FORT WORTH TRANSPORTATION AUTHORITY

FINANCIAL REPORT

September 30, 2016

FORT WORTH TRANSPORTATION AUTHORITY
Fort Worth, Texas

FINANCIAL REPORT
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Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Fort Worth Transportation Authority
Fort Worth, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Fort Worth Transportation Authority ("Authority"), as of and for the year ended September 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements 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. 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 Authority'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 the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2016, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Authority as of September 30, 2015, were audited by other auditors whose report dated March 25, 2016, expressed an unmodified opinion on those statements.

(Continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as 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 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 Schedule of Revenues and Expenses – Budget and Actual and the Schedule of Expenditures of Federal Awards as required by as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Schedule of Revenues and Expenses – Budget and Actual has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2017 on our consideration of the Fort Worth Transportation 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 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 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.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
October 16, 2017

The Fort Worth Transportation Authority (the "Authority") management prepared this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2016. The information presented herein should be read in conjunction with the accompanying financial statements and notes to the financial statements.

Financial Highlights

At September 30, 2016, the Authority's assets exceeded its liabilities by approximately $580,196,000. Of this amount, approximately $179,263,000 is unrestricted and may be used to meet the Authority's ongoing obligations in accordance with its fiscal policies. Unrestricted net position was approximately 265.2% of the fiscal 2016 operating expenses before depreciation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of two components: fund financial statements and the accompanying notes. In addition to the financial statements, this report also contains other supplementary information. The Authority's activities are accounted for in a single enterprise fund; therefore, government-wide financial statements are not presented. Enterprise funds are generally used to report business-type activities of governmental entities.

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information on the Authority's business activities during the year. The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the financial statements.

Financial Analysis of the Authority's Net Assets

The Authority's total assets of approximately $637,573,000 at September 30, 2016 represented an increase of approximately $51,146,000 or 8.7% from September 30, 2015. Capital assets which includes, land and construction in progress, at September 30, 2016 were approximately $398,933,000, representing an increase of approximately $55,419,000 or 16.1% from September 2015.

The Authority's total liabilities of approximately $57,377,000 at September 30, 2016 represented an increase of approximately $8,236,000 or 16.7% from September 30, 2015. Total current and non-current portions of long-term liabilities were approximately $4,239,000 at September 30, 2016, a decrease of approximately $1,986,000 or 31.9% from September 30, 2015. This decrease is the result of a capital lease liability being retired.

Total current liabilities increased approximately $9,957,000 or 22.8%, primarily due to the timing of payments to vendors at the end of the fiscal year and accrued payables related to a construction project.

The Authority's net position increased in fiscal 2016 by approximately $42,910,000 or 7.9%, compared to an increase of approximately $60,305,000 or 12.6%, in fiscal 2015. The decrease in the change in net position as compared to fiscal 2015 of approximately $17,395,000 is primarily due to the following:

- A decrease in operating revenues of approximately $336,000;
- An increase in operating expenses, before depreciation of approximately $4,532,000;
- A decrease in gain on disposal of capital assets of approximately $2,143,000; and
- A decrease in grants for capital improvements of approximately $16,582,000.

(Continued)

These decreases to net position were partially offset by:

- An increase in sales tax revenues of approximately $4,820,000; and
- An increase in Other Federal Operating assistance grant revenues of approximately $1,335,000.

The Authority's total assets of approximately $586,427,000 at September 30, 2015 represent an increase of approximately $92,173,000, or 18.6% from September 30, 2014. Capital assets at September 30, 2015 were approximately $343,514,000, representing an increase of approximately $51,108,000 or 17.5% from September 30, 2014.

The Authority's total liabilities of approximately $49,141,000 at September 30, 2015 represent an increase of approximately $31,868,000, or 184.5% from September 30, 2014. Total current and non-current portions of long-term liabilities were approximately $6,225,000 at September 30, 2015, increasing from approximately $955,000 at September 30, 2014, due to the increased amount due to a payable to the state comptroller's office. Total current liabilities increased at September 30, 2015 as compared to September 30, 2014 by approximately $31,252,000, primarily due to unearned transit revenue and timing of payments to vendors at the end of the fiscal year.

The Authority's net position increased in fiscal 2015 by approximately $60,305,000 or 12.6%, compared to an increase of approximately $26,707,000 or 5.9%, in fiscal 2014. The increase in the change in net position as compared to fiscal 2014 of approximately $33,598,000 is primarily due to the following:

- An increase in grants for capital improvements of approximately $25,949,000;
- An increase in gain on disposal of capital assets of approximately $3,467,000;
- An increase in sales tax revenues of approximately $1,918,000;
- A decrease in non-departmental expenses of approximately $1,614,000;
- A decrease in operating expenses, before depreciation of approximately $931,000; and
- An increase in contributions from partners of approximately $685,000.

These decreases to net position were partially offset by a decrease in Federal Preventive maintenance revenues of approximately $621,000.

A detailed discussion of these changes is provided below in the Analysis of the Authority's Statement of Revenues and Expense and Changes in Net Position section of this document.

Condensed Summary of Assets, Liabilities, and Net Position

	2016	**2015**	**2014**
Current assets	$238,640,008	$242,913,322	$201,847,568
Capital assets (net of accumulated depreciation)	398,933,096	343,513,837	292,406,138
Total assets	637,573,104	586,427,159	494,253,706
Current Liabilities	53,597,431	43,640,893	12,389,249
Long-term liabilities	3,779,358	5,499,710	4,882,891
Total liabilities	57,376,789	49,140,603	17,272,140
Net position			
Net investment in capital assets	398,933,096	341,989,738	290,616,002
Restricted	25,542,408	25,309,850	186,365,564
Unrestricted	155,720,811	169,986,968	-
Total net position	$580,196,315	$537,286,556	$476,981,566

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Analysis of the Authority's Statement of Revenues and Expenses and Changes in Net Position

Operating revenues for fiscal 2016 decreased approximately $336,000 or 3.9%. Fare revenue decreased $251,000 or 3.1% due to decreased ridership on the Authority's core transportation services, fixed route bus, paratransit and commuter rail. Other revenues, which include items such as natural gas royalties, the sale of pass covers, identification cards and subrogation revenue, decreased $196,000 or 59.8%. These decreases were partially offset by an increase in bus and bus bench advertising revenues of approximately $110,000 or 36.0%.

Operating expenses before depreciation increased approximately $4,532,000 or 7.2% in fiscal 2016 as compared to fiscal 2015. This increase in operating expenses is primarily due to the following:

- Professional services expense increased approximately $1,390,000 or 23.5% due to increased legal fees and other professional services.
- Purchased transportation services expense increased approximately $2,062,000 or 14.7% due to increases in contract and the purchase of additional services;
- Casualty and liability insurance expense increased approximately $685,000 or 56.1% due to the increase in cost of rail liability insurance policy; and
- Other expenses increased approximately $749,000 or 128.3% due to miscellaneous type items such as temporary help, furniture and equipment for new employees and other expansion related items.

These increases in operating expenses were partially offset by:

- Fuels and lubricants expenses decreased $244,000 or 10.5% due to a fuel hedge in place for the purchase of compressed natural gas; and
- Maintenance materials expenses decreased $215,000 or 6.9% due to the replacement of aging revenue vehicles resulting in a reduced overall need for maintenance parts.

Non-operating revenue (expenses) increased approximately $4,485,000 or 4.8% in fiscal 2016 as compared to fiscal 2015. This increase is primarily due to the following:

- Sales tax revenue increased approximately $4,820,000 or 7.6% due to increased sales tax collections as a result of a strong economy during fiscal 2016;
- Operating assistance grant revenue increased approximately $1,335,000 or 199.5% due to an increase in pass through related grants.
- Contributions from partners increased approximately $402,000 or 3.9% due to increased sales tax collections by the City of Grapevine. The City of Grapevine has contracted with the Authority and makes monthly contributions based on its sales tax revenues for the development of commuter rail service to Grapevine;
- Rental income increased approximately $142,000 or 18.1% due to increased rates on rental properties. Gain on disposal of capital assets decreased approximately $2,143,000 or 61.5% due to a sale of property in the previous year; and
- Street improvement fees expenses decreased $127,000 or 87.0% due to the elimination of the program.

These increases in non-operating income were partially offset by a decrease in gain on disposal of capital assets of $2,143,000 or 61.5% due to the disposal of two properties in prior year.

(Continued)

Operating expenses before depreciation decreased approximately $931,000 or 1.5% in fiscal 2015 as compared to fiscal 2014. This increase in operating expenses is primarily due to the following:

- Purchased transportation services expense decreased approximately $847,000 or 5.7% primarily due to fewer vanpool vans in service and a fuel hedge put in place mid-year;
- A decrease in fuel and lubricant expense of approximately $506,000 or 17.8% due to lower fuel costs and few vanpools being operated;
- Maintenance materials expense decreased approximately $400,000 or 11.4% due to new para-transit fleet; and
- Casualty and liability insurance expense decreased approximately $274,000 or 18.3% due to the reduction of rail liability insurance policy.

These decreases in operating expenses were partially offset by:

- Wages and benefits expense increased approximately $742,000 or 2.2% due to wage increases for both the bargaining unit and staff employees and increases in group health insurance costs;
- Professional services increased $259,000 or 4.6% due to an increase in legal fees; and
- Other costs, which include travel and staff training, increased $89,000 or 17.9% primarily due to non-capital miscellaneous costs related to hosting the APTA conference.

Non-operating revenue (expenses) increased approximately $6,991,000 or 8.1% in fiscal 2015 as compared to fiscal 2014. This increase is primarily due to the following:

- Gain on disposal of capital assets increased approximately $3,468,000 or 175.6% due to a sale of property to Dallas Area Rapid Transit, and loss on the disposal of capital assets (buses, machinery & equipment);
- Sales tax revenue increased approximately $1,918,000 or 3.1% due to increased sales tax collections as a result of a strong economy during fiscal 2015;
- Other non-departmental expenses decreased approximately $1,614,000 due to -0- expense being incurred in fiscal 2015 as compared to those expenses incurred in fiscal 2014 for the Authority's participation in local capital improvements which benefit the Authority, but for which the Authority was not the contracting party or ultimate owner of the asset;
- Contributions from partners increased approximately $685,000 or 7.1% due to increased sales tax collections by the City of Grapevine. The City of Grapevine has contracted with the Authority and makes monthly contributions based on its sales tax revenues for the development of commuter rail service to Grapevine; and
- Investment income increased $291,000 or 59.4% primarily due to an increase in cash available for investment.

These increases in non-operating income were partially offset by a decrease in federal preventive maintenance reimbursement of approximately $621,000.

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Changes in Net Position

Operating revenue	2016	2015	2014
Fare revenue	$ 7,743,650	$ 7,994,329	$ 7,931,428
Advertising	417,664	307,201	413,861
Other	132,032	328,104	155,348
Operating revenues	8,293,346	8,629,634	8,500,637
Operating expenses	84,729,472	79,767,535	80,296,672
Operating loss	(76,436,126)	(71,137,901)	(71,796,035)
Nonoperating revenue (expenses):			
Sales tax	68,611,101	63,791,099	61,873,443
Operating assistance grants	2,003,517	668,939	1,223,338
Preventive maintenance reimbursement	11,259,276	11,203,260	11,823,968
Para-transit assistance	1,200,000	1,200,000	1,200,000
Contributions from partners	10,720,756	10,318,794	9,634,133
Other non-operating revenue	4,285,644	6,540,595	2,616,707
Other non-operating expenses	(18,986)	(146,158)	(1,786,511)
Net nonoperating revenue	98,061,308	93,576,529	86,585,078
Contributions	21,284,577	37,866,362	11,917,801
Change in net position	42,909,759	60,304,990	26,706,844
Net position - beginning	537,286,556	476,981,566	450,274,722
Net position - ending	$ 580,196,315	$ 537,286,556	$ 476,981,566

Capital Assets

<u>Fiscal 2016</u>

During fiscal 2016 the Authority's net investment in capital assets increased by approximately $55,419,000. The Authority added approximately $73,369,000 in acquisitions and construction of capital asset, approximately $3,833,000 or 5% more than in fiscal 2015. Some of the more significant capital expenditures include:

- Commuter rail capital improvements include:
  - Commuter rail expansion of approximately $35,576,000; and
  - Capital maintenance of the existing rail corridor and environmental assessment of Trinity River Bridge of approximately $1,425,000.

- Fixed route bus service and para-transit service improvements include:
  - Replacement of aging para-transit and fixed route vehicles of approximately $27,834,000;
  - Bus stop improvements including ADA accessibility improvements of approximately $239,000;
  - Technology improvements of approximately $1,691,000; and
  - Facilities improvements and other capital maintenance of approximately $1,739,000.

(Continued)

Depreciation expense for fiscal 2016 was approximately $17,126,000. The following is a summary of the Authority's net capital assets.

	2016	2015
Land	$ 45,089,218	$ 45,707,409
Buildings	85,826,745	88,592,223
Building Improvements	1,028,012	1,111,425
Machinery and Equipment	4,935,565	6,085,116
Rolling Stock	37,172,033	30,794,265
Improvements other than buildings	71,879,328	76,468,955
Construction in Progress	153,002,195	94,754,444
	$ 398,933,096	$ 343,513,837

During fiscal 2015 the Authority added approximately $69,536,000 in acquisitions and construction of capital assets. This was approximately $53,657,000 or 337.9% more than in fiscal 2014.

Some of the more significant capital expenditures include:

- Commuter rail capital improvements include:
  - Commuter rail expansion of approximately $61,972,000;
  - Capital maintenance of the existing rail corridor and environmental assessment of Trinity River Bridge of approximately $1,092,000; and
  - Positive train control, passenger information system and station improvements of approximately $848,000.

- Fixed route bus service and para-transit service improvements include:
  - Bus stop improvements including ADA accessibility improvements of approximately $397,000;
  - Technology improvements of approximately $751,000; and
  - Facilities improvements and other capital maintenance of approximately $1,313,000.

The cost of these improvements was offset by approximately $16,696,000 in depreciation expense. The following is a summary of the Authority's capital assets.

Capital Assets, net of Accumulated Depreciation
as of September 30, 2015 and 2014

	2015	2014
Land	$ 45,707,409	$ 45,767,747
Buildings	88,592,223	91,152,665
Building Improvements	1,111,425	1,194,839
Machinery and Equipment	6,085,116	4,147,906
Rolling Stock	30,794,265	24,100,115
Improvements other than buildings	76,468,955	79,610,831
Construction in Progress	94,754,444	46,432,035
	$ 343,513,837	$ 292,406,138

(Continued)

Debt Administration

Capital Lease

During the year ending September 30, 2010, the Authority entered into a capital lease arrangement with All American Investments, LLC and Bank of America for the installation of energy efficient improvements at some of the Authority's facilities. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset. Under the terms of the lease, an escrow account was established in the Authority's name to fund the capital improvements. The lease called for the Authority to begin quarterly payments to Bank of America in March 2011 and ending December 1, 2021. As of September 30, 2011, the project was complete and the funds in escrow were expended. The assets under the capital lease will be amortized over the lower of their lease term or their estimated useful lives.

The capital lease balance at September 30, 2016 and 2015 was approximately $0 and $1,524,000, respectively. During 2012, the Authority refinanced this capital lease arrangement with Sun Trust Capital Group decreasing the interest rate on this capital lease from 4.24% to 2.55% per annum. The balance of the lease was paid in full May 16, 2016.

Due to State of Texas

During the year ended September 30, 2011, the Authority was notified by the Texas Comptroller of Public Accounts (the Comptroller) that the Comptroller erroneously remitted approximately $4.6 million in sales tax collections to the Authority. The Comptroller and the Authority have agreed to interest free monthly repayment terms, which will be deducted from the monthly sales tax remittance from the Comptroller through June 2036.

During fiscal 2014, the Authority was notified by the Comptroller that an additional $517,000 had been erroneously remitted. This additional amount payable to the State of Texas was added to the outstanding balance due to the State of Texas as of July 31, 2014. The Authority calculated and recorded the present value of the overpayment from the state as a long-term liability, using a 2.55% discount rate, consistent with other borrowings of the Authority. Monthly payments consist of a reduction of the principal balance, as well as recognizing the imputed interest for the period.

During fiscal 2015, the Authority was notified by the Comptroller that an additional $1,342,000 had been erroneously remitted. This additional amount payable to the State of Texas was added to the outstanding balance due to the State of Texas as of September 30, 2015. The Authority calculated and recorded the present value of the overpayment from the state as a long-term liability, using a 2.55% discount rate, consistent with other borrowings of the Authority. Monthly payments consist of a reduction of the principal balance, as well as recognizing the imputed interest for the period.

The balance due the State of Texas at September 30, 2016 and 2015 was approximately $4,239,000 and $4,701,000, respectively.

Economic Factors and Next Year's Budget

The operating budget for fiscal 2016 continues to recognize the importance of efficient service that meets the needs of our customers and community while maintaining a balanced budget. Sales tax revenues continued to be strong in fiscal 2016, increasing approximately $4.8 million or 7.6% over fiscal 2015 receipts. Sales tax revenue for fiscal 2017 are budgeted at $70.9 million, an increase of approximately $2.3 million or 3% as compared to fiscal 2016 actual revenue of $68.6 million.

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Budgeted sales tax receipts are based on a number of local economic and demographic trends, including the unemployment and population growth. The overall employment picture in Authority's service area has shown steady improvement over the past twelve months. According to the Department of Labor the unemployment rate for the Fort Worth area for August 2016 was 4.1%. This is an increase of 0.2% over August 2015, and the Fort Worth/Arlington region remains below the national unemployment rate of 4.9% in August 2016. Fort Worth, which is the Authority's largest member city, continues to experience population growth. Fort Worth's estimated population in September 2016 was 833,000. With an annual population growth rate of 3.9%, the population of Fort Worth is expected to exceed 860,000 next year.

The adopted fiscal 2017 operating budget meets key financial standards established by the Authority's Board of Directors to ensure a sound financial future. The fiscal 2017 budgeted operating expenses before depreciation totaled approximately $71 million dollars, an increase of approximately $3.2 million or 4.7% over actual fiscal 2016 total expenses before depreciation.

This budgeted increase in operating costs is primarily due to the following:

- A budgeted increase in salaries, wages and fringe benefits of $2.8 million or 7.8%, as compared to fiscal 2016 actual results. The largest contributor to this increase is wage increases for bargaining unit staff and changes to the collective bargaining unit agreement;
- A budgeted increase in service type expenses, which included purchased transportation expenses, of approximately $0.4 million or 1.9% as compared to fiscal 2016 actual results. This increase is due to an increase in projected trips, fuel rate and contract increases.

The Authority enters fiscal 2017 recognizing the importance of efficient public transportation services that meet the needs of our customers and the community. This is particularly true during a time when the Authority is undertaking a significant capital project to grow its commuter rail system. As always, our number one goal continues to be focusing on increasing system wide ridership, balancing the demands of existing public transportation modes, while making certain that funds are available in the future to build, operate and maintain expanded commuter rail service. Some of the principal issues facing the Authority include the increasing costs and greater public demand for high quality public transportation services.

Requests for Information

The financial report is designed to provide the citizens of our member cities, customers and other interested parties with a general overview of our finances. If you have any questions regarding this report or need any additional information, contact the Chief Financial Officer at Burnett Plaza 801 Cherry St, Suite 850, Fort Worth, Texas 76102 or by e-mail at fwtaweb@fwta.org.

FINANCIAL STATEMENTS

FORT WORTH TRANSPORTATION AUTHORITY
STATEMENTS OF NET POSITION
September 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents		
Reserved for operations and insurance claims	$ 11,000,000	$ 11,000,000
Reserved for capital reinvestment/rail expansion	125,880,828	88,259,681
Restricted for rail vehicles	23,542,408	25,309,850
Total cash and cash equivalents	160,423,236	124,569,531
Investments	12,646,191	80,315,565
Receivables, net	61,871,945	34,128,813
Notes receivable	131,157	200,806
Inventory	1,994,869	2,368,629
Prepaid expenses	1,572,610	1,329,978
Total current assets	238,640,008	242,913,322
Capital assets		
Land and construction in progress	198,091,413	140,461,853
Other capital assets,net of accumulated depreciation	200,841,683	203,051,984
	398,933,096	343,513,837
Total assets	637,573,104	586,427,159
LIABILITIES		
Current liabilities		
Accounts payable	27,070,964	13,843,017
Accrued payroll and payroll related taxes	279,535	1,561,891
Other accrued liabilities	2,245,363	2,200,937
Current portion of capital lease liability	-	266,037
Current portion of due to state	459,161	459,161
Unearned transit revenue	23,542,408	25,309,850
Total current liabilities	53,597,431	43,640,893
Long-term liabilities		
Capital lease liability, net of current portion	-	1,258,062
Due to state, net of current portion	3,779,358	4,241,648
Total long-term liabilities	3,779,358	5,499,710
Total liabilities	57,376,789	49,140,603
Net position		
Net investment in capital assets	398,933,096	341,989,738
Restricted	2,000,000	-
Unrestricted	179,263,219	195,296,818
Total net position	$ 580,196,315	$ 537,286,556

See accompanying notes to financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

September 30, 2016 and 2015

	2016	2015
Operating revenues		
Fare revenue	$ 7,743,650	$ 7,994,329
Advertising	417,664	307,201
Other	132,032	328,104
Total operating revenues	8,293,346	8,629,634
Operating expenses		
Salaries, wages and fringe benefits	34,296,139	34,123,137
Professional services	7,312,811	5,922,805
Purchased transportation	16,071,090	14,008,664
Operating maintenance supplies	5,720,255	6,177,871
Utilities	715,237	778,607
Casualty and liability insurance	1,905,921	1,220,995
Taxes and fees	10,632	71,938
Interest expense	237,634	183,294
Depreciation	17,126,485	16,696,216
Other	1,333,268	584,008
Total operating expenses	84,729,472	79,767,535
Operating loss	(76,436,126)	(71,137,901)
Non-operating revenues (expenses)		
Sales tax	68,611,101	63,791,099
Operating assistance grants	2,003,517	668,939
Preventive maintenance reimbursement	11,259,276	11,203,260
Para-transit assistance	1,200,000	1,200,000
Contributions from partners	10,720,756	10,318,794
Rental income	934,790	792,416
Investment income	599,700	782,411
Gain on disposal of capital assets	1,344,035	3,487,285
Street improvements	(18,986)	(146,158)
Other non-operating revenue	1,407,119	1,478,483
Total non-operating revenue (expenses)	98,061,308	93,576,529
Income before capital contributions	21,625,182	22,438,628
Grants for capital improvements	21,284,577	37,866,362
Change in net position	42,909,759	60,304,990
Net position, beginning of year	537,286,556	476,981,566
Net position, end of year	$ 580,196,315	$ 537,286,556

See accompanying notes to financial statements

	2016	2015
Cash flows from operating activities		
Receipts from customers and users	$ 5,077,050	$ 32,627,103
Payments to suppliers	(19,947,773)	(22,957,011)
Payments to employees	(35,534,069)	(34,493,872)
Net cash used in operating activities	(50,404,792)	(24,823,780)
Cash flows from non-capital financing activities		
Sales tax received	68,306,797	65,133,116
Street improvement payments	(18,986)	(146,158)
Preventive maintenance reimbursement	-	12,021,740
Para-transit assistance	1,200,000	1,200,000
Contributions from partners	10,720,756	9,474,184
Rental income	934,790	792,416
Operating grant reimbursements	2,003,517	344,023
Oil and gas revenue	64,241	60,414
Other non-departmental receipts	1,342,878	1,418,069
Other non-departmental payments	(237,634)	-
Payment of due to state	(462,290)	(121,289)
Net cash provided by non-capital financing activities	83,854,069	90,176,515
Cash flows from capital and related financing activities		
Contributions and grants for capital improvements	6,636,952	30,233,141
Acquisition and construction of capital assets	(69,305,801)	(69,540,046)
Proceeds from sale of capital improvements and land	1,344,035	5,223,416
Payments on capital lease liability	(1,524,099)	(266,037)
Net cash used in capital and related financing activities	(62,848,913)	(34,349,526)
Cash flows from investing activities		
Interest received on investments	586,276	796,206
Purchase of investments	(7,569,858)	(71,747,391)
Proceeds from sale and maturity of investments	72,236,923	69,932,631
Net cash used in investing activities	65,253,341	(1,018,554)
Net change in cash and cash equivalents	35,853,705	29,984,655
Cash and cash equivalents, beginning of year	124,569,531	94,584,876
Cash and cash equivalents, end of year	$ 160,423,236	$ 124,569,531

(Continued)

	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (76,436,126)	$ (71,137,901)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	17,126,485	16,696,216
Change in operating assets and liabilities		
Operating accounts receivable	(1,518,503)	(1,159,216)
Inventory	373,760	131,206
Prepaid expenses	(242,632)	(334,793)
Operating notes receivable	69,649	66,936
Accounts payable	13,227,947	5,964,123
Accrued payroll and payroll related taxes	(1,282,356)	(370,735)
Other accrued liabilities	44,426	230,635
Unearned revenue	(1,767,442)	25,089,749
Net cash used in operating activities	$ (50,404,792)	$ (24,823,780)
Non-cash investing activity		
Record due to state for sales tax overpayment	$ -	$ 1,342,017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fort Worth Transportation Authority (the Authority) is a local transportation authority of the State of Texas providing public transportation to certain cities in Tarrant County, Texas, created pursuant to Chapter 452 of the Texas Transportation Code, and confirmed by a public referendum on November 8, 1983. Texas state law provides that the control and operation of a regional transportation authority and its property shall be vested in a Board of Directors (the Board) comprised of eleven members. Eight Board of Directors members are appointed by the City of Fort Worth (Fort Worth) City Council and three by the Tarrant County Commissioners' Court. The Board's purpose is to oversee public and general transportation services in the Authority's service area. In November 1983, the voters in the Authority's service area approved a one-quarter of one percent sales tax to fund the Authority's operations. In January 1989, the sales tax was increased to one-half of one percent as permitted by State Law.

The Board adopted resolutions on December 19, 1992, to include the City of Lake Worth (Lake Worth) in the Authority's service area and, on June 18, 1992, to include the City of Richland Hills (Richland Hills) and the City of Blue Mound (Blue Mound) in the Authority's service area. On November 5, 1991, May 4, 1992 and May 8, 1992, the citizens of Lake Worth, Richland Hills and Blue Mound, respectively, approved referendums authorizing a one-half of one percent sales tax increase. Collection of Lake Worth sales tax began January 1, 1992. Collection of Blue Mound and Richland Hills sales tax began October 1, 1992. On September 13, 2003, Lake Worth voters elected to withdraw as a member of the Authority.

The City of Grapevine voters approved a $0.01 (one cent) increase in city sales tax on November 6, 2006. A portion of this tax, $0.0038 (three-eighths of a cent) was dedicated to the construction and operation of commuter rail from Fort Worth, through the City of Grapevine and into Dallas/Fort Worth International Airport. On May 30, 2007, the Authority entered into an interlocal agreement with the City of Grapevine to provide this service.

The accounting policies of the Authority, as reflected in the accompanying financial statements as of and for the years ended September 30, 2016 and 2015, conform to accounting principles generally accepted in the United States of America (GAAP) for local governmental units as prescribed by the Governmental Accounting Standards Board. Management uses estimates and assumptions in preparing financial statements in conformity with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that are used. A summary of the Authority's significant accounting policies applied in the preparation of the accompanying financial statements follows.

Reporting Entity: The financial statements of the Authority include all activities of the primary government, organizations and functions as required by accounting principles generally accepted in the United States of America. The Authority does not have any component units and does not meet the requirements to be included as a component unit in other governmental entities.

Basis of Accounting: The activities of the Authority are similar to those of enterprise funds of local jurisdictions and, therefore, are reported as an enterprise fund. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data: The Authority maintains control over operating expenses by the establishment of an annual operating budget. Budgets are prepared on the accrual basis consistent with GAAP. An annual proposed budget is prepared by management and submitted to the Board of Directors prior to August 1. The operating budget includes only proposed expenses and the means of financing them. Following public discussion of the proposed operating budget, the Board of Directors adopts a preliminary budget, which is forwarded to the governing bodies of the jurisdictions participating in the transportation system. After a minimum of thirty days allowed for review and comment by these governing bodies, the Board of Directors legally enacts the operating budget in a public meeting prior to October 1.

The President/Chief Executive Officer is authorized to transfer budgeted amounts between departments; however, any revisions that alter the total expenses must be approved by the Board of Directors. Therefore, total expenses may not exceed total appropriations. Formal budgetary integration is employed as a management control device during the year.

Budgets are presented in the financial statements as amended by the Board of Directors and adjusted for transfers of budgeted amounts between departments authorized by the President/Chief Executive Officer. There were no amendments made during the year. Budget appropriations lapse at the end of each fiscal year.

Budgetary data from the capital budget have not been presented in the accompanying financial statements as such amounts are budgeted over the life of the respective project and not on an annual basis.

Investments: The cash and investment policies of the Authority are governed by state statute. Statutes authorize the Authority to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by the Public Funds Investment Act. During the years ended September 30, 2016 and 2015, the Authority did not own any type of securities other than those permitted by statute. Major provisions of the Authority's cash and investment policies include: depositories must be FDIC insured by Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits and repurchase agreements; repurchase agreements are made only through the designated central depository or primary dealers; securities collateralizing repurchase agreements and time deposits are held by independent third party trustees. Investments are stated at fair value.

Inventory: Inventory is valued at average cost. Inventory generally consists of expendable supplies and vehicle parts held for consumption, and is recorded as an expense when consumed.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Assets purchased with an original cost of $2,500 or more which have a useful life of one year or more are capitalized at cost. Donated assets are valued at their estimated acquisition value on the date received. Depreciation is charged as expense over the estimated useful lives of the related assets using the straight-line method. Useful lives of capital assets approximate the following:

Buildings	20-50 years	Rolling stock	
Building improvements	4-10 years	Fixed route vehicles (light duty)	4 years
Machinery and equipment		Fixed route vehicles (medium duty)	7 years
Communications equipment	10 years	Fixed route vehicles (heavy duty)	12 years
Computer equipment	4 years	Commuter rail cars	25 years
Revenue equipment	8-10 years	Improvements other than buildings	
Maintenance equipment	4-10 years	Bus shelters	4 years
		Rail line improvements	25 years

Major improvements to buildings and equipment are capitalized. Normal maintenance and repairs are charged to expense as incurred, and improvements and betterments which extend the useful lives of buildings and improvements are capitalized.

Revenues and Expenses: Operating revenues are generated from activities related to providing public transportation services to the Authority's customers. The Authority's operating revenues include primarily passenger fare revenues and advertising revenues. Non-operating revenues are not directly related to the operations of the Authority's transit service. Sales tax revenues, grant revenues, and investment income are classified as non-operating revenues.

Operating expenses are incurred for activities related to providing public transportation services to the Authority's customers. Such activities include transportation, maintenance, and general and administration functions. Non-operating expenses include primarily contributions for other public projects. When both restricted and unrestricted resources are available for a specific expenditure, it is management's policy to first use restricted resources.

Grants and Contributions: Federal and state grants are made available to the Authority for the acquisition of public transit facilities, buses and other transit equipment, and to subsidize certain operating expenses. Grants are recorded as federal operating and formula assistance in the period in which the assistance expense is incurred, unless grants allow "pre-award" costs. In these instances, the revenues are often recognized in a period subsequent to that of the related expenses.

Unearned Revenue: Monthly tickets and passes are sold for bus operations. Unearned transit revenue is an estimate of these unused tickets and passes. Unearned revenue also includes grant funds received, but not yet earned.

Statement of Cash Flows: For purposes of the statement of cash flows, all highly liquid investments (including reserved assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 2 - OPERATING AND SERVICE AGREEMENTS

Prior to January 1, 2005, the Authority had a contract with McDonald Transit Associates, Inc. (MTA) to provide management services to operate the public transit system. McDonald Transit, Inc. (MTI) employed all personnel necessary to operate the Authority. The Authority was responsible for all costs incurred by McDonald Transit, Inc.

Effective January 1, 2005, the contract with MTA and MTI was renegotiated to provide only transportation services. MTI employs all operations and maintenance staff necessary to operate the fixed route and para-transit services for the Authority. Under this agreement, the Authority continued to be responsible for MTI costs and also paid MTA $239,158 and $233,325 in the years ended September 30, 2016 and 2015, respectively, for transit management services.

Prior to the year ended September 30, 2008, the Authority made quarterly payments to the City of Fort Worth to a dedicated fund for improvements of bus route streets and its share of a state program for arterial street expansion. During 2006, an agreement was made with the City of Fort Worth to reduce the street maintenance program payments contingent on the Authority's implementation of a rail corridor project that will pass from the southwest through northeast sections of the City. Payments were eliminated October 1, 2007. Annual payments to the Cities of Richland Hills and Blue Mound are made for improvements on bus routes. On August 22, 2016, the Board of directors voted to eliminate this practice with the final payment being made in 2016. Street improvement payments for the years ended September 30, 2016 and 2015 were as follows:

	2016	2015
City of Richland Hills	$ -	$ 33,480
City of Blue Mound	18,986	12,678
	$ 18,986	$ 46,158

Such payments are made from sales tax collected in the respective jurisdictions.

The Authority has also entered into service agreements with several contractors to provide demand responsive para-transit service to qualified customers. These organizations were paid $3,216,314 and $3,303,994 for services in the years ended September 30, 2016 and 2015, respectively.

NOTE 3 - CASH AND INVESTMENTS

All investments and cash equivalents during the year were U.S. Government Agency, U.S. Treasury Notes and Bills, TexPool and TexStar as authorized by Authority Resolution and State Statute. TexPool is duly chartered and administered by managers selected by the State Treasurer's Office with oversight by the State Treasurer. The TexPool portfolio consists of U.S. Treasury Bills, Treasury Notes, collateralized certificates of deposit and repurchase agreements. TexStar is duly chartered and administered by First Southwest Asset Management, Inc. and JPMorgan Chase. The TexStar portfolio consists of government obligations and fully collateralized repurchase agreements.

The Authority is a voluntary participant in two external investment pools, TexPool and TexStar. TexPool uses amortized investment costs rather than market values to compute participant share values. Accordingly, the fair value of the Authority's position in TexPool is substantially the same as the value of the shares in each of the pools.

TexStar uses fair market value to report net assets to compute share prices. Accordingly, the fair value of the Authority's position in TexStar is the same as the value of TexStar shares.

At September 30, 2016 and 2015, the Authority had the following investments:

	2016		2015	
	Fair Value	Weighted Avg Years to Maturity	Fair Value	Weighted Avg Years to Maturity
Certificates of deposit	$ 12,646,191	0.86	$ 80,315,565	0.49
Total investments	$ 12,646,191		$ 80,315,565	
TexPool-cash equivalent	$ 639,357	0.38	$ 1,636,147	0.11
TexStar-cash equivalent	529,702	0.41	3,026,174	0.15
Total portfolio	$ 13,815,250	0.61	$ 84,977,886	0.73

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair market 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. The three levels of the fair value hierarchy are described as follows:

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets. These types of investments primarily include common stock and equities traded on public exchanges.
> Level 2 – Significant observable inputs for the asset other than quoted prices included within Level 1 that are observable for similar securities, but not exact. These types of investments include US Government obligations and obligations of government agencies.
> Level 3 – Significant unobservable inputs for an asset, as they trade infrequently or not at all. (The City does not value any investments using Level 3 inputs.)

The Authority does not have any investments requiring this valuation level disclosure at this time.

	2016	2015
Cash and cash equivalents		
Cash deposits	$ 5,452,214	$ 10,224,201
Money market accounts - cash equivalent	153,801,963	109,683,009
TexPool - cash equivalent	639,357	1,636,147
TexStar - cash equivalent	529,702	3,026,174
Total cash and cash equivalents	$ 160,423,236	$ 124,569,531

Interest Rate Risk

In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 18 months.

Credit Risk

At September 30, 2016 and 2015, the Authority's investments in TexPool and TexStar were rated AAAm and AAm, respectively, by Standard & Poor's. The Authority’s investments in certificates of deposit were unrated both years.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority complies with the State of Texas custodial risk policy which states that all bank deposits in excess of the FDIC limit be collateralized. As of September 30, 2016 and 2015, the Authority held deposits in excess of the FDIC limit of $109,249,981 and $10,286,279, respectively. These uninsured deposits were fully collateralized by securities held by the pledging financial institution at September 30, 2016 and 2015.

Restricted and Reserved Cash

The Board of Directors has designated the use of certain assets to fund the self-insurance program (see Note 8) and to cover at least three months’ budgeted operating expense. These funds are to be continually invested until required for self-insured claims. At September 30, 2016 and 2015, the designated assets of cash and investments consisted of $1,000,000 for the self-insurance program and $10,000,000 for operations. The Authority has also designated funds for the TexRail project and capital reinvestment. Funds designated for the TexRail project consist of money received from partner cities and grants that are to be used for the TexRail project. Funds designated for capital reinvestment are to be used for ongoing capital projects as budgeted by the Authority. Collectively, funds designated for TexRail and capital reinvestment totaled $125,880,828 and $88,259,681 at September 30, 2016 and 2015, respectively. The Authority has Restricted funds which were provided through a grant from Regional Toll Revenues, to be used for the purchase of rail vehicles. These restricted funds totaled $23,542,408 and $25,309,850 at September 30, 2016 and 2015, respectively.

(Continued)

NOTE 4 - RECEIVABLES

Receivables at September 30, 2016 and 2015 consisted of the following:

	2016	2015
Ticket, token and miscellaneous receivable	$ 4,249,197	$ 2,730,694
Sales tax	6,920,984	6,616,680
Grants receivable	50,658,216	24,751,315
Accrued interest receivable	43,548	30,124
Total	$ 61,871,945	$ 34,128,813

NOTE 5 - CAPITAL ASSETS

The following table summarizes the changes in capital assets for the year ended September 30, 2016.

	Balance Beginning of Year	Increases	Decreases	Reclassifications	Balance End of Year
Capital assets, not being depreciated					
Land	$ 45,707,409	$ -	$ (618,191)	$ -	$ 45,089,218
Construction in progress	94,754,444	73,368,970	-	(15,121,219)	153,002,195
Totals, capital assets not being depreciated	140,461,853	73,368,970	(618,191)	(15,121,219)	198,091,413
Capital assets, being depreciated					
Buildings	127,042,204	-	(458,625)	-	126,583,579
Building improvements	2,152,658	-	-	-	2,152,658
Machinery and equipment	22,830,865	-	-	98,843	22,929,708
Rolling stock	110,345,498	-	-	10,975,831	121,321,329
Improvements other than buildings	143,367,958	-	-	4,046,545	147,414,503
Totals, capital assets being depreciated	405,739,183	-	(458,625)	15,121,219	420,401,777
Less accumulated depreciation for					
Buildings	38,449,981	2,560,443	(253,590)		40,756,834
Building improvements	1,041,233	83,413	-	-	1,124,646
Machinery and equipment	16,745,749	1,248,394	-	-	17,994,143
Rolling stock	79,551,233	4,598,063	-	-	84,149,296
Improvements other than buildings	66,899,003	8,636,172	-	-	75,535,175
Total accumulated depreciation	202,687,199	17,126,485	(253,590)	-	219,560,094
Total capital assets, being deprecated, net	203,051,984	(17,126,485)	(205,035)	15,121,219	200,841,683
Capital assets, net	$343,513,837	$ 56,242,485	$ (823,226)	$ -	$398,933,096

NOTE 5 - CAPITAL ASSETS (Continued)

The following table summarizes the changes in capital assets for the year ended September 30, 2015.

	Balance Beginning of Year	Increases	Decreases	Reclassifications	Balance End of Year
Capital assets, not being depreciated					
Land	$ 45,767,747	$ 1,185,208	$(1,245,546)	$ -	$ 45,707,409
Construction in progress	46,432,035	68,350,440	-	(20,028,031)	94,754,444
Totals, capital assets not being depreciated	92,199,782	69,535,648	(1,245,546)	(20,028,031)	140,461,853
Capital assets, being depreciated					
Buildings	127,042,204	-	-	-	127,042,204
Building improvements	2,152,658	-	-	-	2,152,658
Machinery and equipment	21,216,575	-	(1,399,825)	3,014,115	22,830,865
Rolling stock	104,342,800	-	(5,154,204)	11,156,902	110,345,498
Improvements other than buildings	137,510,944	-	-	5,857,014	143,367,958
Totals, capital assets being depreciated	392,265,181	-	(6,554,029)	20,028,031	405,739,183
Less accumulated depreciation for					
Buildings	35,889,539	2,560,442	-	-	38,449,981
Building improvements	957,819	83,414	-	-	1,041,233
Machinery and equipment	17,068,669	1,076,905	(1,399,825)	-	16,745,749
Rolling stock	80,242,685	3,976,567	(4,668,019)	-	79,551,233
Improvements other than buildings	57,900,113	8,998,890	-	-	66,899,003
Total accumulated depreciation	192,058,825	16,696,218	(6,067,844)	-	202,687,199
Total capital assets, being deprecated, net	200,206,356	(16,696,218)	(486,185)	20,028,031	203,051,984
Capital assets, net	$ 292,406,138	$52,839,430	$(1,731,731)	$ -	$ 343,513,837

NOTE 6 - LONG-TERM LIABILITIES

The following is a summary of the Authority's long-term liabilities for the year ended September 30, 2016:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Capital lease liability	$ 1,524,099	$ -	$ (1,524,099)	$ -	$ -
Due to state	4,700,809	-	(462,290)	4,238,519	508,514
Total	$ 6,224,908	$ -	$ (1,986,389)	$ 4,238,519	$ 508,514

The following is a summary of the Authority's long-term liabilities for the year ended September 30, 2015:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Capital lease liability	$ 1,790,136	$ -	$ (266,037)	$ 1,524,099	$ 266,037
Due to state	3,480,081	1,342,017	(121,289)	4,700,809	459,161
Total	$ 5,270,217	$ 1,342,017	$ (387,326)	$ 6,224,908	$ 725,198

Capital Lease

During the year ended September 30, 2011, the Authority entered into a capital lease arrangement with All American Investment, LLC and Bank of America for the installation of energy efficient improvements at some of the Authority's locations. The assets and liabilities under capital leases are recorded at the lower of the present value of minimum lease payments or the fair value of the asset at acquisition. The initial lease called for the Authority to make quarterly payments to Bank of America starting in March 2011 and ending December 31, 2021. This interest rate on the capital lease was 4.24% per annum. Effective September 1, 2012, the Authority refinanced the lease with Sun Trust Equipment Finance and Leasing Corp. The refinanced lease calls for quarterly payments starting September 1, 2012 and ending December 1, 2020 with interest at 2.55% per annum. The lease is secured by all assets purchased under the lease. As of September 30, 2013, the project was completed and transferred out of construction in progress and into improvements other than buildings. Payment in full was made May 16,2016 eliminating all liabilities associated with the capital lease.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Due to State

During the year ended September 30, 2011, the Authority was notified by the Texas Comptroller of Public Accounts (the Comptroller) that the Comptroller had erroneously remitted approximately $4.6 million in sales tax collections to the Authority. The Comptroller and the Authority have agreed to repayment terms, which provide for no interest and monthly payments reduced from the regular sales tax monthly remittance from the Comptroller through June 2036.

During the year ended September 30, 2014, the Authority was notified by the Comptroller that an additional $517,000 had been erroneously remitted. This additional amount payable to the State of Texas was added to the existing outstanding balance due to the State of Texas as of July 31, 2014. The Comptroller and the Authority have agreed to repayment terms, which provide for no interest and monthly payments reduced from the regular sales tax monthly remittance from the Comptroller through June 2036.

During the year ended September 30, 2015, the Authority was notified by the Texas Comptroller of Public Accounts that the Comptroller had erroneously remitted approximately $1.3 million in sales tax collections to the Authority. This additional amount payable to the State of Texas was added to the existing outstanding balance due to the State of Texas as of September 30, 2015.

The Comptroller and the Authority have agreed to repayment terms, which provide for no interest and monthly payments reduced from the regular sales tax monthly remittance from the Comptroller through April 2019.

The Authority has calculated and recorded the present value of the overpayments from the state, noted above, as a long-term liability, using a 2.55% discount rate, consistent with other borrowings of the Authority. Monthly payments will consist of a reduction of the principal balance as well as recognition of the imputed interest for the period.

Reductions of future sales tax remittances from the Comptroller to the Authority for repayment of the amount due to state at September 30, 2016 were scheduled as follows:

Year Ending September 30	
2017	$ 610,680
2018	610,680
2019	443,149
2020	208,620
2021	208,620
2022-2026	1,043,100
2027-2031	1,043,100
2032-2036	990,976
Total minimum payments	$ 5,158,925
Less amount representing interest	(920,406)
Recorded value of minimum payments	$ 4,238,519

The imputed interest totaled $112,584 and $87,331 for the years ended September 30, 2016 and 2015, respectively, and is included in interest expense.

NOTE 7 - RETIREMENT BENEFITS

The Authority has established the McDonald Transit, Inc. 401(k) Retirement Plan (the 401(k) Plan), which is a defined contribution plan under the Internal Revenue Code (the IRC). The 401(k) Plan has a calendar year end and is administered by an advisory committee. The provisions of the 401(k) Plan allow full time, part time and temporary employees of MTI who are age 18 or older and work at least one hour to be participants and to make voluntary contributions of up to 100% of their compensation or the IRC limitations.

The Authority makes contributions to the 401(k) Plan for employees who work 1,000 hours or more during a calendar year based on their voluntary contribution as follows:

Employee Contribution as a Percent of Compensation	The Authority's Contribution
0%	3%
1.00-1.99%	4%
2.00-3.99%	5%
4.00% or greater	6%

During fiscal years ended September 30, 2016 and 2015, the employee contributions to the 401(k) Plan were $961,045 (4.76% of covered payroll) and $1,022,158 (5.15% of covered payroll), respectively. The Authority's contributions to the 401(k) Plan for those years were $1,111,027 and $1,176,077, respectively.

In January 2005, several of the MTI employees were transferred to become direct employees of the Authority (see Note 2). The affected employees' vested contributions from the 401(k) Plan were transferred to the Fort Worth Transportation Authority Eligible 457(b) Plan (the 457(b) Plan), which was adopted on December 14, 2004. All employees of the Authority are eligible to participate effective on the employee's hire date with the Authority. The 457(b) Plan allows for the Authority to make a discretionary matching contribution for the employees based on a percentage of each participant's contributions to the plan.

During the years ended September 30, 2016 and 2015, the employee contributions to the 457(b) Plan were $352,422 (6.43% of covered payroll) and $396,104 (6.63% of covered payroll), respectively. The Authority's contributions to the 457(b) Plan for those years were $356,784 and $348,743, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Authority has active commitments related to capital projects as of September 30, 2016. The Authority has spent $68,904,452 on these projects and has remaining commitments of $642,978,924 at September 30, 2016.

Risk Management

The Authority participates in the Texas Municipal League Intergovernmental Risk Pool (the Risk Pool) to provide insurance for errors and omission and property coverage. At September 30, 2016 and 2015, the Risk Pool was self-sustaining based on premiums charged, so that total contributions plus compounded earnings on these contributions will be sufficient to satisfy claims and liabilities and other expenses. Premiums are assessed based on the rates set by the Texas State Board of Insurance and may be adjusted, on an annual basis, by the Risk Pool's Board of Trustees for each participating political subdivision's experience.

(Continued)

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

The Risk Pool has purchased stop loss coverage to protect the assets of the pool from catastrophic losses. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years, and there have been no significant reductions in insurance coverage during the current year.

The Authority is fully self-insured for vehicle and general liability damage claims and for the first $750,000 of any workers' compensation claims and carries excess workers' compensation insurance for claims that exceed $750,000 per claim up to the statutory limit.

The claims liability for vehicle, general liability and workers' compensation of $1,108,798 and $1,085,267 reported at September 30, 2016 and 2015, respectively, is based on the requirements of Government Accounting Standards Board Statement No. 10 (GASB No. 10), which requires 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 the loss can be reasonably estimated. The provision for reported claims is determined by estimating the amount which will ultimately be paid to each claimant. The provision for claims incurred but not yet reported is estimated based on the Authority's experience with similar claims.

Changes in the reported liability for the years ended September 30, 2016 and 2015 are as follows:

	Beginning of Year Liability	Incurred Claims and Adjustments	Claim Payments	End of Year Liability
Vehicle and general liability				
Fiscal year 2016	$ 373,286	$ 727,040	$ 666,657	$ 433,669
Fiscal year 2015	$ 437,500	$ 324,456	$ 388,670	$ 373,286
Fiscal year 2014	$ 300,092	$ 401,600	$ 264,192	$ 437,500
Workers' compensation				
Fiscal year 2016	$ 711,981	$ 183,676	$ 220,528	$ 675,129
Fiscal year 2015	$ 430,309	$ 547,201	$ 265,529	$ 711,981
Fiscal year 2014	$ 218,724	$ 910,208	$ 698,623	$ 430,309

There were no significant reductions in insurance coverage from the prior year by major categories of risk, and no settlements exceeded insurance coverage for each of the past three fiscal years.

(Continued)

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

Cash and/or investments of $1,000,000 were held for purposes of funding future claims liabilities (see Note 3) at September 30, 2016 and 2015.

Lease Commitments

The Authority leases tires under operating leases. The tire lease includes maintenance of approximately $7,000 per month. Under the terms of the present leases, total future minimum lease payments are as follows for fiscal years ending September 30:

2017	$ 179,328

Total lease payments approximated $367,000 and $380,000 for the years ended September 30, 2016 and 2015, respectively.

State and Federal Grants

The Authority participates in several state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of money received may be required and the collectability of any related receivables at September 30, 2016 and 2015 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; accordingly, no provision has been recorded in the accompanying financial statements for such contingencies.

Litigation

The Authority has various pending claims and lawsuits. It is the evaluation of management and legal counsel that any liabilities related to these claims will not have a material effect on the accompanying financial statements in excess of the accrued estimated loss of $433,669.

NOTE 9 - TRINITY RAILWAY EXPRESS (TRE)

On July 7, 1983, the Cities of Dallas and Fort Worth, Texas (the Cities) acquired the Rock Island railroad right-of-way connecting the two Cities. In 1994, the Cities entered into an interlocal agreement (the Agreement) with the Authority and Dallas Area Rapid Transit (DART) providing access to the rail corridor for the two transit authorities. A separate agreement was also executed during the year between the Authority and DART to provide for operations of the Trinity Railway Express (TRE) commuter rail service on the corridor. On December 29, 1999, the Cities deeded the rail corridor to the Authority and DART for the development of passenger rail service between Fort Worth and Dallas. The Authority and DART each own an undivided joint interest in the rail corridor.

NOTE 10 - SUBSEQUENT EVENTS

The Authority received a Full Funding Grant Agreement (FFGA) for the TEX Rail project on December 15, 2016. This grant is part of the New Starts program and will provide 48.28% of the funding for TEX Rail, totaling a maximum financial contribution of $499,390,221. The Authority issued Loan Notes for $325,000,000 on December 21, 2016 using the FFGA as pledged security. The funds provided through the Notes issued will be used to complete construction on a shorter schedule than the expected payments from the FFGA.

SUPPLEMENTARY INFORMATION

FORT WORTH TRANSPORTATION AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES –
Budget and Actual Year Ended September 30, 2016 with
Comparative Actuals for the Year Ended September 30, 2015

	2016				2015
	Original Budget	Final Budget	Actual	Variance Over (Under)	Actual
Operating revenues					
Fare revenue	$ 8,033,399	$ 8,033,399	$ 7,743,650	$ (289,749)	$ 7,994,329
Advertising	340,000	340,000	417,664	77,664	307,201
Other	400,000	400,000	132,032	(267,968)	328,104
	8,773,399	8,773,399	8,293,346	(480,053)	8,629,634
Operating expenses					
Salaries, wages and fringe benefits	36,539,184	36,539,184	34,296,139	(2,243,045)	34,123,137
Professional services	6,578,206	6,578,206	7,312,811	734,605	5,922,805
Purchased transportation	16,140,888	16,140,888	16,071,090	(69,798)	14,008,664
Fuels and lubricants	2,457,372	2,457,372	2,090,497	(366,875)	2,334,588
Tires and tubes	414,612	414,612	377,509	(37,103)	421,160
Maintenance materials	2,823,109	2,823,109	2,893,039	69,930	3,107,822
Supplies and materials	447,289	447,289	359,210	(88,079)	314,301
Utilities	890,460	890,460	715,237	(175,223)	778,607
Casualty and liability insurance	402,312	402,312	1,905,921	1,503,609	1,220,995
Taxes and fees	118,120	118,120	10,632	(107,488)	71,938
Interest expense	120,452	120,452	237,634	117,182	183,294
Depreciation	16,426,000	16,426,000	17,126,485	700,485	16,696,216
Other	1,050,178	1,050,178	1,333,268	283,090	584,008
	84,408,182	84,408,182	84,729,472	321,290	79,767,535
Operating loss	(75,634,783)	(75,634,783)	(76,436,126)	(801,343)	(71,137,901)
Non-operating revenues (expenses)					
Sales tax	67,857,388	67,857,388	68,611,101	753,713	63,791,099
Operating assistance grants	694,337	694,337	2,003,517	1,309,180	668,939
Preventive maintenance reimbursement	11,259,285	11,259,285	11,259,276	(9)	11,203,260
Para-transit assistance	1,200,000	1,200,000	1,200,000	-	1,200,000
Contributions from partners	10,749,757	10,749,757	10,720,756	(29,001)	10,318,794
Rental income	610,000	610,000	934,790	324,790	792,416
Investment income	400,000	400,000	599,700	199,700	782,411
Gain (loss) on disposal of capital assets	-	-	1,344,035	1,344,035	3,487,285
Street improvements	(169,417)	(169,417)	(18,986)	150,431	(146,158)
Other non-operating revenue	-	-	1,407,119	1,407,119	1,478,483
Total non-operating revenue (expenses)	92,601,350	92,601,350	98,061,308	5,459,958	93,576,529
Income before capital grants	16,966,567	16,966,567	21,625,182	4,658,615	22,438,628
Grants for capital improvements	168,104,830	168,104,830	21,284,577	(146,820,253)	37,866,362
Change in net position	$ 185,071,397	$ 185,071,397	$ 42,909,759	$ (142,161,638)	$ 60,304,990

FORT WORTH TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor Program Title Number	Grantor ID Number	Catalog of Federal Domestic Assistance Assistance ID Number	Federal Expenditures
U. S. Department of Transportation			
Federal Transit Cluster			
5309 Bus Ladders of Opportunity	TX-16-0062	20.500	$ 1,084,475
FTA/Formula (and flex funds)	TX-95-0069	20.507	13,200,000
FTA/Formula (and flex funds)	TX-90-0735	20.507	5,923
FTA/Formula (and flex funds)	TX-90-Y032	20.507	50,157
FTA/Formula (and flex funds)	Unassigned	20.507	12,459,276
FTA/CMAQ and STP-MM	TX-95-0019	20.507	135,219
FTA/CMAQ and STP-MM	TX-95-0060	20.507	149,424
FTA/CMAQ and STP-MM	TX-95-0068	20.507	5,965
FTA/Formula (Section 5339)	TX-16-0057	20.526	1,604,651
Total Federal Transit Cluster			28,695,090
Highway Planning and Construction Cluster			
Passed through Texas Department of Transportation (TxDot)			
FW Bikeshare	Unassigned	20.205	243,556
Texas Mobility Funds	Unassigned	20.205	2,217,627
Total Highway Planning and Construction Cluster passed through TxDot			2,461,183
Transit Services Programs Cluster			
Passed through Texas Department of Transportation			
Elderly and Persons w/Disabilities (Sec 5310)	TX-2016-039	20.513	1,467,912
Passed through North Central Texas Council of Governments			
IVR Project	Unassigned	20.521	251,176
JARC Vanpool	TX-37-X-4070	20.516	10,355
JARC Reverse Commute	TX-37-X-4086	20.516	66,982
New Freedom Funds	TX-57-X-0045	20.521	106,670
JARC Reverse Commute	TX-37-X100	20.516	878,960
New Freedom Funds	TX-057-X050	20.521	170,498
Total passed through North Central Texas Council of Governments			1,484,641
Total Transit Services Programs Cluster			2,952,553
Total expenditures of federal awards			$ 34,108,826

See notes to the Schedule of Expenditures of Federal Awards

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Fort Worth Transportation Authority (the Authority). The Authority's reporting entity is defined in Note 1 to the Authority's financial statements.

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 September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Basis of Accounting: Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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

Subrecipients: Of the Federal expenditures presented in the schedule, the Authority did not provide any Federal awards to subrecipients.

Non-Cash Assistance: The Authority did not receive any non-cash assistance during the year.

Federal Insurance: The Authority had no Federal insurance in force during the year.

Loan Activity: The Authority had no loan activity during the year and no loans outstanding as of year end.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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

To the Board of Directors
Fort Worth Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fort Worth Transportation Authority (the "Authority") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described as 2016-001, 2016-002, 2016-003 and 2016-005 in the accompanying *schedule of findings and questioned costs* to be material weaknesses.

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. We consider the deficiency described as 2016-004 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-005.

The Authority's Response to Findings

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

Purpose of this Report

The purpose of this 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 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.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
October 16, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors
Fort Worth Transportation Authority

Report on Compliance for Each Major Federal Program

We have audited the Fort Worth Transportation Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Federal Transit Cluster

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding the CFDA 20.500, 20.507 and 20.526 Federal Transit Cluster as described in finding number 2016-005 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

(Continued)

Qualified Opinion on Major Program Federal Transit Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Federal Transit Cluster for the year ended September 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2016.

Other Matters

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

Report on Internal Control Over Compliance

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as 2016-005, that we consider to be a material weakness.

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

(Continued)

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.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
October 16, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	X Yes	___ No
Significant deficiency (ies) identified?	X Yes	___ None reported
Noncompliance material to financial statements noted?	X Yes	___ No

Federal Awards

Internal Control over major program:

Material weakness (es) identified?	X Yes	___ No
Significant deficiency (ies) identified?	___ Yes	X None Reported

Type of auditor's report issued on compliance for major programs:
Federal Transit Cluster – Qualified
Transit Services Programs Cluster - Unmodified

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
20.500, 20.507, 20.526	Federal Transit Cluster
20.513, 20.516, 20.521	Transit Services Programs Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $1,023,265

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

Section II - Financial Statement Findings

Finding 2016-001

Financial Accounting and Reporting Environment – Material Weakness

Criteria: An organization should have a system of internal controls, which are sufficiently designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the financial statements on a timely basis. An effective system of internal controls also needs to operate as designed. Formal written policies and procedures are an integral part of a system of internal controls. Such policies and procedures are established to ensure integrity over financial reporting and to safeguard assets. Segregation of duties should be in place to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

Condition and Context: Significant audit adjustments were required to correct errors and improper presentation of financial information. Internal controls and policies and procedures were either not in place, not adequately documented or not followed as evidenced by the following:

1. Controls in place related to the recognition of costs incurred but not yet billed for a significant project failed to appropriately identify costs of $10,834,864 which needed to be accrued.

2. Controls in place related to reconciliation and review failed to prevent or detect a set of 23 buses recorded in the system twice in error.

3. Of 32 journal entries selected for testing, 22 of them did not have documentation of who prepared the entry or who approved the entry to demonstrate appropriate segregation of duties.

4. The Schedule of Expenditures of Federal Awards (“SEFA”) and the Schedule of Expenditures of State Awards (“SESA”) was prepared by the Chief Financial Officer rather than by an accountant and therefore lacked a management review.

5. The SEFA contained a State award. Additionally, the SEFA and the SESA were not prepared until prompted by the external auditors.

6. The back-up for the payroll processing position, is a human resources employee who has the ability to add new employees and change pay rates which could result in fraudulent activity.

Cause: Lack of certain written policies and procedures and policies and procedures were not adequately documented or followed.

Effect: Material misstatement of the financial statements and inadequate safeguarding of assets.

Recommendation: Review and document the appropriateness of the organizational structure and responsibilities of personnel in the accounting and financial reporting functions.
A thorough review of the internal controls in place should be performed and duties reassigned if necessary in order to assure that all important review, approvals and monitoring tasks are being performed by independent supervisory personnel.

An organizational and operational review of the accounting processes should be performed that would encompass a review of accounting policies, procedures, document flow, internal control, reporting financial analysis and other components of the overall accounting system. While the Authority may have informal

(Continued)

policies in place, the Authority would benefit from a more formal and comprehensive policies and procedures manual which would provide detailed guidance to employees of the Authority.

Specifically, as related to the items enumerated above:

1. Management should implement a year-end process for capturing all significant open projects for the purpose of estimating accruals. The procedures should be documented.

2. A review and analysis or reconciliation of capital assets subsidiary ledgers to the general ledger should be conducted at year end.

3. Independent reviews and approvals of journal entries should be established for all instances.

4. The SEFA and the SESA should be prepared by an individual who is knowledgeable about federal and state awards. That individual should take responsibility for ensuring that the SEFA is properly prepared. The SEFA should then be reviewed by the controller, CFO or other knowledge person other than the preparer.

5. The SEFA and the SESA, including the reconciliation of the federal and state expenditures as they relate to revenues and accounts receivable, should be prepared in advance of the audit.

6. Personnel whose duties include payroll processing should not have access and rights to the personnel files or the ability to add employees or change pay rates. Management should reevaluate and redistribute responsibilities to ensure a proper segregation of duties.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan

Finding 2016-002

Assignment and Restriction of Access Rights– Material Weakness

Criteria: Administrative access rights should be restricted to a limited number of authorized personnel to prevent unauthorized user access to the system.

Condition and Context: Due to Ellipse system limitations, the ability to determine if access is appropriately assigned and authorized is not testable. These limitations also inhibit management's ability to verify that access has been appropriately provisioned and monitored. Specifically:

1. Management does not have a good understanding of the system, due to system age and complexity, and relies on outside consultants for expertise.

2. Due to lack of system-generated reports, management cannot review system access periodically to verify that user rights are appropriately assigned and that terminated employees do not have active accounts.

3. Due to system's inability to generate useful reports, management cannot effectively monitor system activity to verify that employees with access to sensitive roles are not performing unauthorized transactions.

Cause: Ellipse access rights are granular in nature, in that rights are assigned to a particular position or job title. The system itself does not provide canned reports that delineate specific access; rather, one must go into each position and review the access individually. With hundreds of positions in the company, there is no

(Continued)

feasible method to review access rights to determine if they are appropriately assigned. There are no system reports available that grant the ability to search for specific rights.

Effect: An unauthorized individual may hold inappropriate access rights.

Recommendation: Management should consider the required control elements to appropriately monitor system access as it moves toward implementing a new ERP solution.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2016-003

Passwords – Material Weakness

Criteria: Passwords should be set to expire frequently and parameters should be configured to prevent unauthorized system access.
Condition: Ellipse passwords are set to expire every 9,999 days, or every 27 years. The network passwords also do not force use of complex passwords, such as the use of alphanumeric, numeric, upper/lowercase and/or special characters. In Trapeze, currently password length is set to 6 characters which does not meet industry standards

Cause: Overall lack of controls policies and system configuration to policies.

Effect: The use of simple passwords and in the case of Ellipse, potential that passwords are never changed, increases the risk that malicious individuals may gain access to financially significant systems and perform unauthorized transactions.

Recommendation: Management should set Ellipse to require passwords to expire every 60 days at most. Additionally, password complexity should be enabled for the Windows environment and password length increased to at least a minimum of eight characters.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2016-004

Fraud Risk Assessment – Significant Deficiency

Criteria: The Authority recognizes the importance of maintaining fraud prevention and detection programs. Under generally accepted auditing standards (GAAS) from the AICPA and adopted by the U.S. Governmental Accountability Office, in obtaining an understanding of an entity's control environment, independent auditors must consider the design and implementation of programs and controls that address the risk of fraud. The absence or inadequacy of such programs and controls can represent a significant deficiency or material weakness in an entity's control environment.

Condition: Documentation of a formal fraud risk assessment is lacking.

Cause: Overall lack of controls policies and documentation.

(Continued)

Effect: Potential for material misstatement of the financial statements due to fraud and safeguarding of assets.

Recommendation: Develop a strategy for a risk assessment program for the Authority. Evaluate and implement changes to existing policies and procedures and initiate new programs and controls that are identified during the evaluation process.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2016-005

Reporting – Federal Transit Cluster – Material Weakness – See Section III.

Section III - Federal Award Findings and Questioned Costs

Finding 2016-005

Program: Federal Transit Cluster
CFDA No.: 20.500, 20.507, 20.526
Federal Agency: U.S. Department of Transportation
Passed-through: Texas Department of Transportation
Award No.: TX-16-0062, TX-95-0069, TX-90-0735, TX-90-Y032, unassigned, TX-95-0019, TX-95-0060, TX-95-0068, TX-16-0057
Award Year: Fiscal year 2015-2016

Compliance Requirement: Reporting – *Material Weakness in Controls and Noncompliance with Grant Requirements*

Criteria: For reporting the SF-425*, Federal Financial Report (FFR)* – the Authority is required to have controls in place to prevent, or detect and correct, errors in quarterly expenditure reimbursement reports. Accurate quarterly reports are required to be submitted within 30 days of the end of the quarter.

Condition Found: Copies of the quarterly FFR reports were not maintained for audit, and there was no formal documentation that the reports were reviewed and approved prior to submission to the Federal Transit Administration. While the reports submitted were found accurate, three of the five reports tested were filed late.

Questioned Costs: None noted.

Context: A worksheet of expenditures did have a secondary review, however, the preparer of the quarterly reports submitted the reports to the Federal Transit Administration without a documented secondary review. Three of the five reports were filed late.

Effect: Lack of review and approval increases the risk that an error could go undetected. Late submission of reports is non-compliance and risks loss of award.

Cause: Lack of a control in place requiring a review of the reports prior to submission.

Recommendation: A member of management should perform and document a review of the quarterly expenditure reports before the reports are submitted to the Federal Transit Administration (FTA). The reports should be submitted within the timeframe required by the FTA. Copies of the required quarterly reports with evidence of a management review should be maintained.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

FORT WORTH TRANSPORTATION AUTHORITY
CORRECTIVE ACTION PLAN
September 30, 2016

Finding 2016-001 **Financial Accounting and Reporting Environment – Material Weakness**

Planned Corrective Actions: Management has implemented several policy changes in order to provide better internal control, more accurate information and be able to detect errors in a timely manner. Specifically, as related to the items enumerated above:

1. Management has implemented policies and procedures for year-end which include working with other departments to ensure all outstanding liabilities are recognized and recorded.

2. Management's changes to policies and procedures resulted in personnel turnover. Year-end reconciliations were completed however, new staff failed to recognize an issue with a closed purchase order that received twenty-three buses but never received a corresponding invoice to be paid. Staff has been redirected to work with procurement to ensure that all purchase orders were closed out appropriately throughout the year and corresponding liabilities are recorded and paid in a timely manner.

3. Management's changes to policies and procedures resulted in personnel turnover. There were instances throughout the year when reviews and approvals of journal entries was not adhered to due to lack of staff or knowledge.

4. Management's changes to policies and procedures resulted in personnel turnover. Staff lacked experience in the area of SEFA and SESA preparation and controller was hired only a month prior to year-end. We now have two accountants on staff, both of which are being trained to understand the process for preparing and ensuring accuracy. Review will be completed by the controller and a final review completed by the Chief Financial Officer.

5. Management's changes to policies and procedures resulted in personnel turnover. Staff which previously completed the SEFA and SESA were no longer employed by FWTA. New accounting personnel including two accountants and a controller were hired but unaware of the requirements for preparing the SEFA and SESA. All personnel have been trained and fully understands the record keeping and requirements for preparing both schedules.

6. Management is currently working on replacing the current outdated enterprise resource system. This process includes an evaluation of all business processes and procedures by a consultant. Management will be reviewing and evaluating the consultant's recommendations for changes to current business practices to include proper segregation of duties.

Contact person(s) responsible for corrective action: Sapna Narsian, Controller, Kathy Bridwell, AVP of Procurement, and Keith Kunkle, Director of IT

Anticipated Completion Date: Initial Changes will be completed by 10/20/2017; New ERP system in place by September 2018.

(Continued)

FORT WORTH TRANSPORTATION AUTHORITY
CORRECTIVE ACTION PLAN
September 30, 2016

Finding 2016-002 **Assignment and Restriction of Access Rights– Material Weakness**

Planned Corrective Actions: Management is working on replacing the current outdated enterprise resource system. Management is working closely with a consultant that all necessary and appropriate security is present in the new system and is further strengthened with proper segregation of duties.

Contact person(s) responsible for corrective action: Keith Kunkle, Director of IT

Anticipated Completion Date: 10/20/2017

Finding 2016-003 **Passwords – Material Weakness**

Planned Corrective Actions: Management is working with IT to determine the best approach for ensuring password security and implementing changes immediately. These changes in policy will be continued when implementing the new enterprise resource system.

Contact person(s) responsible for corrective action: Keith Kunkle, Director of IT

Anticipated Completion Date: 10/20/2017

Finding 2016-004 **Fraud Risk Assessment – Significant Deficiency**

Planned Corrective Actions: Management has implemented several policy changes however is continuing to identify areas of concerns and needs for revamping. Management acknowledges the need for a thorough risk assessment program and has begun the process of developing a strategy.

Contact person(s) responsible for corrective action: Monica Fowler, CFO and Sapna Narsian, Controller

Anticipated Completion Date: 11/17/2017

Finding 2016-005 **Material Weakness – Federal Transit Cluster**
Compliance Requirement: Reporting

Planned Corrective Actions: Management regularly reviews all data entered into the federal transit administration's website for reporting purposes however in the past has failed to document the review process for audit purposes. Management implemented a new review process this fiscal year where prior to submission of any required reporting, management reviews and signs off on report being submitted using an annual checklist. Timeliness is of upmost importance when submitting reporting. In fiscal year 2016, the federal transit administration changed the host website and reporting functions were not available.

Contact person(s) responsible for corrective action: Angela Smith, Grants Administrator

Completion Date: 07/21/2017

Status of Prior Year Single Audit Findings

Finding 2015-001

Financial Reporting Environment – reconciliations of cash, accounts receivables and revenues

Responsible Official's Response: Management did review the bank reconciliation as of September 31, 2015 in a timely manner; however, this review did not identify the improper reconciling items. Going forward, management will perform more detailed reviews, and investigate unusual reconciling items. Management was aware that grant receivables and revenues were not recorded, and intended to recognize these items once cash disbursements were made to relieve the liabilities incurred related to these expenditures. Management now understands that the revenues should be recognized consistently with the related expenditures for reimbursement grants.

Status: Corrected.

Finding 2015-002

Financial Reporting Environment – Estimating and recording accruals

Responsible Official's Response: The accounting department did make an attempt to estimate liabilities for work performed prior to the balance sheet date, however, not enough information was provided by project managers to allow for a materially correct estimate. Going forward, specific efforts will be made to gather invoices related to each significant project in a timely manner, so that accruals for work performed prior to the balance sheet date can be recognized.

Status: Not corrected. See Finding 2016-00

FORT WORTH TRANSPORTATION AUTHORITY

Independent Auditor's Reports on State Awards in Accordance with the State of Texas *Uniform Grant Management Standards*

September 30, 2016

FORT WORTH TRANSPORTATION AUTHORITY

Fort Worth, Texas

Independent Auditor's Reports on State Awards in
Accordance with the State of Texas
Uniform Grant Management Standards

September 30, 2016

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

To the Board of Directors
Fort Worth Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fort Worth Transportation Authority (the "Authority") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described as 2016-001, 2016-002, 2016-003 and 2016-005 in the accompanying *schedule of findings and questioned costs* to be material weaknesses.

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. We consider the deficiency described as 2016-004 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-005.

The Authority's Response to Findings

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

Purpose of this Report

The purpose of this 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 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.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
October 16, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE AWARDS REQUIRED BY THE STATE OF TEXAS *UNIFORM GRANT MANAGEMENT STANDARDS*

To the Board of Directors
Fort Worth Transportation Authority

Report on Compliance for the Major State Program

We have audited the Fort Worth Transportation Authority's (the Authority) compliance with the types of compliance requirements described in the State of Texas *Uniform Grant Management Standards* that could have a direct and material effect on the Authority's major state program for the year ended September 30, 2016. The Authority's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major state 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 *Uniform Grant Management Standards*, issued by the Governor's Office of Budget and Planning of the State of Texas. Those standards and the *Uniform Grant Management Standards* 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 state 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 state program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion on Regional Rail Vehicles Grant

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding the CSJ 0902-90-002 Texas Department of Transportation Regional Rails Vehicle grant as described in finding number 2016-006 for Matching. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

(Continued)

Qualified Opinion on Regional Rail Vehicles Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Regional Rails Vehicle grant for the year ended September 30, 2016.

Other Matters

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

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with *Uniform Grant Management Standards*, 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 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 state 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 state 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 state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-006, that we consider to be a material weakness.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
October 16, 2017

FORT WORTH TRANSPORATION AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended September 30, 2016

State Grantor/Pass-Through Entity/ Program Title	Grantor ID Number	State Expenditures
Texas Department of Transportation		
Passed through: Regional Transportation Council and North Central Texas Council of Governments:		
Regional Rail Vehicles	CSJ0902-90-002	$ 1,776,450
Total expenditures of State awards		$ 1,776,450

See accompanying notes to schedule of expenditures of state awards.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General:
The accompanying Schedule of Expenditures of State Awards presents the activity of all state award programs of Fort Worth Transportation Authority (the Authority). The Authority's reporting entity is defined in Note 1 to the Authority's financial statements.

Basis of Presentation:
The accompanying schedule of expenditures of state awards (the Schedule) includes the State award activity of the Authority under programs of the state government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of State of Texas *Uniform Grant Management Standards*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Basis of Accounting:
The Schedule of Expenditures of State Awards was prepared on the accrual basis of accounting. Amounts reported as expenditures in the accompanying schedule of expenditures of state awards may not agree with the amounts reported in the related state financial reports filed with the grantor agencies because of accruals that would be included in the next report filed with the agency.

Subrecipients:
Of the State expenditures presented in the schedule, the Authority did not provide any State awards to subrecipients.

Non-Cash Assistance:
The Authority did not receive any non-cash assistance during the year.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	__X__ Yes	______ No
Significant deficiency (ies) identified?	__X__ Yes	______ None reported
Noncompliance material to financial statements noted?	__X__ Yes	______ No

State Awards

Internal Control over major program:

Material weakness (es) identified?	__X__ Yes	______ No
Significant deficiency (ies) identified?	______ Yes	__X__ None Reported

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

Any audit findings disclosed that are required to be reported in accordance with the State of Texas *Uniform Grant Management Standards*?	__X__ Yes	______ No

Identification of major programs:

Grant Number	Name of State Program
CSJ 0902-90-002	Regional Rail Vehicles

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

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

(Continued)

Section II - Financial Statement Findings

Finding 2016-001

Financial Accounting and Reporting Environment – Material Weakness

Criteria: An organization should have a system of internal controls, which are sufficiently designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements of the financial statements on a timely basis. An effective system of internal controls also needs to operate as designed. Formal written policies and procedures are an integral part of a system of internal controls. Such policies and procedures are established to ensure integrity over financial reporting and to safeguard assets. Segregation of duties should be in place to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

Condition and Context: Significant audit adjustments were required to correct errors and improper presentation of financial information. Internal controls and policies and procedures were either not in place, not adequately documented or not followed as evidenced by the following:

1. Controls in place related to the recognition of costs incurred but not yet billed for a significant project failed to appropriately identify costs of $10,834,864 which needed to be accrued.

2. Controls in place related to reconciliation and review failed to prevent or detect a set of 23 buses recorded in the system twice in error.

3. Of 32 journal entries selected for testing, 22 of them did not have documentation of who prepared the entry or who approved the entry to demonstrate appropriate segregation of duties.

4. The Schedule of Expenditures of Federal Awards ("SEFA") and the Schedule of Expenditures of State Awards ("SESA") was prepared by the Chief Financial Officer rather than by an accountant and therefore lacked a management review.

5. The SEFA contained a State award. Additionally, the SEFA and the SESA were not prepared until prompted by the external auditors.

6. The back-up for the payroll processing position, is a human resources employee who has the ability to add new employees and change pay rates which could result in fraudulent activity.

Cause: Lack of certain written policies and procedures and policies and procedures were not adequately documented or followed.

Effect: Material misstatement of the financial statements and inadequate safeguarding of assets.

Recommendation: Review and document the appropriateness of the organizational structure and responsibilities of personnel in the accounting and financial reporting functions.

A thorough review of the internal controls in place should be performed and duties reassigned if necessary in order to assure that all important review, approvals and monitoring tasks are being performed by independent supervisory personnel.

An organizational and operational review of the accounting processes should be performed that would encompass a review of accounting policies, procedures, document flow, internal control, reporting financial analysis and other components of the overall accounting system. While the Authority may have informal

(Continued)

policies in place, the Authority would benefit from a more formal and comprehensive policies and procedures manual which would provide detailed guidance to employees of the Authority.

Specifically, as related to the items enumerated above:

1. Management should implement a year-end process for capturing all significant open projects for the purpose of estimating accruals. The procedures should be documented.

2. A review and analysis or reconciliation of capital assets subsidiary ledgers to the general ledger should be conducted at year end.

3. Independent reviews and approvals of journal entries should be established for all instances.

4. The SEFA and the SESA should be prepared by an individual who is knowledgeable about federal and state awards. That individual should take responsibility for ensuring that the SEFA is properly prepared. The SEFA should then be reviewed by the controller, CFO or other knowledge person other than the preparer.

5. The SEFA and the SESA, including the reconciliation of the federal and state expenditures as they relate to revenues and accounts receivable, should be prepared in advance of the audit.

6. Personnel whose duties include payroll processing should not have access and rights to the personnel files or the ability to add employees or change pay rates. Management should reevaluate and redistribute responsibilities to ensure a proper segregation of duties.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

<u>Finding 2016-002</u>

Assignment and Restriction of Access Rights– Material Weakness

Criteria: Administrative access rights should be restricted to a limited number of authorized personnel to prevent unauthorized user access to the system.

Condition and Context: Due to Ellipse system limitations, the ability to determine if access is appropriately assigned and authorized is not testable. These limitations also inhibit management's ability to verify that access has been appropriately provisioned and monitored. Specifically:

1. Management does not have a good understanding of the system, due to system age and complexity, and relies on outside consultants for expertise.

2. Due to lack of system-generated reports, management cannot review system access periodically to verify that user rights are appropriately assigned and that terminated employees do not have active accounts.

3. Due to system's inability to generate useful reports, management cannot effectively monitor system activity to verify that employees with access to sensitive roles are not performing unauthorized transactions.

Cause: Ellipse access rights are granular in nature, in that rights are assigned to a particular position or job title. The system itself does not provide canned reports that delineate specific access; rather, one must go into each position and review the access individually. With hundreds of positions in the company, there is no feasible method to review access rights to determine if they are appropriately assigned. There are no system reports available that grant the ability to search for specific rights.

Effect: An unauthorized individual may hold inappropriate access rights.

Recommendation: Management should consider the required control elements to appropriately monitor system access as it moves toward implementing a new ERP solution.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2016-003

Passwords – Material Weakness

Criteria: Passwords should be set to expire frequently and parameters should be configured to prevent unauthorized system access.

Condition: Ellipse passwords are set to expire every 9,999 days, or every 27 years. The network passwords also do not force use of complex passwords, such as the use of alphanumeric, numeric, upper/lowercase and/or special characters. In Trapeze, currently password length is set to 6 characters which does not meet industry standards

Cause: Overall lack of controls policies and system configuration to policies.

Effect: The use of simple passwords and in the case of Ellipse, potential that passwords are never changed, increases the risk that malicious individuals may gain access to financially significant systems and perform unauthorized transactions.

Recommendation: Management should set Ellipse to require passwords to expire every 60 days at most. Additionally, password complexity should be enabled for the Windows environment and password length increased to at least a minimum of eight characters.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2016-004

Fraud Risk Assessment – Significant Deficiency

Criteria: The Authority recognizes the importance of maintaining fraud prevention and detection programs. Under generally accepted auditing standards (GAAS) from the AICPA and adopted by the U.S. Governmental Accountability Office, in obtaining an understanding of an entity's control environment, independent auditors must consider the design and implementation of programs and controls that address the risk of fraud. The absence or inadequacy of such programs and controls can represent a significant deficiency or material weakness in an entity's control environment.

Condition: Documentation of a formal fraud risk assessment is lacking.

Cause: Overall lack of controls policies and documentation.

(Continued)

Effect: Potential for material misstatement of the financial statements due to fraud and safeguarding of assets.

Recommendation: Develop a strategy for a risk assessment program for the Authority. Evaluate and implement changes to existing policies and procedures and initiate new programs and controls that are identified during the evaluation process.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

Finding 2016-005

Program: Federal Transit Cluster
CFDA No.: 20.500, 20.507, 20.526
Federal Agency: U.S. Department of Transportation
Passed-through: Texas Department of Transportation
Award No.: TX-16-0062, TX-95-0069, TX-90-0735, TX-90-Y032, unassigned, TX-95-0019, TX-95-0060, TX-95-0068, TX-16-0057
Award Year: Fiscal year 2015-2016

Compliance Requirement: Reporting – *Material Weakness in Controls and Noncompliance with Grant Requirements*

Criteria: For reporting the SF-425*, Federal Financial Report (FFR)* – the Authority is required to have controls in place to prevent, or detect and correct, errors in quarterly expenditure reimbursement reports. Accurate quarterly reports are required to be submitted within 30 days of the end of the quarter.

Condition Found: Copies of the quarterly FFR reports were not maintained for audit, and there was no formal documentation that the reports were reviewed and approved prior to submission to the Federal Transit Administration. While the reports submitted were found accurate, three of the five reports tested were filed late.

Questioned Costs: None noted.

Context: A worksheet of expenditures did have a secondary review, however, the preparer of the quarterly reports submitted the reports to the Federal Transit Administration without a documented secondary review. Three of the five reports were filed late.

Effect: Lack of review and approval increases the risk that an error could go undetected. Late submission of reports is non-compliance and risks loss of award.

Cause: Lack of a control in place requiring a review of the reports prior to submission.

Recommendation: A member of management should perform and document a review of the quarterly expenditure reports before the reports are submitted to the Federal Transit Administration (FTA). The reports should be submitted within the timeframe required by the FTA. Copies of the required quarterly reports with evidence of a management review should be maintained.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan.

(Continued)

Section III - State Award Findings and Questioned Costs

Finding 2016-006

Program: Regional Rail Vehicles
State Agency: Texas Department of Transportation
Passed-through: Texas Department of Transportation
Award No.: CSJ 0902-90-002
Award Year: Fiscal year 2015

Compliance Requirement: Matching – *Material Weakness in Controls and Noncompliance with Grant Requirements*

Criteria: Local match – the Authority is required to make a 20% local match of expenditures at the end of each fiscal year.

Condition Found: Management stated that the local match was not applicable, contrary to Article 6 of the grant agreement.

Questioned Costs: None noted.

Context: The condition noted above was identified during the testing of the compliance requirements of the program.

Effect: Lack of a local match is non-compliance and risks loss of award.

Cause: Lack of management's understanding of the agreement.

Recommendation: A member of management should read the grant agreements and ensure controls are in place to comply with the agreement. Evidence of expenditures to satisfy the local match requirement should be retained.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan

FORT WORTH TRANSPORATION AUTHORITY
CORRECTIVE ACTION PLAN
September 30, 2016

Finding 2016-001 Financial Accounting and Reporting Environment – Material Weakness

Planned Corrective Actions: Management has implemented several policy changes in order to provide better internal control, more accurate information and be able to detect errors in a timely manner. Specifically, as related to the items enumerated above:

1. Management has implemented policies and procedures for year-end which include working with other departments to ensure all outstanding liabilities are recognized and recorded.

2. Management's changes to policies and procedures resulted in personnel turnover. Year-end reconciliations were completed however, new staff failed to recognize an issue with a closed purchase order that received twenty-three buses but never received a corresponding invoice to be paid. Staff has been redirected to work with procurement to ensure that all purchase orders were closed out appropriately throughout the year and corresponding liabilities are recorded and paid in a timely manner.

3. Management's changes to policies and procedures resulted in personnel turnover. There were instances throughout the year when reviews and approvals of journal entries was not adhered to due to lack of staff or knowledge.

4. Management's changes to policies and procedures resulted in personnel turnover. Staff lacked experience in the area of SEFA and SESA preparation and controller was hired only a month prior to year-end. We now have two accountants on staff, both of which are being trained to understand the process for preparing and ensuring accuracy. Review will be completed by the controller and a final review completed by the Chief Financial Officer.

5. Management's changes to policies and procedures resulted in personnel turnover. Staff which previously completed the SEFA and SESA were no longer employed by FWTA. New accounting personnel including two accountants and a controller were hired but unaware of the requirements for preparing the SEFA and SESA. All personnel have been trained and fully understands the record keeping and requirements for preparing both schedules.

6. Management is currently working on replacing the current outdated enterprise resource system. This process includes an evaluation of all business processes and procedures by a consultant. Management will be reviewing and evaluating the consultant's recommendations for changes to current business practices to include proper segregation of duties.

Contact person(s) responsible for corrective action: Sapna Narsian, Controller, Kathy Bridwell, AVP of Procurement, and Keith Kunkle, Director of IT

Anticipated Completion Date: Initial Changes will be completed by 10/20/2017; New ERP system in place by September 2018.

(Continued)

FORT WORTH TRANSPORATION AUTHORITY
CORRECTIVE ACTION PLAN
September 30, 2016

Finding 2016-002 **Assignment and Restriction of Access Rights– Material Weakness**

Planned Corrective Actions: Management is working on replacing the current outdated enterprise resource system. Management is working closely with a consultant that all necessary and appropriate security is present in the new system and is further strengthened with proper segregation of duties.

Contact person(s) responsible for corrective action: Keith Kunkle, Director of IT

Anticipated Completion Date: 10/20/2017

Finding 2016-003 **Passwords – Material Weakness**

Planned Corrective Actions: Management is working with IT to determine the best approach for ensuring password security and implementing changes immediately. These changes in policy will be continued when implementing the new enterprise resource system.

Contact person(s) responsible for corrective action: Keith Kunkle, Director of IT

Anticipated Completion Date: 10/20/2017

Finding 2016-004 **Fraud Risk Assessment – Significant Deficiency**

Planned Corrective Actions: Management has implemented several policy changes however is continuing to identify areas of concerns and needs for revamping. Management acknowledges the need for a thorough risk assessment program and has begun the process of developing a strategy.

Contact person(s) responsible for corrective action: Monica Fowler, CFO and Sapna Narsian, Controller

Anticipated Completion Date: 11/17/2017

Finding 2016-005 **Material Weakness – Federal Transit Cluster**
Compliance Requirement: Reporting

Planned Corrective Actions: Management regularly reviews all data entered into the federal transit administration's website for reporting purposes however in the past has failed to document the review process for audit purposes. Management implemented a new review process this fiscal year where prior to submission of any required reporting, management reviews and signs off on report being submitted using an annual checklist. Timeliness is of upmost importance when submitting reporting. In fiscal year 2016, the federal transit administration changed the host website and reporting functions were not available.

Contact person(s) responsible for corrective action: Angela Smith, Grants Administrator

(Continued)

FORT WORTH TRANSPORATION AUTHORITY
CORRECTIVE ACTION PLAN
September 30, 2016

Completion Date: 07/21/2017

Finding 2016-006 Material Weakness – Regional Rail Vehicles Grant
Compliance Requirement: Matching

Planned Corrective Actions: Management has reviewed the grant agreement and implemented the appropriate changes for internal procedures with regard to the grant in question. Going forward management acknowledges that all grant agreements must be read and evaluated to ensure staff is handling accordingly.

Contact person(s) responsible for corrective action: Angela Smith, Grants Administrator

Completion Date: 07/21/2017

FORT WORTH TRANSPORTATION AUTHORITY
STATUS OF PRIOR YEAR SINGLE AUDIT FINDINGS
September 30, 2016

Status of Prior Year Single Audit Findings

Finding 2015-001

Financial Reporting Environment – reconciliations of cash, accounts receivables and revenues

Responsible Official's Response: Management did review the bank reconciliation as of September 31, 2015 in a timely manner; however, this review did not identify the improper reconciling items. Going forward, management will perform more detailed reviews, and investigate unusual reconciling items. Management was aware that grant receivables and revenues were not recorded, and intended to recognize these items once cash disbursements were made to relieve the liabilities incurred related to these expenditures. Management now understands that the revenues should be recognized consistently with the related expenditures for reimbursement grants.

Status: Corrected.

Finding 2015-002

Financial Reporting Environment – Estimating and recording accruals

Responsible Official's Response: The accounting department did make an attempt to estimate liabilities for work performed prior to the balance sheet date, however, not enough information was provided by project managers to allow for a materially correct estimate. Going forward, specific efforts will be made to gather invoices related to each significant project in a timely manner, so that accruals for work performed prior to the balance sheet date can be recognized.

Status: Not corrected. See Finding 2016-001.