increased 23,791 (2.0%) from FY2017 ridership, and lift ridership decreased 4,590 (8.9%). Total ridership increased 19,201, or 1.5%.

FINANCIAL HIGHLIGHTS

	2018	2017
Assets and Deferred Outflows		
Current Assets	\$ 12,776,241	\$ 11,729,015
Capital Assets, Net	13,991,384	14,930,899
Total Assets	26,767,625	26,659,914
Deferred Outflows (KPERS)	1,010,297	1,175,379
Deferred Outflows (OPEB)	22,531	-
Total Assets and Deferred Outflows	\$ 27,800,453	\$ 27,835,293
Total Liabilities, Deferred Inflows and Net Position		
Current Liabilities	\$ 844,331	\$ 538,177
Long-Term Liabilities	3,611,030	3,612,353
Total Liabilities	4,455,361	4,150,530
Deferred Inflows (KPERS)	168,677	137,809
Deferred Inflows (OPEB)	21,477	-
Total Liabilities and Deferred Inflows	4,645,515	4,288,339
Net Investment in Capital Assets	13,991,384	14,930,899
Unrestricted	9,163,554	8,616,055
Total Net Position	23,154,938	23,546,954
Total Liabilities, Deferred Inflows and Net Position	\$ 27,800,453	\$ 27,835,293

CURRENT ASSETS

Cash and Cash Equivalents are those funds kept on hand for operating and reserve funds. Investments and Board Designated Investments include both certificates of deposit and funds invested in the State of Kansas Municipal Investment Pool. As of June 30, 2018, \$500,000 of Designated Investment is for the self-insurance program, and \$6,236,103 was designated by the Topeka Metro Governing Board for capital improvements.

Receivables consist of:

- Accounts Receivable consists of billings to third parties who have purchased some type of fare medium (tickets or passes), and reimbursement due for federal tax paid on gasoline purchases;
- Grants Receivable are funds due at the close of the fiscal year from funding agencies based on the allowable expenditures within a grant; and,
- Accrued Interest Receivable is the interest due on certificates of deposit.

Accounts Receivable maintained a consistent balance throughout the period. The age of an account receivable rarely exceeds 30 days – the majority of accounts are paid promptly and uncollectible accounts are negligible. Grants Receivable is requested on a reimbursement basis, usually within ninety (90) days of the expenditure. The balance at the end of any year varies depending upon the capital procurements in process, operating expenses incurred, and timing of the availability of grant funds.

Inventory consists of diesel fuel, unleaded gasoline and several types of oil – all are used in the buses and service vehicles and kept in storage tanks on the property. These items are expensed monthly based on use.

Prepaid Expenses include employee benefits and a variety of operating expenditures. Prepaid Insurance (property, liability and workers' compensation) is also included in this category.

CAPITAL ASSETS

Topeka Metro's capital assets include land, buildings and improvements, bus shelters, buses, service vehicles, and other various equipment. The net value of Topeka Metro's property and equipment decreased by \$939,515 during fiscal year 2018. The decrease was due to the net effect of (1) the purchase and disposal of various assets, and (2) normal and customary depreciation. Additional information on Topeka Metro's capital assets can be found in the notes of this report.

Major capital asset events during FY2018 included the following:

Asset purchases:

- a) Bus stops (28)
- b) Scheduling software
- c) New boilers inside the QSS building
- d) New countertops and cabinets at QSS

Asset donations:

- a) Two (2) used Nissan Leaf electric cars

Asset disposals:

- a) Four payment kiosks for the bike share program
- b) Communication equipment
- c) Old scheduling software
- d) Security cameras
- e) Service vehicle

Capital Assets (net of depreciation)

	<u>6/30/2018</u>	<u>6/30/2017</u>
Buildings	\$ 2,311,615	\$ 2,503,772
Bike Share	-	22,659
Bus Shelters	843,944	732,615
Communication Equipment	101,357	139,517
Computer Equipment	24,981	60,397
Farebox Equipment	251,260	317,312
Furniture & Office Equipment	6,436	10,114
Leasehold Improvements	972,283	919,343
Maintenance Equipment	74,824	100,081
Revenue Vehicles	5,415,554	6,265,479
Services Vehicles	46,697	56,996
Projects in Process	342,178	202,359
Land	3,600,255	3,600,255
Total	<u>\$ 13,991,384</u>	<u>\$ 14,930,899</u>

DEFERRED OUTFLOWS

Deferred Outflows relate to the KPERS Net Pension Liability and the KPERS OPEB Liability. The Pension Deferred Outflows consist of (1) Topeka Metro's contributions made to the KPERS retirement program during fiscal year 2018, and (2) Topeka Metro's share of KPERS Deferred Outflows as of June 30, 2017. The OPEB Deferred Outflows are an estimate of Topeka Metro's contributions made to the KPERS Long-Term Disability program during fiscal year 2018; this estimate is based on the actual contribution percentage in FY2017.

LIABILITIES

Accounts Payable remained fairly consistent throughout the year; any fluctuations were due to the timing of invoices.

Accrued Payroll and Related Liabilities include all wages payable, payroll taxes (both withheld and the employer share), accrued vacation, PTO and accrued contracted sick leave.

Unearned Revenue is comprised of pre-sold bus passes and tickets, and annual bike share sponsorships.

Settlements Payable consists of expected liability expenses incurred during the current fiscal year.

The Long-Term Liability consists of (1) Topeka Metro's share of the KPERS Net Pension Liability as of June 30, 2017, (2) Topeka Metro's share of the KPERS OPEB Liability as of June 30, 2017, and (3) Topeka Metro's estimated post-employment benefit liability related to health insurance as of June 30, 2018.

DEFERRED INFLOWS

Deferred Inflows consist of (1) Topeka Metro's share of KPERS Net Pension Deferred Inflows as of June 30, 2017, (2) Topeka Metro's share of KPERS OPEB Deferred Inflows as of June 30, 2017, and (3) Topeka Metro's OPEB Deferred Inflows related to health insurance as of June 30, 2018.

NET POSITION

Net Investment in Capital Assets is the book value of Topeka Metro's assets (purchase price less accumulated depreciation) net of related debt. Unrestricted Net Position is the balance of net position. Of the unrestricted net position, the Board has designated \$500,000 for the Self Insurance Fund and \$6,236,103 for Capital Reserves.

SUMMARY OF OPERATIONS AND CHANGE IN NET POSITION

	Fiscal Year Ending June 30	
	2018	2017
Operating Revenue		
Fares	\$ 1,194,278	\$ 1,165,062
Other Operating	191,889	156,407
Total Operating Revenue	<u>1,386,167</u>	<u>1,321,469</u>
Operating Expense		
Salaries and Benefits	5,840,052	5,607,199
Contracted Services	949,396	858,369
Materials and Supplies	1,195,489	848,966
General Overhead	446,863	421,035
Depreciation	1,474,079	1,598,061
Total Operating Expense	<u>9,905,879</u>	<u>9,333,630</u>
Operating Loss	<u>(8,519,712)</u>	<u>(8,012,161)</u>
Non-Operating Revenue		
Interest & Gain on disposal	94,260	(57,222)
Grants	3,082,019	2,943,562
Property Taxes	4,840,087	4,751,118
Total Non-Operating Revenue	<u>8,016,366</u>	<u>7,637,458</u>
Loss before Capital Grants	(503,346)	(374,703)
Capital Grants	227,759	702,329
Change in Net Position	<u>(275,587)</u>	<u>327,626</u>
Prior Period Adjustment - OPEB	(116,429)	-
Net Position - Beginning Balance	23,546,954	23,219,328
Net Position - Ending Balance	<u>\$ 23,154,938</u>	<u>\$ 23,546,954</u>

Operating expenses increased 6.1% in fiscal year 2018 over the previous year. There were increases in personnel cost, health insurance benefits, fuel and bus parts.

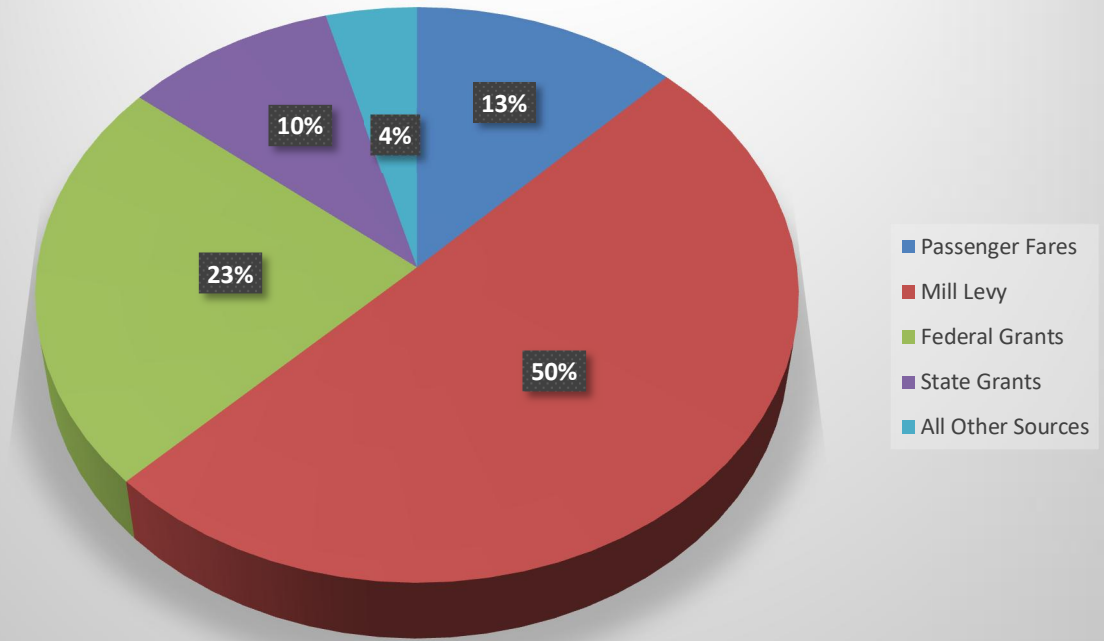
Operational & Funding Revenues (Capital Grants not Included)	Fiscal Year Ending June 30	
	2018	2017
Fares	\$ 1,194,278	\$ 1,165,062
Property Taxes	4,840,087	4,751,118
Federal Grants	2,237,908	2,198,263
State Grants	724,077	728,074
All Other Sources	120,034	116,410
Total Operating & Funding Revenues	\$ 9,116,384	\$ 8,958,927

Fare revenue increased in FY2018 due to USD501 purchasing more passes. Property taxes and federal grant revenue reflected small increases. Revenue from Other Sources increased due to donations, local grants, a decreased Loss on Disposal of Assets, and increased rate of return on investments.

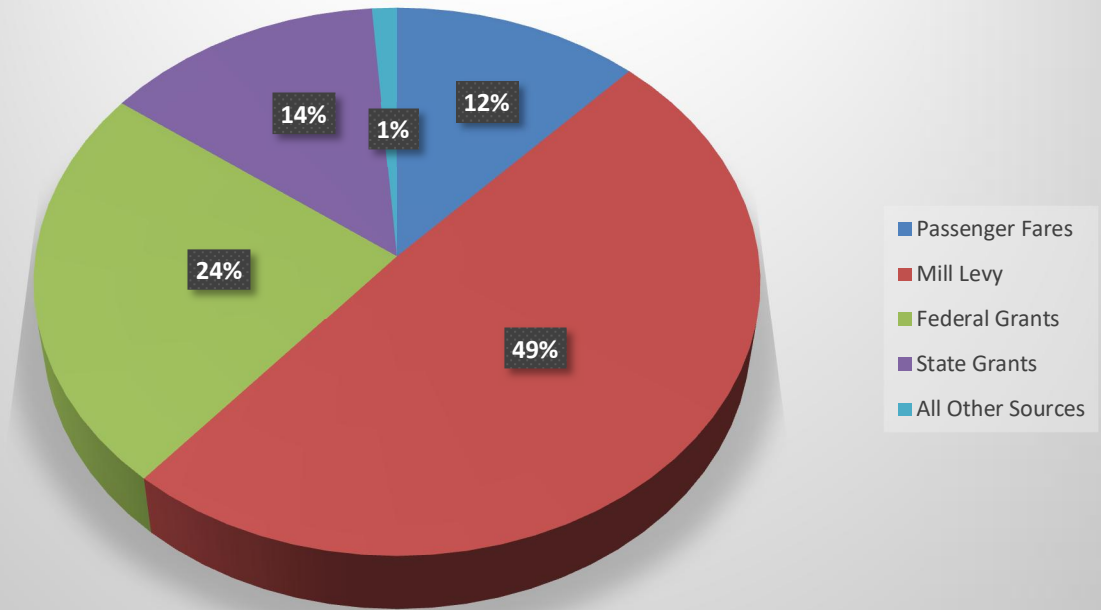
Fare revenue increased in FY2017 due to the increased utilization of the Low-Income Pass program. Property taxes and federal grant revenue reflected small increases. Revenue from Other Sources decreased due to the loss on disposal of the four (4) Opus fixed route buses.

OPERATIONAL REVENUE & FUNDING

FY2018

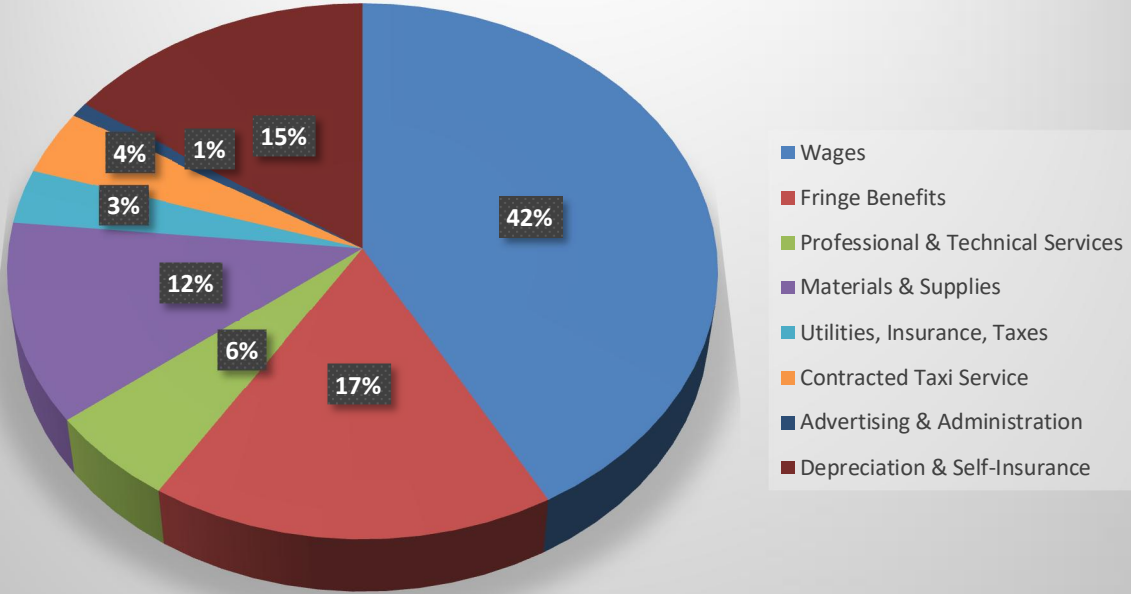


FY2017

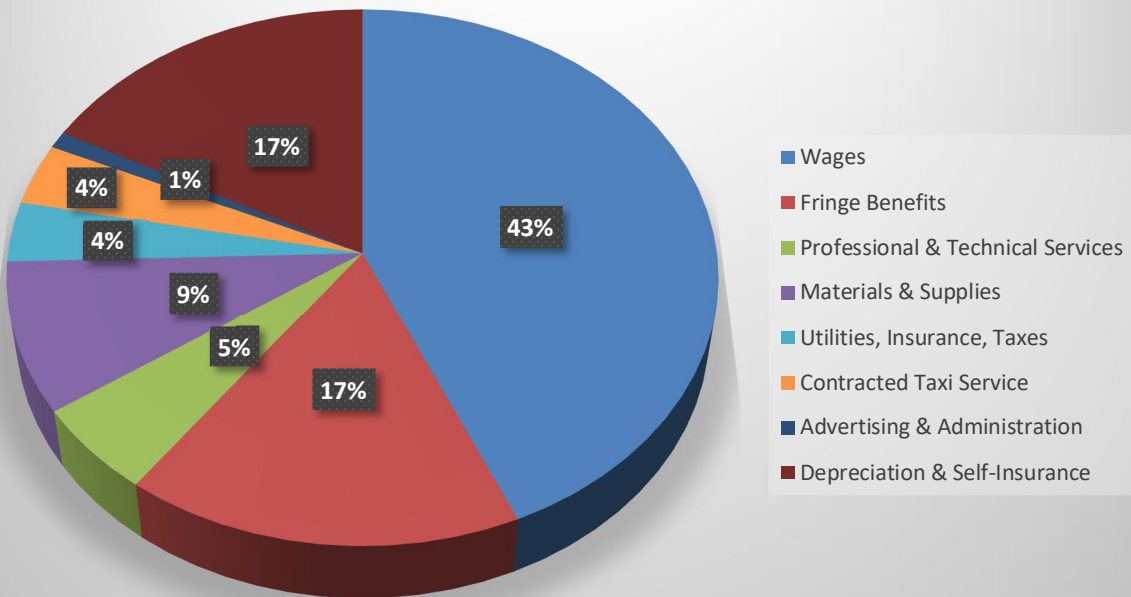


OPERATING EXPENSES

FY2018



FY2017



Operating Expenses

	Fiscal Year Ending June 30	
	2018	2017
Salaries	\$ 4,155,345	\$ 4,054,120
Fringe Benefits	1,684,707	1,553,079
Professional & Technical Services	548,395	513,561
Materials & Supplies	1,195,489	848,966
Utilities, Insurance & Taxes	323,246	340,899
Contracted Taxi Service	386,975	344,808
Advertising & Administration	87,819	73,443
Depreciation & Self-Insurance	1,523,903	1,604,754
Total Operating Expenses	\$ 9,905,879	\$ 9,333,630

FY2018 overall operating expenses increased from the previous year by \$572,249, or 6.13%. Primary changes in expense categories were:

1. Wages increased due to an increase in support staff personnel.
2. Fringe Benefits increased due to an increase in health insurance premiums and increases in the KPERS Pension and OPEB expenses.
3. Professional & Technical Services increased due to contracted planning services.
4. Materials & Supplies increased due to increase in the price of fuel, the purchase of 100 additional bikes for the Bike Share program and increase in the cost of bus parts.
5. Contracted Taxi Service increased due to the new South Topeka ride-to-work program.
6. Advertising & Administration increased mostly due to increased advertising costs.
7. Depreciation and Self-Insurance decreased. Self-Insurance expense increased due to estimated liability for FY2018 events. Depreciation Expense decreased due to several assets reaching the end of their useful life in FY2017 and FY2018, which have not yet been replaced.

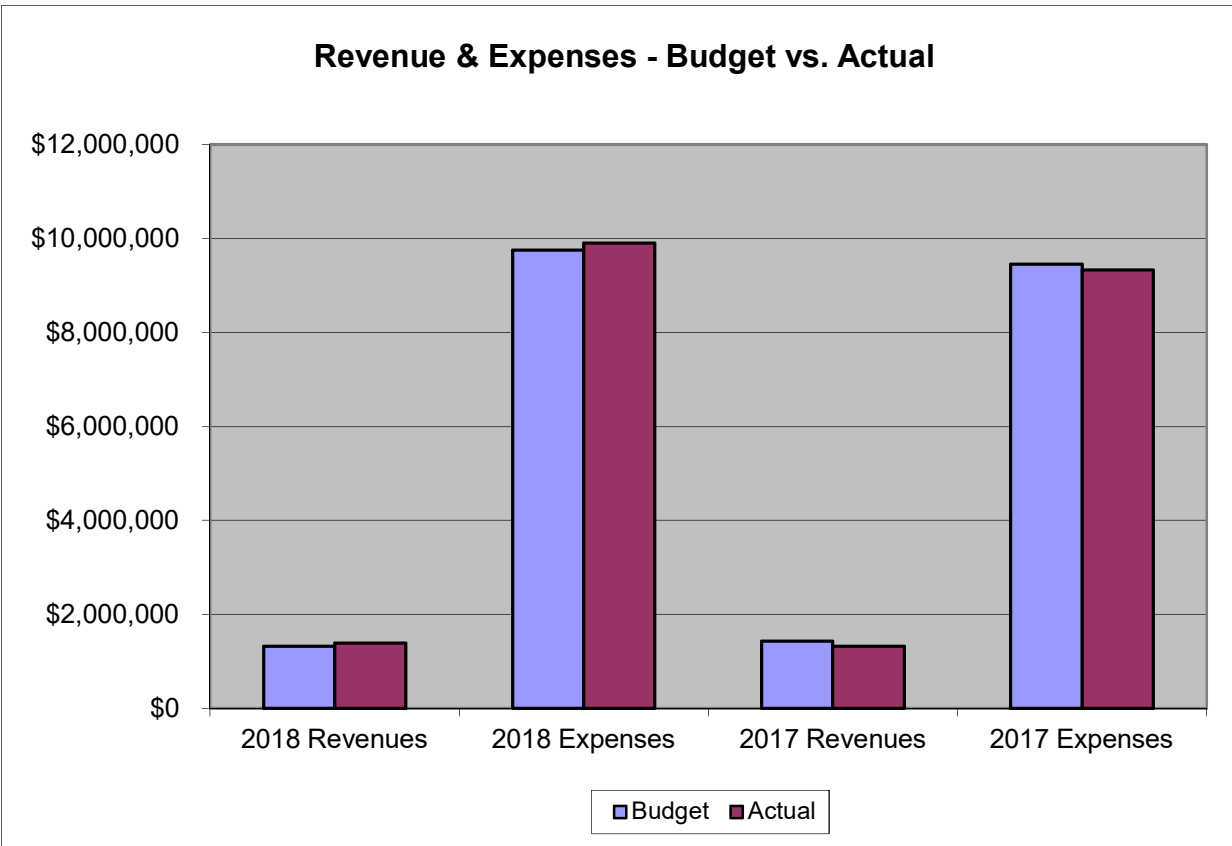
FY2017 overall operating expenses increased from the previous year by \$276,502, or 3%. Primary changes in expenses categories were:

1. Salary expense increased due to the hiring of additional staff, and due to contracted wage increases for union employees.
2. Fringe Benefits increased due to a 30% increase in health insurance premiums.
3. Professional Services decreased due to decreases in (1) required building maintenance, and (2) projects pertaining to the on-call planning service contract.
4. Materials & Supplies decreased due to the purchase of bikes in FY2016.
5. Contacted Taxi expense increased 17% as Topeka Metro continued to move ambulatory passengers from the directly-provided service to the taxi service.

BUDGET

FY2018 operating revenue exceeded budget due to the (1) increased purchasing of USD501 passes, and (2) donations received. Operating expenses were over budget due to the purchase of 100 new bikes for the Bike Share program.

Passenger Fares did not meet revenue budget estimates in FY2017 due to the (1) increased utilization of the Low-Income program, and (2) lowering the price of the Reduced 31-day pass from \$35 to \$25. Operating expenses were 0.1% less than budgeted.



	2018	2017
Budgeted Revenues	\$ 1,318,220	\$ 1,433,747
Actual Revenues	1,386,167	1,321,469
Budgeted Expenses	9,757,679	9,456,196
Actual Expenses	9,905,879	9,333,630

TOPEKA METROPOLITAN TRANSIT AUTHORITY

STATEMENT OF NET POSITION

June 30, 2018

ASSETS AND DEFERRED OUTFLOWS

Current assets:	
Cash and cash equivalents	\$ 82,519
Deposits and investments:	
Operating	4,842,339
Designated	6,736,103
Accounts receivable	54,347
Grants receivable	774,541
Interest receivable	17,460
Inventory	45,716
Prepaid expenses	223,216
	12,776,241
Non-current assets:	
Capital assets not being depreciated	3,942,433
Capital assets, net of depreciation	10,048,951
Deferred outflows of resources - OPEB	22,531
Deferred outflows of resources - pension	1,010,297
	\$ 27,800,453

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current liabilities:	
Accounts payable	\$ 256,302
Accrued payroll and benefits	267,889
Accrued vacation	155,353
Unearned revenue	117,787
Claims payable	47,000
	844,331
Long-term liabilities:	
OPEB liability	223,179
Net pension liability	3,387,851
	3,611,030
Deferred inflows of resources - OPEB	21,477
Deferred inflows of resources - pension	168,677
	190,154
Net position:	
Net investment in capital assets	13,991,384
Unrestricted	9,163,554
	23,154,938
Total liabilities, deferred inflows of resources and net position	\$ 27,800,453

See accompanying notes to financial statements.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2018

Operating revenues:	
Passenger fares	\$ 1,194,278
Advertising and other revenue	191,889
Total operating revenues	1,386,167
Expenses:	
Salaries and benefits	5,840,052
Contracted services	601,118
Materials and supplies	1,195,489
Depreciation	1,474,079
Utilities	168,126
Insurance	97,299
Taxes	59,484
Taxi service	348,278
Continuing education	11,848
Advertising	26,584
Leases	1,260
Self-insurance damage claims	49,824
Other expenses	32,438
Total operating expenses	9,905,879
Operating loss	(8,519,712)
Non-operating revenues:	
Investment income	103,357
Loss on sale of capital assets	(9,097)
Property taxes	4,840,087
Federal operating grants	2,237,908
State operating grants	724,077
Other grants	31,959
Planning grants	88,075
Total non-operating revenues	8,016,366
Loss before capital grants	(503,346)
Capital grants	227,759
Change in net position	(275,587)
Net position, beginning of year, as previously stated	23,546,954
Prior period adjustment	(116,429)
Net position, beginning of year, as restated	23,430,525
Net position, end of year	\$ 23,154,938

See accompanying notes to financial statements.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 1,425,926
Cash paid to suppliers	(2,428,790)
Cash paid to employees	(5,693,772)
	(6,696,636)
Net cash used in operating activities	
	(6,696,636)
Cash flows from non-capital financing activities:	
Property taxes and operating grants	7,678,503
	7,678,503
Cash flows from capital and related financing activities:	
Cash received on disposal of capital assets	2,230
Capital grants	107,216
Purchase of capital assets	(545,892)
	(436,446)
Net cash used in capital and related financing activities	
	(436,446)
Cash flows from investing activities:	
Proceeds from investments	5,720,000
Purchase of investments	(6,432,750)
Interest received	92,914
	(619,836)
Net cash used in investing activities	
	(619,836)
Net decrease in cash	
	(74,415)
Cash and cash equivalents, beginning of year	
	156,934
Cash and cash equivalents, end of year	
	\$ 82,519
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (8,519,712)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,474,079
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Accounts receivable	15,132
Inventory	(10,616)
Prepaid expenses	(38,817)
Deferred outflows	164,815
Accounts payable	182,390
Accrued payroll and benefits	77,244
Accrued vacation	(8,108)
Unearned revenue	24,628
Claims payable	30,000
Other post-employment benefits liability	(11,979)
Net pension liability	(128,037)
Deferred inflows	52,345
	52,345
Net cash used in operating activities	
	\$ (6,696,636)

See accompanying notes to financial statements.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1 - Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Topeka Metropolitan Transit Authority (the Authority) was created in 1973 by Kansas statutes and a City of Topeka (City) ordinance. The Authority's primary function is to plan, develop, finance and operate transit facilities serving the City. In evaluating the Authority's financial reporting entity, management has considered all potential component units and has determined there are no component units over which the Authority is financially accountable. Financial accountability is based primarily on non-operational or financial relationships with the Authority (as distinct from legal relationships). These financial statements include all the accounts for which the Authority is considered to be financially accountable.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

For financial reporting purposes, the Authority is considered a proprietary entity engaged only in business-type activities. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budget

In accordance with Kansas statutes, the Authority must establish and approve an annual operating budget. This budget is considered to be a flexible, non-appropriated budget.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of a checking account and petty cash.

Investments

Investments include a money market mutual fund account, non-negotiable certificates of deposit, brokered certificates of deposit and money deposited in the State of Kansas Municipal Investment Pool (MIP). The certificates of deposit are recorded at cost because they are not affected by market rate changes. The money market mutual fund, brokered certificates of deposit and the MIP are recorded at fair value. The fair value of the Authority's position in the MIP is the same as the value of the pool shares.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received. Management has determined that no allowance is necessary as of June 30, 2018.

Inventory

Inventory consists of fuel and is stated at cost, which has been determined using the first-in, first-out (FIFO) method of accounting.

Capital Assets

Capital assets are defined as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major additions or improvements are capitalized. When assets used in the operation of the Authority are sold, the gain or loss on the sale is recorded as non-operating revenue or expense.

Depreciation is computed using the straight-line method. Buildings are being depreciated over a period of 5 to 50 years. Buses and other equipment are depreciated over a period of 3 to 15 years.

The City deeded to the Authority the land and building at 201 North Kansas in October, 1981. The Authority is to hold title to the property as long as it remains a Transit Authority. If the Authority ceases to exist, the property will revert to the City. The City also deeded to the Authority land located at the northeast corner of Crane and Van Buren streets in July, 1996.

The Authority evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts, based on length of service. In the event of termination or separation, an employee is generally paid for all accumulated vacation. It is the policy of the Authority to record vacation pay as an expense as it is earned.

Retiring union employees with 15 to 24 years of service are paid one half of their accumulated sick leave up to a maximum of 60 days, and retiring employees with at least 25 years of service are paid one half of their accumulated sick leave up to a maximum of 70 days.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Position

The Authority's net position is displayed in three components as follows:

Net investment in capital assets - This consists of capital assets, net of accumulated depreciation and related debt.

Restricted - This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category – deferred outflows for OPEB and deferred outflows for pension. See Note 5 for more information on the deferred outflows for OPEB and Note 6 for more information on the deferred outflows for the pension.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two types of items that qualify for reporting in this category – deferred inflows for OPEB and deferred inflows for pension. See Note 5 for more information on the deferred inflows for OPEB and Note 6 for more information on the deferred inflows for the pension.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The KPERS investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred outflows and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Governmental Accounting Standards Board Statements

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Authority. The statements that might impact the Authority are as follows:

GASB Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for periods beginning after December 15, 2019.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Prior Period Adjustments

Beginning net position on the statement of revenues, expenses and changes in net position was restated to account for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The effect of this restatement on the beginning net position was a decrease of \$ (116,429), which resulted from the OPEB liability being increased by \$ 138,693 and the deferred outflows from the OPEB liability being increased by \$ 22,264. There was no effect on current or prior-year revenues or expenditures as a result of this adjustment.

2 - Deposits and Investments

A summary of the deposits and investments at June 30, 2018 is as follows:

Cash on hand	\$	5,576
Deposits		681,670
Investments		<u>10,973,715</u>
	\$	<u><u>11,660,961</u></u>

These deposits and investments are reflected on the financial statements as follows:

Cash and cash equivalents	\$	82,519
Deposits and investments:		
Operating		4,842,339
Designated		<u>6,736,103</u>
	\$	<u><u>11,660,961</u></u>

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the Authority. The statute requires banks eligible to hold the Authority's funds have a main or branch bank in the county in which the Authority is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - Deposits and Investments (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. Kansas statutes require that deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the Authority. At June 30, 2018, the Authority’s deposits were not exposed to custodial credit risk.

Investments

As of June 30, 2018, the Authority had the following investments and related maturities:

Investment Type	Fair Value	Rating	Investment Maturities (in Years)			
			Less than 1	1 - 5	6 - 10	More Than 10
Money market mutual funds	\$ 1,010,877	N/A	\$ 1,010,877	\$ -	\$ -	\$ -
Brokered certificates of deposit	5,472,891	N/A	5,472,891	-	-	-
Kansas Municipal Investment Pool	4,489,947	Not rated	4,489,947	-	-	-
	<u>\$10,973,715</u>		<u>\$10,973,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk – K.S.A. 12-1675 limits the Authority’s investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the MIP. The Authority’s investments in the MIP were not rated by a rating agency as of June 30, 2018. Maturities of the above investments may not exceed two years by statute.

The MIP is under the oversight of the Pooled Money Investment Board (the Board). The Board is comprised of the State Treasurer and four additional members appointed by the State Governor. The Board reports annually to the Kansas Legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest by the U.S. government or any agency thereof, with maturities up to four years. No more than 10 percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

2 - Deposits and Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority is not exposed to significant interest rate risk.

Concentrations of Credit Risk – The Authority has a policy that limits to \$ 500,000 the amount that the Authority may invest in any one issuer.

Custodial Credit Risk (Investments) – For an investment, custodial credit risk is the risk that, in the event of the failure of the issuer or counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2018, the Authority's investments were not exposed to custodial credit risk.

Fair Value Measurement – The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. For the year ended June 30, 2018, the money market mutual funds were valued with quoted prices on the active market (Level 1 input), the brokered certificates of deposit were valued using pricing of similar assets in markets that are not active (Level 2 input) and the MIP was valued using net asset value. Investments that are measured at net asset value are not classified in the fair value hierarchy.

3 - Board Designated Assets

The Board has established a capital and insurance reserve for the replacement of mini-buses, buses and to help maintain an adequate and modern transportation system and for the payment of future insurance claims or premiums totaling \$ 500,000. Investments totaling \$ 6,736,103 have been designated by the Board for these purposes as of June 30, 2018.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Capital Assets

Capital asset activity for the year ended June 30, 2018 is as follows:

Description	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated:				
Construction in progress	\$ 202,359	\$ 601,312	\$ (461,493)	\$ 342,178
Land	3,600,255	-	-	3,600,255
Total capital assets not being depreciated	3,802,614	601,312	(461,493)	3,942,433
Capital assets being depreciated:				
Revenue equipment	11,011,425	-	-	11,011,425
Service equipment	337,168	16,403	(15,593)	337,978
Shop and garage equipment	516,194	-	-	516,194
Computer hardware and software	176,063	-	(34,089)	141,974
Farebox equipment	702,498	-	-	702,498
Communications equipment	273,814	22,705	(16,199)	280,320
Leasehold improvements	2,177,607	160,058	(10,695)	2,326,970
Bike share equipment	49,440	-	(49,440)	-
Buildings	6,717,130	-	-	6,717,130
Bus shelters	941,712	206,909	-	1,148,621
Furniture and office equipment	11,033	-	-	11,033
Total capital assets being depreciated	22,914,084	406,075	(126,016)	23,194,143
Less accumulated depreciation for:				
Revenue equipment	(4,745,946)	(849,925)	-	(5,595,871)
Service equipment	(280,172)	(26,702)	15,593	(291,281)
Shop and garage equipment	(416,113)	(25,257)	-	(441,370)
Computer hardware and software	(115,666)	(35,416)	34,089	(116,993)
Farebox equipment	(385,186)	(66,052)	-	(451,238)
Communications equipment	(134,297)	(60,865)	16,199	(178,963)
Leasehold improvements	(1,258,264)	(107,117)	10,694	(1,354,687)
Bike share equipment	(26,781)	(11,330)	38,111	-
Buildings	(4,213,358)	(192,157)	-	(4,405,515)
Bus shelters	(209,097)	(95,580)	-	(304,677)
Furniture and office equipment	(919)	(3,678)	-	(4,597)
Total accumulated depreciation	(11,785,799)	(1,474,079)	114,686	(13,145,192)
Total capital assets being depreciated, net	11,128,285	(1,068,004)	(11,330)	10,048,951
Total capital assets	\$ 14,930,899	\$ (466,692)	\$ (472,823)	\$ 13,991,384

Depreciation expense for the year ended June 30, 2018 was \$ 1,474,079.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB)

Health Insurance

Description. The Authority offers postemployment health insurance to retired employees. The benefits are provided through a single employer defined benefit postemployment healthcare plan administered by the Authority. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. The medical insurance benefit provides the same coverage for retirees and their dependents as for active employees and their dependents. The benefit is available for selection at retirement and is extended to retirees and their dependents until the individuals become eligible for Medicare at age 65. A retiring employee who waives continuing participation in the Authority's health insurance program at the time of retirement is not eligible to participate at a later date. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75. The plan does not issue a stand-alone financial report.

Funding Policy. The Authority provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statutes, which may be amended by the state legislature, establish that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125 percent of the premium cost for other similarly situated employees. The Authority requires participating retirees to contribute 100 percent of the blended premium cost of active employees to maintain coverage.

The Authority appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditures on a pay-as-you-go basis. For the year ended June 30, 2018, the Authority contributed \$ 1,811 to the plan and participating retirees contributed \$ 0.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Employees Covered by Benefit Terms. At June 30, 2018, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefit payments	1
Active plan members	83
	84
	84

Total OPEB Liability. The Authority's total OPEB liability of \$ 140,755 was measured as of June 30, 2018, and was determined by an actuarial valuation performed as of July 1, 2018.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.87 percent
Salary increases	3.50 percent per year
Healthcare cost trend rates	9.0 percent for 2019, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent for 2027
Retirees' share of benefit-related costs	Retirees are responsible for the full premium rates up to 125% of the premium.
Actuarial cost method	Entry Age - Level Percent-of-Pay

The discount rate was based on the average of the S&P Municipal Bond 20-Year High Grade Rate Index, Bond Buyer GO 20-Bond Municipal Bond Index, and Fidelity 20-Year GO Municipal Bond Index published yields.

Mortality rates were based on the Society of Actuaries RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2017	\$ 146,176
Changes for the year:	
Service cost	13,611
Interest	5,688
Changes of benefit terms	-
Differences between expected and actual experience	(10,341)
Changes in assumptions or other inputs	(12,568)
Employer contribution (benefit payments)	(1,811)
Net changes	<u>(5,421)</u>
Balance at June 30, 2018	<u><u>\$ 140,755</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58 percent in 2016 to 3.87 percent in 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
Total OPEB liability	\$ 150,166	\$ 140,755	\$ 131,809

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following represents the total OPEB liability of the Authority as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease (8.0%)</u>	<u>Healthcare Cost Trend Rates (9.0%)</u>	<u>1% Increase (10.0%)</u>
Total OPEB liability	\$ 127,295	\$ 140,755	\$ 156,943

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$ 16,027. At June 30, 2018, the Authority reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Changes in assumptions or other inputs	\$ (10,773)
Differences between expected and actual experience	(8,864)
	<u>\$ (19,637)</u>

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

OPEB Expense and Deferred Inflows of Resources Related to OPEB (Continued)

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

<u>Year Ended December 31,</u>	
2019	\$ (3,272)
2020	(3,272)
2021	(3,272)
2022	(3,272)
2023	(3,272)
2024 and Thereafter	<u>(3,277)</u>
	<u>\$ (19,637)</u>

Disability Benefits and Life Insurance

Plan Description. The Authority participates in a multiple-employer defined benefit other postemployment benefit (OPEB) plan (the Plan) which is administered by the Kansas Public Employees Retirement System (KPERS). The Plan provides long-term disability benefits and a life insurance benefit for disabled members to KPERS members, as provided by K.S.A. 74-04927. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However because the trust's assets are used to pay employee benefits other than OPEB, the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

Benefits. Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Disability Benefits and Life Insurance (Continued)

The monthly long-term disability benefit is 60 percent of the member's monthly compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from any other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime.

The death benefit paid to beneficiaries of disabled members is 150% of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the members previous 12 months of compensation at the time of the last date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

Covered Employees. The Authority has the following employees covered by the Plan as of June 30, 2018:

Inactive employees or beneficiaries currently receiving benefit payments	2
Active employees	<u>85</u>
Total	<u>87</u>

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Disability Benefits and Life Insurance (Continued)

Total OPEB Liability. The Authority's total OPEB liability of \$82,424 reported as of June 30, 2018 was measured as of June 30, 2017 (the measurement date), and was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017, using the following actuarial assumptions:

Price inflation	2.75%
Wage inflation	2.75%
Salary increases, including wage increases	3.50%
Discount rate (based on the 20-year municipal bond rate with an average rating of AA/Aa or better, obtained from the Bond Buyer General Obligation 20-Bond Municipal Index.)	3.58%

Mortality rates used for the death benefits were based on the RP-2000 Healthy Annuitant Mortality Table for Males and Females, adjusted for generational mortality improvement using Scale AA. Mortality rates used for the disability benefits were based on the RP-2000 Disabled Life Table with generational mortality improvement using Scale AA.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the period July 1, 2014 – June 30, 2016.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Disability Benefits and Life Insurance (Continued)

Changes in Total OPEB Liability

Balance at June 30, 2016	\$ 88,982
Changes for the year:	
Service cost	15,107
Interest on total OPEB liability	2,652
Effect of plan changes	-
Effect of economic/demographic gains or losses	-
Changes in assumptions or other inputs	(2,053)
Benefit payments	<u>(22,264)</u>
Net changes	<u>(6,558)</u>
Balance at June 30, 2017	<u><u>\$ 82,424</u></u>

Sensitivity Analysis. The following presents the Authority's total OPEB liability calculated using the discount rate of 3.58%, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than the current rate:

<u>1% Decrease (2.58%)</u>	<u>Discount rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
\$ 85,086	\$ 82,424	\$ 79,541

OPEB Expense

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$17,547, which includes the changes in the total OPEB liability, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

5 - Other Postemployment Benefits (OPEB) (Continued)

Disability Benefits and Life Insurance (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	(1,840)
Benefit payments subsequent to the measurement date	22,531	-
Total	\$ 22,531	\$ (1,840)

The deferred outflow of resources related to the benefit payments subsequent to the measurement date totaling \$ 22,531 consist of payments made to KPERs for benefits and administrative costs, and will be recognized as a reduction in the total OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,		
2019	\$	(212)
2020		(212)
2021		(212)
2022		(212)
2023		(212)
Thereafter		(780)
	\$	(1,840)

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan

General Information About the Pension Plan

Description of Pension Plan. The Authority participates in a cost-sharing multiple-employer defined benefit pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

- Public employees, which includes:
 - State/School employees
 - Local employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the Authority are included in the Local employee group.

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website at www.kpers.org.

Benefits Provided. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the Kansas Legislature. Member employees with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 points.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan (Continued)

General Information About the Pension Plan (Continued)

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employees. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2, and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation for each of the three state-wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. KPERS is funded on an actuarial reserve basis.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan (Continued)

General Information About the Pension Plan (Continued)

For KPERS fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for the KPERS fiscal year ended June 30, 2017.

The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended June 30, 2018. Contributions to the Pension Plan from the Authority were \$ 345,045 for the year ended June 30, 2018.

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

At June 30, 2018, the Authority reported a liability of \$ 3,387,851 for its proportionate share of the KPERS collective net pension liability. The collective net pension liability was measured by KPERS as of June 30, 2017, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuations as of December 31, 2016, which was rolled forward to June 30, 2017. Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The Authority's proportion of the collective net pension liability was based on the ratio of the Authority's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the Local group within KPERS for the KPERS fiscal year ended June 30, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017, the Authority's proportion was .233894%, which was an increase of .006627% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Authority recognized pension expense of \$ 414,309. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 16,386	\$ 117,145
Changes in assumptions	182,450	24,773
Net difference between projected and actual earnings on pension plan investments	106,271	-
Changes in proportionate share	360,145	26,759
Authority contributions subsequent to measurement date	<u>345,045</u>	<u>-</u>
Total	<u>\$ 1,010,297</u>	<u>\$ 168,677</u>

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$ 345,045 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2019	\$ 83,689
2020	218,385
2021	170,613
2022	6,351
2023	17,537
	<u>\$ 496,575</u>

Actuarial assumptions. The total pension liability for KPERS in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.75 percent
Wage inflation	3.00 percent
Salary increases, including price inflation	3.50 to 12.00 percent, including inflation
Long-term rate of return, net of investment expense, including price inflation	7.75 percent

Mortality rates were based on the RP-2014 Combined Mortality Tables with future mortality improvements based on Scale MP-2016.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the three year period ending December 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of the most recent experience study, dated November 18, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	6.80%
Fixed income	13%	1.25%
Yield driven	8%	6.55%
Real return	11%	1.71%
Real estate	11%	5.05%
Alternatives	8%	9.85%
Short-term investments	2%	-0.25%
	<hr/>	
Total	<u>100%</u>	

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

6 - Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Discount rate. The discount rate used by KPERS to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS Board of Trustees for this group may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in the future. Based on those 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.

Sensitivity of the Authority's proportionate share of the collective net pension liability to changes in the discount rate. The following presents the Authority's proportionate share of the collective net pension liability calculated using the discount rate of 7.75%, as well as what the Authority's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Authority's proportionate share of the collective net pension liability	\$ 4,879,246	\$ 3,387,851	\$ 2,130,663

Pension plan fiduciary net position. Detailed information about the Pension Plan's fiduciary net position is available in the separately issued KPERS financial report.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

7 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters other than those related to comprehensive general liability claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have been no significant reductions in insurance coverage from the previous year.

Self-Insurance

Under the Kansas Tort Claims Act, K.S.A. 75-6101 to 75-6115, general liability claims against the Authority are limited within the scope of the act to an occurrence aggregate of \$ 500,000. The Authority self-insures for general liability claims up to this statutory dollar limit. The claims liability is based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Other non-incremental costs are not included in the basis for estimating the liability.

A reconciliation of changes in liabilities for claims, including claims incurred but not reported, for the past year follows:

Claims liabilities, beginning of year	\$	17,000
Claims incurred during the year		-
Addition to liability estimate		<u>30,000</u>
Claims liabilities, end of year	\$	<u>47,000</u>

In the past, the Authority has levied a special one-half mill ad valorem tax to establish and maintain the statutory limit of liability for aggregate claims arising from a single incident against a governmental entity for loss claims of \$ 500,000. The Authority did not levy the special one-half mill ad valorem tax for the tax year 2018.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

8 - Contingent Liabilities

Litigation

The Authority has certain contingent liabilities and is a party to various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, all such matters are adequately covered by insurance or self-insurance reserves, or if not so covered, are without merit or are of such kind, or involve such amounts that unfavorable disposition would not have a material effect on the financial position of the Authority.

Grants

Grantor agencies reserve the right to conduct audits of the Authority's grant programs for economy and efficiency and program results that may result in disallowed costs to the Authority. Management does not believe such audits, if any, would result in any disallowed costs that would be material to the Authority's financial position at June 30, 2018.

9 - Property Taxes and Significant Concentrations

The City of Topeka, Kansas, (the City) has adopted the provisions of the metropolitan transit authority act contained in K.S.A. 12-2801 through 12-2840.

The City may levy a tax as approved by the City election on April 3, 1973. The mill levy shall be upon the taxable property within the City, as authorized by ordinance of the City. The mill levy rate was \$ 4.20 per \$ 1,000 assessed valuation for the fiscal year ending June 30, 2018. The moneys derived from such tax levy shall be for the benefit of the Authority for the purpose of providing funds for the operation of the Authority.

The Authority received \$ 4,840,087 from the City for the fiscal year ended June 30, 2018. The Authority also receives a significant amount of funding through grants from the State of Kansas and the U.S. Department of Transportation.

A significant reduction in funding from these sources could materially affect the operations of the Authority.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

(Continued)

10 - Tax Abatements

The City of Topeka, Kansas and Shawnee County, Kansas enter into property tax abatement agreements with local businesses for the purpose of attracting businesses within their jurisdictions. These agreements impact local municipalities, including the Authority. For the calendar year ended December 31, 2017, abated property taxes that impacted the Authority totaled \$ 197,999, including the following tax abatement agreements that each exceeded 10 percent of the total amount abated:

- A property tax abatement to a retail distribution center. The Authority's portion of the abatement amounted to \$ 52,067.
- A property tax abatement to a food manufacturer and distributor. The Authority's portion of the abatement amounted to \$ 49,516.
- A property tax abatement to a home improvement retailer. The Authority's portion of the abatement amounted to \$ 25,112.

REQUIRED SUPPLEMENTARY INFORMATION

TOPEKA METROPOLITAN TRANSIT AUTHORITY

Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios - Health Insurance

Last Fiscal Year*

	2018
Total OPEB liability:	
Service cost	\$ 13,611
Interest	5,688
Changes of assumptions	(12,568)
Differences between expected and actual experience	(10,341)
Benefit payments	(1,811)
	(5,421)
Net change in total OPEB liability	(5,421)
Total OPEB liability, beginning	146,176
	\$ 140,755
Total OPEB liability, ending	\$ 140,755
Covered-employee payroll	\$ 3,464,914
Authority's total OPEB liability as a percentage of covered-employee payroll	4.1%

Benefit Changes. No substantial changes.

Changes of Assumptions.

1. The actuarial cost method has been updated from Projected Unit Credit with linear proration to decrement to Entry Age Normal Level % of Salary. As part of this change, the payroll growth rate assumption has been updated to follow the Kansas Public Employees Retirement System December 31, 2017 Actuarial Valuation for local employees. This assumption was not previously needed for valuation purposes. The net impact of these changes was a decrease in liabilities.
2. Discount rate as of the Measurement Date has been updated to be based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). The prior full valuation used a discount rate of 3.00% for the Transit Authority. The current full valuation uses a discount rate of 3.58% as of July 1, 2017 and 3.87% as of June 30, 2018. This change has led to a decrease in liabilities. The discount rate will be updated annually to reflect market conditions as of the Measurement Date.
3. Mortality table has been updated from SOA RPH-2015 Total Dataset Mortality Table fully generational using Scale MP-2015 to SOA RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017. This change has led to a slight decrease in liabilities.
4. The turnover rate assumption has been updated based on the local employees' rates from the most recent Kansas Public Employees Retirement System actuarial valuation as of December 31, 2017. This change has led to a slight increase in liabilities.
5. The retirement rate assumption has been updated based on the local employees' rates from the most recent Kansas Public Employees Retirement System actuarial valuation as of December 31, 2017. This change has led to a decrease in liabilities.
6. Health care trend rates have been reset to an initial rate of 9.0% decreasing by 0.5% annually to an ultimate rate of 5.0%. This change has led to an increase in liabilities.

* GASB 75 requires the presentation of 10 years. Data was not available prior to fiscal year 2018. Therefore, 10 years of data is unavailable.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios -
Disability Benefits and Life Insurance

Last Fiscal Year*

	2018
Total OPEB liability:	
Service cost	\$ 15,107
Interest	2,652
Changes of assumptions	(2,053)
Benefit payments	(22,264)
Net change in total OPEB liability	(6,558)
Total OPEB liability, beginning	88,982
Total OPEB liability, ending	\$ 82,424
Covered-employee payroll	\$ 3,655,711
Authority's total OPEB liability as a percentage of covered-employee payroll	2.25%

Benefit Changes. No significant changes.

Changes of Assumptions. No significant changes.

* GASB 75 requires the presentation of 10 years. Data was not available prior to fiscal year 2018. Therefore, 10 years of data is unavailable.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

Schedule of the Authority's Proportionate Share of the Collective Net Pension Liability -
Kansas Public Employees Retirement System

	Last Five Fiscal Years ¹				
	2018	2017	2016	2015	2014
Authority's proportion of the collective net pension liability	0.233894%	0.227267%	0.207658%	0.192612%	0.198234%
Authority's proportionate share of the collective net pension liability	\$ 3,387,851	\$ 3,518,888	\$ 2,726,641	\$ 2,370,694	\$ 3,017,282
Authority's covered-employee payroll	\$ 3,956,145	\$ 3,906,175	\$ 3,740,294	\$ 3,528,031	\$ 3,292,913
Authority's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	86%	90%	73%	67%	91%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%	59.94%

¹ GASB 68 requires presentation of ten years. Data was not available prior to 2014; therefore, ten years of data is unavailable.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

Schedule of the Authority's Contributions -
Kansas Public Employees Retirement System

Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 345,045	\$ 365,848	\$ 363,537	\$ 317,558	\$ 265,218	\$ 243,994	\$ 220,436	\$ 224,375	\$ 195,356	\$ 154,148
Contributions in relation to the contractually required contribution	(345,045)	(365,848)	(363,537)	(317,558)	(265,218)	(243,994)	(220,436)	(224,375)	(195,356)	(154,148)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 3,956,145	\$ 3,906,175	\$ 3,740,294	\$ 3,528,031	\$ 3,292,913	\$ 3,016,360	\$ 3,283,035	\$ 3,337,480	\$ 3,484,453	\$ 3,034,025
Contributions as a percentage of covered-employee payroll	9.00%	9.00%	10.00%	9.00%	8.00%	8.00%	7.00%	7.00%	6.00%	5.00%

SUPPLEMENTARY INFORMATION

TOPEKA METROPOLITAN TRANSIT AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL

Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Passenger fares	\$ 1,170,220	\$ 1,194,278	\$ 24,058
Advertising and other revenue	148,000	191,889	43,889
	<u>1,318,220</u>	<u>1,386,167</u>	<u>67,947</u>
Total operating revenues			
Operating expenses:			
Salaries and benefits	5,943,965	5,840,052	(103,913)
Contracted services	602,090	601,118	(972)
Materials and supplies	884,440	1,195,489	311,049
Depreciation	1,497,002	1,474,079	(22,923)
Utilities	166,420	168,126	1,706
Insurance	124,302	97,299	(27,003)
Taxes	62,760	59,484	(3,276)
Taxi service	348,000	348,278	278
Continuing education	18,000	11,848	(6,152)
Advertising	15,900	26,584	10,684
Leases	960	1,260	300
Self-insurance damage claims	60,000	49,824	(10,176)
Other expenses	33,840	32,438	(1,402)
	<u>9,757,679</u>	<u>9,905,879</u>	<u>148,200</u>
Total operating expenses			
Operating loss	<u>(8,439,459)</u>	<u>(8,519,712)</u>	<u>(80,253)</u>
Non-operating revenues:			
Investment income	30,000	103,357	73,357
Loss on sale of assets	-	(9,097)	(9,097)
Property taxes	4,802,204	4,840,087	37,883
Federal operating grants	2,200,000	2,237,908	37,908
State operating grants	724,077	724,077	-
Other grants	-	31,959	31,959
Planning grants	81,000	88,075	7,075
	<u>7,837,281</u>	<u>8,016,366</u>	<u>179,085</u>
Total non-operating revenues			
Income (loss) before capital grants	(602,178)	(503,346)	98,832
Capital grants	<u>602,178</u>	<u>227,759</u>	<u>(374,419)</u>
Change in net position	<u>\$ -</u>	<u>(275,587)</u>	<u>\$ (275,587)</u>
Net position, beginning of year		23,546,954	
Prior period adjustment		<u>(116,429)</u>	
Net position, end of year		<u>\$ 23,154,938</u>	

TOPEKA METROPOLITAN TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Amount	Expenditures
U.S. Department of Transportation:				
Federal Transit Cluster:				
Operating Assistance - FY17	20.507	KS-90-X164-01	\$ 2,204,687	\$ 551,172
Operating Assistance - FY18	20.507	KS-90-X168-01	2,248,981	1,686,736
Passed through Kansas Department of Transportation:				
Bus and Bus Facility (bus, bike, stops)	20.526	PT-5339-34	997,440	<u>50,865</u>
Federal Transit Cluster Subtotal				<u>2,288,773</u>
Passed through Kansas Department of Transportation:				
Capital Funds for Elderly and Disabled	20.513	PT-0079-17	450,000	184,359
Passed through City of Topeka:				
Planning Grant	20.505	-	-	<u>88,075</u>
Total expenditures of federal awards				<u><u>\$ 2,561,207</u></u>

See accompanying notes to schedule of expenditures
of federal awards.

TOPEKA METROPOLITAN TRANSIT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

1 - Basis of Presentation

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

2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3 - Relationship to Financial Statements

Federal awards received are reported in the Authority's financial statements as grants on the statement of revenues, expenses and changes in net position.

4 - Difference in Presentation of Capital Assets

The accompanying schedule of expenditures of federal awards presents capital asset acquisitions as expenditures under the definition of the Uniform Guidance. The financial statements present capital asset acquisitions as assets in accordance with accounting principles generally accepted in the United States of America.

TOPEKA METROPOLITAN TRANSIT AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2018

Section I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	None
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	None

Federal Awards

Type of auditor's report issued on compliance for major programs	Unmodified
Internal control over major programs:	
Material weaknesses identified	None
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)	None

Identification of major programs:

<u>C DFA Number</u>	<u>Name of Federal Program</u>
20.507/20.526	Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs	\$ 750,000
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TOPEKA METROPOLITAN TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section I. Summary of Independent Auditor's Results (Continued)

Auditee qualified as a low-risk auditee	Yes
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Section II. Financial Statement Findings

None.

Section III. Federal Awards Findings and Questioned Costs

None.



BERBERICH TRAHAN & CO., P.A.
Certified Public Accountants

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
Topeka Metropolitan Transit Authority
Topeka, Kansas

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 business-type activities of Topeka Metropolitan Transit Authority (the Authority), as of and for the year ended June 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 November 9, 2018.

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.

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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.

Berwick Trahan + Co., P.A.

November 9, 2018
Topeka, Kansas



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE**

Board of Directors
Topeka Metropolitan Transit Authority
Topeka, Kansas

Report on Compliance for Each Major Federal Program

We have audited Topeka Metropolitan Transit Authority’s (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority’s major federal program for the year ended June 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 the Authority’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 the major federal program. However, our audit does not provide a legal determination of the Authority’s compliance.

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Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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.

Berwick Trahan + Co., P.A.

November 9, 2018
Topeka, Kansas