FORT WORTH TRANSPORTATION AUTHORITY

FINANCIAL REPORT

September 30, 2017

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FORT WORTH TRANSPORTATION AUTHORITY
Fort Worth, Texas

FINANCIAL REPORT
September 30, 2017

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Crowe LLP
Independent Member Crowe Global

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 years ended September 30, 2017 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 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, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

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 September 11, 2018 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 LLP

Crowe LLP

Dallas, Texas
September 11, 2018

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, 2017. 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, 2017, the Authority's assets exceeded its liabilities by approximately $774,461,000. Of this amount, approximately $274,077,000 is unrestricted and may be used to meet the Authority's ongoing obligations in accordance with its fiscal policies. Unrestricted net position was approximately 397.7% of the fiscal 2017 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 $1,198,269,000 at September 30, 2017 represented an increase of approximately $560,795,000 or 88.0% from September 30, 2016. Capital assets, which includes land and construction in progress, at September 30, 2017 were approximately $643,385,000, representing an increase of approximately $244,452,000 or 61.3% from September 2016.

The Authority's total liabilities of approximately $423,807,000 at September 30, 2017 represented an increase of approximately $366,431,000 or 638.6% from September 30, 2016. Total current and non-current portions of long-term liabilities were approximately $328,271,000 at September 30, 2017, an increase of approximately $324,491,000 or 8,585.9% from September 30, 2016. This increase is due to the issuance of debt for the Tex Rail project.

Total current liabilities increased approximately $42,001,000 or 78.4%, 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 2017 by approximately $194,365,000 or 33.5%, compared to an increase of approximately $42,910,000 or 7.9%, in fiscal 2016. The increase in the change in net position as compared to fiscal 2016 of approximately $151,355,000 is primarily due to the following:

- An increase in operating revenues of approximately $429,000;
- An increase in sales tax revenue of approximately $5,706,000;
- An increase in operating assistance grants revenue of approximately $1,403,000;

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- An increase in contribution from partners of approximately $2,671,000;
- An increase in investment income of approximately $2,582,000; and
- An increase in grants for capital improvements of approximately $143,817,000.

The Authority's total assets of approximately $637,573,000 at September 30, 2016 represent an increase of approximately $51,146,000, or 8.7% from September 30, 2015. Capital assets at September 30, 2016 were approximately $398,933,000, representing an increase of approximately $55,419,000 or 16.1% from September 30, 2015.

The Authority's total liabilities of approximately $57,377,000 at September 30, 2016 represent 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%, due primarily 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.

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.

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.

(Continued)

Condensed Summary of Assets, Liabilities and Net Position

	2017	2016	2015
Current Assets	$ 554,983,554	$ 238,640,008	$ 242,913,322
Capital Assets (net of Accumulated Depreciation)	643,384,966	398,933,096	343,513,837
Total Assets	1,198,368,520	637,573,104	586,427,159
Current Liabilities	95,598,781	53,597,431	43,640,893
Long-term Liabilities	328,208,649	3,779,358	5,499,710
Total Liabilities	423,807,430	57,376,789	49,140,603
Net Position			
Net Investment in Capital Assets	498,383,909	398,933,096	341,989,738
Restricted	2,000,000	25,542,408	25,309,850
Unrestricted	274,177,181	155,720,811	169,986,968
Total Net Position	$ 774,561,090	$ 580,196,315	$ 537,286,556

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

Operating revenues for fiscal 2017 decreased approximately $429,000 or 5.2%. Fare revenue increased $243,000 or 3.1% due to increases in the average fare per passenger 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, increased $119,000 or 90.1%. There was an increase in bus and bus bench advertising revenues of approximately $67,000 or 16.1%.

Operating expenses before depreciation increased approximately $1,313,000 or 1.9% in fiscal 2017 as compared to fiscal 2016. This increase in operating expenses is primarily due to the following:

- Salaries, wages and fringe benefits increased by approximately $2,577,000 or 7.5%.

These increases in operating expenses were partially offset by:

- Professional services expense decreased approximately $313,000 or 4.3%;
- Fuels and lubricants expenses decreased $399,000 or 19.1%;
- Maintenance materials expenses decreased $257,000 or 8.9%;
- Other expenses decreased approximately $276,000 or 20.7%.

Non-operating revenue (expenses) increased approximately $9,173,000 or 9.4% in fiscal 2017 as compared to fiscal 2016. This increase is primarily due to the following:

- Sales tax revenue increased approximately $5,706,000 or 8.3% due to increased sales tax collections as a result of a strong economy during fiscal 2017;
- Operating assistance grant revenue increased approximately $1,403,000 or 70.0% due to an increase in pass through related grants.
- Contributions from partners increased approximately $2,671,000 or 24.9%;
- Street improvement fees expenses decreased $19,000 or 100.0% 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 $1,337,000 or 99.4% due to the disposal of two properties in the prior year.

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

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- 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.

Changes in Net Position

	2017	2016	2015
Operating revenue			
Fare revenue	$ 7,986,606	$ 7,743,650	$ 7,994,329
Advertising	484,953	417,664	307,201
Other	251,034	132,032	328,104
Operating revenue	8,722,593	8,293,346	8,629,634
Operating expenses	86,693,127	84,729,472	79,767,535
Operating loss	(77,970,534)	(76,436,126)	(71,137,901)
Nonoperating revenue (expenses)			
Sales tax	74,317,463	68,611,101	63,791,099
Operating assistance grants	3,406,788	2,003,517	668,939
Preventive maintenance reimbursement	9,495,507	11,259,276	11,203,260
Para-transit assistance	1,200,000	1,200,000	1,200,000
Contributions from partners	13,392,053	10,720,756	10,318,794
Other non-operating revenue	5,422,177	4,285,644	6,540,595
Other non-operating expenses	-	(18,986)	(146,158)
Net non-operating revenue	107,233,988	98,061,308	93,576,529
Contributions	165,101,321	21,284,577	37,866,362
Change in net position	194,364,775	42,909,759	60,304,990
NET POSITION, beginning of year	580,196,315	537,286,556	476,981,566
NET POSITION, end of year	$ 774,561,090	$ 580,196,315	$ 537,286,556

Capital Assets

During fiscal 2017 the Authority's net investment in capital assets increased by approximately $244,452,000. The Authority added approximately $262,246,000 in acquisitions and construction of capital asset, approximately $188,877,000 or 257.4% more than in fiscal 2016. Some of the more significant capital expenditures include:

- Commuter rail capital improvements include:
  - Commuter rail expansion of approximately $197,187,000; and
  - Capital maintenance of the existing rail corridor and environmental assessment of Trinity River Bridge of approximately $2,402,000.

- Fixed route bus service and para-transit service improvements include:
  - Replacement of aging para-transit and fixed route vehicles of approximately $15,896,000;
  - Bus stop improvements including ADA accessibility improvements of approximately $264,000;
  - Technology improvements of approximately $3,656,000; and
  - Facilities improvements and other capital maintenance of approximately $19,505,000.

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Depreciation expense for fiscal 2017 was approximately $17,777,000. The following is a summary of the Authority's net capital assets.

	2017	2016
Land	$ 45,089,218	$ 45,089,218
Buildings	83,275,474	85,826,745
Building Improvements	944,599	1,028,012
Machinery and Equipment	4,525,392	4,935,565
Rolling Stock	49,769,603	37,172,033
Improvements other than buildings	63,758,003	71,879,328
Construction in Progress	396,022,677	153,002,195
	$ 643,384,966	$ 398,933,096

During fiscal 2016 the Authority added approximately $73,369,000 in acquisitions and construction of capital assets. This was 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.

The cost of these improvements was offset by approximately $17,126,000 in depreciation expense. The following is a summary of the Authority's capital assets.

Capital Assets, net of Accumulated Depreciation
as of September 30, 2016 and 2015

	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

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Debt Administration

TEX Rail Loan

With the current financial structure of the TEX Rail project, long term debt financing is not necessary. With New Starts FFGA payments beginning in FY2017, there is a cash flow deficit for project CAPEX from FY2017 through FY2019. This cash flow deficit is met by short-term borrowing with rapid repayment. With the current project schedule, the maximum projected amount of the short term debt was reached in quarter 2 of 2017 in an amount of $325.0 million. Repayments on the loan commence in fiscal 2020 with full liquidation of the debt in fiscal 2022. The projected net proceeds of the short-term borrowing are $325.0 million. The total payments on the short-term borrowing are estimated at $351.9 million, which includes interest of $23.3 million. For the baseline financial structure, interest on the short-term debt has been assumed at 5% (APR) of the outstanding amount borrowed accrued and capitalized quarterly. In addition, there is an estimated $3.7 million in costs related to the issuance of the debt. Currently, FWTA has never issued any debt, except a $2.5 million 10-year capital lease that financed new energy efficient air-conditioning and lighting systems. This short-term debt will be secured by lawfully available funds of FWTA.

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, 2017 and 2016 was approximately $3,730,000 and $4,239,000, respectively.

Economic Factors and Next Year's Budget

The operating budget for fiscal 2017 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 2017, increasing approximately $5.7 million or 8.3% over fiscal 2016 receipts. Sales tax revenue for fiscal 2018 are budgeted at $77.4 million, an increase of approximately $3.1 million or 4% as compared to fiscal 2017 actual revenue of $74.3 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 2017 was 4.2%. This is an increase of 0.1% over August 2016, and the Fort Worth/Arlington region remains below the national unemployment rate of 4.9% in August 2017. Fort Worth, which is the Authority's largest member city, continues to experience population growth. Fort Worth's estimated population in September 2017 was 854,113. With an annual population growth rate of 3.9%, the population of Fort Worth is expected to exceed 884,000 next year.

The adopted fiscal 2018 operating budget meets key financial standards established by the Authority's Board of Directors to ensure a sound financial future. The fiscal 2018 budgeted operating expenses before depreciation totaled approximately $75 million dollars, an increase of approximately $6.1 million or 8.9% over actual fiscal 2017 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 $3 million or 7.9%, as compared to fiscal 2017 actual results. The largest contributor to this increase is wage increases for bargaining unit staff;
- A budgeted increase in service type expenses, which included purchased transportation expenses, of approximately $1.8 million or 7.6% as compared to fiscal 2017 actual results. This increase is due to an increase in projected trips, fuel rate and contract increases.

The Authority enters fiscal 2018 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, 2017 and 2016

	2017	2016
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	168,650,117	125,880,828
Restricted for capital reinvestment/rail expansion	179,998,943	-
Restricted for rail vehicles	20,751,811	23,542,408
Total cash and cash equivalents	380,400,871	160,423,236
Investments	60,000,000	12,646,191
Receivables, net	110,953,018	61,871,945
Notes receivable	64,222	131,157
Inventory	2,056,652	1,994,869
Prepaid expenses	1,508,791	1,572,610
Total current assets	554,983,554	238,640,008
CAPITAL ASSETS		
Land and construction in progress	441,111,895	198,091,413
Other capital assets, net of accumulated depreciation	202,273,071	200,841,683
	643,384,966	398,933,096
Total assets	1,198,368,520	637,573,104
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	70,759,575	27,070,964
Accrued payroll and payroll related taxes	1,446,763	279,535
Other accrued liabilities	1,960,807	2,245,363
Current portion of due to state	521,356	459,161
Unearned revenue	20,910,280	23,542,408
Total current liabilities	95,598,781	53,597,431
LONG-TERM LIABILITIES		
Due to state, net of current portion	3,208,649	3,779,358
Revenue note payable	325,000,000	-
Total long-term liabilities	328,208,649	3,779,358
Total liabilities	423,807,430	57,376,789
NET POSITION		
Net investment in capital assets	498,383,909	398,933,096
Restricted	2,000,000	2,000,000
Unrestricted	274,177,181	179,263,219
TOTAL NET POSITION	$ 774,561,090	$ 580,196,315

See accompanying notes to financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended September 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Fare revenue	$ 7,986,606	$ 7,743,650
Advertising	484,953	417,664
Other	251,034	132,032
Total operating revenues	8,722,593	8,293,346
OPERATING EXPENSES		
Salaries, wages and fringe benefits	36,872,855	34,296,139
Professional services	6,999,524	7,312,811
Purchased transportation	16,024,035	16,071,090
Fuels and lubricants	1,691,230	2,090,497
Tires and tubes	432,151	377,509
Maintenance materials	2,635,603	2,893,039
Supplies and materials	488,465	359,210
Utilities	845,097	715,237
Casualty and liability insurance	1,759,863	1,905,921
Taxes and fees	8,134	10,632
Interest expense	102,166	237,634
Other	1,057,353	1,333,268
Depreciation	17,776,651	17,126,485
Total operating expenses	86,693,127	84,729,472
Operating loss	(77,970,534)	(76,436,126)
NON-OPERATING REVENUES (EXPENSES)		
Sales tax	74,317,463	68,611,101
Operating assistance grants	3,406,788	2,003,517
Preventive maintenance reimbursement	9,495,507	11,259,276
Para-transit assistance	1,200,000	1,200,000
Contributions from partners	13,392,053	10,720,756
Rental income	920,742	934,790
Investment income	3,181,622	599,700
Oil and gas revenue	42,090	64,241
Gain on disposal of capital assets	7,457	1,344,035
Street improvements	-	(18,986)
Other non-operating revenue	1,270,266	1,342,878
Total non-operating revenue (expenses)	107,233,988	98,061,308
INCOME BEFORE CAPITAL GRANTS	29,263,454	21,625,182
GRANTS FOR CAPITAL IMPROVEMENTS	165,101,321	21,284,577
Change in net position	194,364,775	42,909,759
NET POSITION, beginning of year	580,196,315	537,286,556
NET POSITION, end of year	$ 774,561,090	$ 580,196,315

See accompanying notes to financial statements

FORT WORTH TRANSPORTATION AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 5,586,874	$ 5,077,050
Payments to suppliers	(32,639,308)	(19,947,773)
Payments to employees	(35,990,183)	(35,534,069)
Net cash used in operating activities	(63,042,617)	(50,404,792)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Sales tax received	73,793,771	68,306,797
Street improvement payments	-	(18,986)
Preventive maintenance reimbursement	9,495,507	-
Para-transit assistance	1,200,000	1,200,000
Contributions from partners	13,392,053	10,720,756
Rental income	920,742	934,790
Operating grant reimbursements	3,406,788	2,003,517
Oil and gas revenue	42,090	64,241
Other non-departmental receipts	1,270,266	1,342,878
Other non-departmental payments	(102,166)	(237,634)
Payment of due to state	(508,514)	(462,290)
Net cash provided by non-capital financing activities	102,910,537	83,854,069
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions and grants for capital improvements	117,281,884	6,636,952
Acquisition and construction of capital assets	(217,942,187)	(69,305,801)
Proceeds from sale of capital improvements and land	7,457	1,344,035
Loan proceeds received	325,000,000	-
Payments on capital lease liability	-	(1,524,099)
Net cash used in capital and related financing activities	224,347,154	(62,848,913)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	3,014,204	586,276
Purchase of investments	(60,000,000)	(7,569,858)
Proceeds from sale and maturity of investments	12,748,357	72,236,923
Net cash used in investing activities	(44,237,439)	65,253,341
Net change in cash and cash equivalents	219,977,635	35,853,705
CASH AND CASH EQUIVALENTS, beginning of year	160,423,236	124,569,531
CASH AND CASH EQUIVALENTS, end of year	$ 380,400,871	$ 160,423,236

(Continued)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	**2017**	**2016**
Operating loss	$ (77,970,534)	$ (76,436,126)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	17,776,651	17,126,485
Change in operating assets and liabilities		
Operating accounts receivable	(570,526)	(1,518,503)
Inventory	(61,783)	373,760
Prepaid expenses	63,819	(242,632)
Operating notes receivable	66,935	69,649
Accounts payable	(597,723)	13,227,947
Accrued payroll and payroll related taxes	1,167,228	(1,282,356)
Other accrued liabilities	(284,556)	44,426
Unearned revenue	(2,632,128)	(1,767,442)
Net cash used in operating activities	$ (63,042,617)	$ (50,404,792)
NONCASH INVESTING ACTIVITY		
Accrual for Tex Rail construction expenditures	$ (44,286,334)	$ -

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, 2017 and 2016, 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)

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, 2017 and 2016, 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.

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, contributions 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $292,505 and $239,158 in the years ended September 30, 2017 and 2016, 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, 2017 and 2016 were $0 and $18,986, respectively.

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 $3,508,632 and $3,216,314 for services in the years ended September 30, 2017 and 2016, 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, 2017 and 2016, the Authority had the following investments:

	2017		2016	
	Fair Value	Weighted Avg Years to Maturity	Fair Value	Weighted Avg Years to Maturity
Certificates of deposit	$ 60,000,000	1.39	$ 12,646,191	0.86
Total investments	60,000,000		12,646,191	
TexPool-cash equivalent	31,100,795	1.15	639,357	0.38
TexStar-cash equivalent	38,705,626	1.38	529,702	0.41
Total portfolio	$129,806,421	1.21	$ 13,815,250	0.61

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.

(Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued)

	2017	2016
Cash and cash equivalents		
Cash deposits	$ 5,857,908	$ 5,452,214
Money market accounts - cash equivalent	304,736,542	153,801,963
TexPool - cash equivalent	31,100,795	639,357
TexStar - cash equivalent	38,705,626	529,702
Total cash and cash equivalents	$380,400,871	$160,423,236

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, 2017 and 2016, 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, 2017 and 2016, the Authority held deposits in excess of the FDIC limit of $198,848,318 and $109,249,981, respectively. These uninsured deposits were fully collateralized by securities held by the pledging financial institution at September 30, 2017 and 2016.

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, 2017 and 2016, 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 $168,650,117 and $125,880,828 at September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, the Authority has restricted funds of $179,998,943 and $0, respectively, for capital reinvestment which were proceeds from the TexRail loan as described in footnote 6. The Authority also 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 $20,751,811 and $23,542,408 at September 30, 2017 and 2016, respectively.

(Continued)

NOTE 4 - RECEIVABLES

Receivables at September 30, 2017 and 2016 consisted of the following:

	2017	2016
Ticket, token and miscellaneous receivable	$ 4,819,723	$ 4,249,197
Sales tax	7,444,676	6,920,984
Grants receivable	98,477,653	50,658,216
Accrued interest receivable	210,966	43,548
Total	$110,953,018	$ 61,871,945

NOTE 5 - CAPITAL ASSETS

The following table summarizes the changes in capital assets for the year ended September 30, 2017.

	Balance Beginning of Year	Increases	Decreases	Reclassifications	Balance End of Year
Capital assets, not being depreciated					
Land	$ 45,089,218	$ -	$ -	$ -	$ 45,089,218
Construction in progress	153,002,195	262,245,968	-	(19,225,486)	396,022,677
Totals, capital assets not being depreciated	198,091,413	262,245,968	-	(19,225,486)	441,111,895
Capital assets, being depreciated					
Buildings	126,583,579	-	-	-	126,583,579
Building improvements	2,152,658	-	-	-	2,152,658
Machinery and equipment	22,929,708	-	(116,196)	685,033	23,498,545
Rolling stock	121,321,329	-	(12,988,272)	18,097,900	126,430,957
Improvements other than buildings	147,414,503	-	-	442,553	147,857,056
Totals, capital assets being depreciated	420,401,777	-	(13,104,468)	19,225,486	426,522,795
Less accumulated depreciation for					
Buildings	40,756,834	2,551,271	-	-	43,308,105
Building improvements	1,124,646	83,413	-	-	1,208,059
Machinery and equipment	17,994,143	1,093,932	(114,922)	-	18,973,153
Rolling stock	84,149,296	5,484,157	(12,972,099)	-	76,661,354
Improvements other than buildings	75,535,175	8,563,878	-	-	84,099,053
Total accumulated depreciation	219,560,094	17,776,651	(13,087,021)	-	224,249,724
Total capital assets, being depreciated, net	200,841,683	(17,776,651)	(17,447)	19,225,486	202,273,071
Capital assets, net	$398,933,096	$244,469,317	$ (17,447)	$ -	$643,384,966

Revenue note interest costs of $2,318,333 was incurred during the year ended September 30, 2017, all of which was capitalized.

(Continued)

NOTE 5 - CAPITAL ASSETS (Continued)

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

There was no capitalized interest costs at year ended September 30, 2016.

NOTE 6 - LONG-TERM LIABILITIES

The following is a summary of the Authority's long-term liabilities for the year ended September 30, 2017:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Due to state	$ 4,238,519	$ -	$ (508,514)	$ 3,730,005	$ 521,356
Revenue note payable	-	325,000,000	-	325,000,000	-
	$ 4,238,519	$ 325,000,000	$ (508,514)	$ 328,730,005	$ 521,356

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
	$ 6,224,908	$ -	$ (1,986,389)	$ 4,238,519	$ 508,514

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.

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.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

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	
2018	$ 610,680
2019	443,149
2020	208,620
2021	208,620
2022	208,620
2023-2027	1,043,100
2028-2032	1,043,100
2033-2036	782,356
Total minimum payments	4,548,245
Less amount representing interest	(818,240)
Recorded value of minimum payments	$ 3,730,005

The imputed interest totaled $102,166 and $112,584 for the years ended September 30, 2017 and 2016, respectively, and is included in interest expense.

TEX Rail Loan

On December 21, 2016, the Authority issued $325,000,000 in Revenue Notes, Series 2016 to finance the Tex Rail Project. The Full Funding Grant Agreement is pledged as security. Principal will be paid in the amounts of $205,000,000, $60,000,000, and $60,000,000 on October 1, 2019, 2020, and 2021, respectively. Interest ranges from 2.4% to 3.0% and is payable semi-annually each April 1 and October 1. Principal and interest payments are scheduled as follows:

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Year Ending September 30	Principal	Interest
2018	$ -	$ 8,346,000
2019	-	8,346,000
2020	205,000,000	5,886,000
2021	60,000,000	2,613,000
2022	60,000,000	900,000
	$ 325,000,000	$ 26,091,000

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, 2017 and 2016, the employee contributions to the 401(k) Plan were $1,080,116 (4.76% of covered payroll) and $961,045 (4.76% of covered payroll), respectively. The Authority's contributions to the 401(k) Plan for those years were $1,199,642 and $1,111,027, 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, 2017 and 2016, the employee contributions to the 457(b) Plan were $333,472 (6.43% of covered payroll) and $352,422 (6.43% of covered payroll), respectively. The Authority's contributions to the 457(b) Plan for those years were $327,382 and $356,784, respectively.

(Continued)

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Authority has active commitments related to capital projects as of September 30, 2017. The Authority has spent $223,609,039 on these projects and has remaining commitments of $472,943,828 at September 30, 2017.

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, 2017 and 2016, 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.

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 $812,394 and $1,108,798 reported at September 30, 2017 and 2016, 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, 2017 and 2016 are as follows:

	Beginning of Year Liability	Incurred Claims and Adjustments	Claim Payments	End of Year Liability
Vehicle and general liability				
Fiscal year 2017	$ 433,669	$ 291,127	$ 270,635	$ 454,161
Fiscal year 2016	373,286	727,040	666,657	433,669
Fiscal year 2015	437,500	324,456	388,670	373,286
Workers' compensation				
Fiscal year 2017	675,129	84,447	401,343	358,233
Fiscal year 2016	711,981	183,676	220,528	675,129
Fiscal year 2015	430,309	547,201	265,529	711,981

(Continued)

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

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.

Cash and/or investments of $1,000,000 were held for purposes of funding future claims liabilities (see Note 3) at September 30, 2017 and 2016.

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:

2018	$ 358,656

Total lease payments approximated $386,000 and $367,000 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016 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 $454,161.

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.

SUPPLEMENTARY INFORMATION

FORT WORTH TRANSPORTATION AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES –
Budget and Actual Year Ended September 30, 2017 with
Comparative Actuals for the Year Ended September 30, 2016

	2017			2016
	Original and Final Budget	Actual	Variance Over (Under)	Actual
Operating revenues				
Fare revenue	$ 8,119,597	$ 7,986,606	$ (132,991)	$ 7,743,650
Advertising	400,000	484,953	84,953	417,664
Other	360,000	251,034	(108,966)	132,032
	8,879,597	8,722,593	(157,004)	8,293,346
Operating expenses				
Salaries, wages and fringe benefits	38,816,903	36,872,855	(1,944,048)	34,296,139
Professional services	7,641,415	6,999,524	(641,891)	7,312,811
Purchased transportation	16,317,788	16,024,035	(293,753)	16,071,090
Fuels and lubricants	2,309,964	1,691,230	(618,734)	2,090,497
Tires and tubes	425,985	432,151	6,166	377,509
Maintenance materials	2,262,463	2,635,603	373,140	2,893,039
Supplies and materials	696,599	488,465	(208,134)	359,210
Utilities	882,885	845,097	(37,788)	715,237
Casualty and liability insurance	427,504	1,759,863	1,332,359	1,905,921
Taxes and fees	23,157	8,134	(15,023)	10,632
Interest expense	102,166	102,166	-	237,634
Depreciation	17,987,000	17,776,651	(210,349)	17,126,485
Other	1,226,541	1,057,353	(169,188)	1,333,268
	89,120,370	86,693,127	(2,427,243)	84,729,472
Operating loss	(80,240,773)	(77,970,534)	2,270,239	(76,436,126)
Non-operating revenues (expenses)				
Sales tax	70,978,828	74,317,463	3,338,635	68,611,101
Operating assistance grants	651,350	3,406,788	2,755,438	2,003,517
Preventive maintenance reimbursement	11,259,285	9,495,507	(1,763,778)	11,259,276
Para-transit assistance	1,200,000	1,200,000	-	1,200,000
Contributions from partners	1,250,000	13,392,053	12,142,053	10,720,756
Rental income	775,000	920,742	145,742	934,790
Investment income	325,000	3,181,622	2,856,622	599,700
Oil and gas revenue	-	42,090	42,090	64,241
Gain (loss) on disposal of capital assets	-	7,457	7,457	1,344,035
Street improvements	-	-	-	(18,986)
Other non-operating revenue	-	1,270,266	1,270,266	1,342,878
Total non-operating revenue (expenses)	86,439,463	107,233,988	20,794,525	98,061,308
Income before capital grants	6,198,690	29,263,454	23,064,764	21,625,182
Grants for capital improvements	168,104,830	165,101,321	(3,003,509)	21,284,577
Change in net position	$174,303,520	$194,364,775	$ 20,061,255	$ 42,909,759

FORT WORTH TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2017

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			
Sec 5309 Bus Ladders-Lapsing funds	TX-2016-062-00	20.500	$ 72,570
New Starts -FFGA	TX-2017-001-00	20.500	136,775,066
FTA/Formula (and flex funds)	TX-90-0735-02	20.507	3,898
FTA/Formula (and flex funds)	TX-90-X798-02	20.507	49,530
FTA/Formula (and flex funds)	TX-90-X903-00	20.507	13,369
FTA/Formula (and flex funds)	TX-90-X939-01	20.507	1,200,000
FTA/Formula (and flex funds)	TX-90-X984-05	20.507	124,879
FTA/Formula (and flex funds)	TX-90-Y032-00	20.507	223,140
FTA/Formula (and flex funds)	TX-2017-071-00	20.507	3,131,580
FTA/Formula (and flex funds)	Unassigned	20.507	16,284,620
FTA/Formula (and flex funds)	Unassigned	20.507	1,200,000
FTA/CMAQ and STP-MM	TX-95-0024-00	20.507	1,031,186
FTA/CMAQ and STP-MM	TX-95-0060-00	20.507	9,708
FTA/CMAQ and STP-MM	TX-95-0068-00	20.507	464,489
Mid-Cities FY 2010 CMAQ Funds	TX-95-X065-01	20.507	767,417
FTA/CMAQ and STP-MM /TRE Grade Crossing	TX-95-X076-00	20.507	29,086
Transferred NETS Grants for Vehicles	TX-90-Y107-00	20.507	16,902
FTA/Formula (Section 5337)	TX-2017-030-00	20.525	2,526,989
FTA/Formula (Section 5339)	TX-2017-038-00	20.526	4,656,162
Total Federal Transit Cluster			168,580,591
Highway Planning and Construction Cluster			
Passed through Texas Department of Transportation (TxDot)			
Texas Mobility Funds	Unassigned	20.205	12,608,029
Total Highway Planning and Construction Cluster passed through TxDot			12,608,029
Transit Services Programs Cluster			
Passed through Texas Department of Transportation			
FWTA FY2016 Section 5310 NETS and TCTS	TX-2017-062-00	20.513	380,088
FWTA FY2015 Section 5310 NETS and TCTS	Unassigned	20.513	95,792
JARC Vanpool	TX-37-4070-00	20.516	16,981
JARC Reverse Commute	TX-37-X086-00	20.516	801,267
New Freedom Funds	TX-57-X045-00	20.521	141,410
			1,435,538
Passed through North Central Texas Council of Governments			
NCTCOG -IVR Project	Unassigned	20.521	98,824
Total passed through North Central Texas Council of Governments			98,824
Total Transit Services Programs Cluster			1,534,362
Total expenditures of federal awards			$ 182,722,982

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, 2017. 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 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.

During the fiscal year ended September 30, 2017, the Authority was awarded grants under CFDA 20.500, 20.507, 20.513, 20.516, 20.525 and 20.526, which included reimbursement for expenditures incurred in previous fiscal years. The total amount of expenditures incurred in a prior year reported on the fiscal year 2017 Schedule of Expenditures of Federal Awards under these grants is $73,628,195.

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 LLP
Independent Member Crowe Global

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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 11, 2018.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described as items 2017-001, 2017-002, and 2017-003 in the accompanying *schedule of findings and questioned costs,* that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

(Continued)

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. The 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 LLP

Crowe LLP

Dallas, Texas
September 11, 2018

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 the Authority's major federal program for the year ended September 30, 2017. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

(Continued)

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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

Crowe LLP

Crowe LLP

Dallas, Texas
September 11, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		Unmodified	
Internal control over financial reporting:			
Material weakness (es) identified?	X Yes		No
Significant deficiency (ies) identified?	Yes	X	None reported
Noncompliance material to financial statements noted?	Yes	X	No

Federal Awards

Internal Control over major program:			
Material weakness (es) identified?	Yes	X	No
Significant deficiency (ies) identified?	Yes	X	None Reported
Type of auditor's report issued on compliance for major programs:		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ?	Yes	X	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
20.500, 20.507, 20.525, 20.526	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee?	Yes	X	No

(Continued)

Section II - Financial Statement Findings

Finding 2017-001

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, not operating effectively or not followed as evidenced by the following:

1. Before audit adjustment, the net position classification of net investment in capital assets was misstated because the Tex Rail Loan and unspent bond proceeds were not included in the calculation.

2. Before audit adjustment, loan proceeds were reported in an improper category on the Statement of Cash Flows.

3. The Schedule of Expenditures of Federal Awards (“SEFA”) and the Schedule of Expenditures of State Awards (“SESA”) were revised multiple times as a result of audit testing.

4. While a change in the position was made subsequent to year-end, during fiscal year 2017, the back-up personnel 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 certain policies and procedures; policies and procedures that were in place were not adequately documented or followed; lack of knowledge as it relates to governmental accounting and report preparation at appropriate staff levels and lack of detailed review.

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 competent, 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 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.

(Continued)

Specifically, as related to the items enumerated above:

1. The calculation of net position categories should be prepared and reviewed by separate individuals.
2. The financial statements should be prepared and reviewed by separate individuals in a timely manner.

3. 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 / SESA is properly prepared. The SEFA / SESA should then be reviewed by the controller, CFO or other knowledge person other than the preparer.

4. 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 2017-002

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 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.

(Continued)

Finding 2017-003

Passwords – Material Weakness

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

Condition: While a policy change to set passwords to expire every 60 days and to use complex passwords was made subsequent to year-end, during 2017, Ellipse passwords were 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.

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

Effect: The use of simple passwords and 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.

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

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings

Finding 2017-001 Financial Accounting and Reporting Environment – Material Weakness

Planned Corrective Actions: Management reviews accounting policies and procedures on a continuous basis in an effort to provide better internal control, more accurate information and be able to detect errors in a timely manner. A robust review of accounting policies and procedures has been conducted to support the current Enterprise Resource Planning (ERP) system conversion and determine specific areas which could be improved upon. Specifically, as related to the enumerated above:

1. Management's changes to policies and procedures resulted in personnel turnover. Staff lacked experience and knowledge in understanding the nature of the TEX Rail Loan and treated it as a standard issued debt. Current policies and procedures require that preparation and review of items such as the calculation of net position are completed by separate individuals; this was not adhered to due to the lack of experience of new staff. Staff is fully capable and prepared to do so going forward.

2. Management's changes to policies and procedures resulted in personnel turnover. Current policies and procedures require that preparation and review of financial statements be completed in a timely manner and by separate individuals; this was not adhered to due to the lack of experience of new staff. Staff is fully capable and prepared to do so going forward.

3. Management's changes to policies and procedures resulted in personnel turnover. Staff lacked experience in the area of SEFA and SESA preparation. Training on preparing and understanding federal and state awards is being provided on an ongoing basis. Current policy and procedures require the Controller to review the completed SEFA and SESA and a final review by the Chief Financial Officer.

4. Management made changes to personnel structure after receiving independent auditor's concerns resulting in personnel responsible for payroll processing to be moved within the organization. The result is that individuals whose duties include payroll processing no longer have access to personnel files or the ability to add employees or change pay rates. This changes was effective January 1, 2018.

Contact person(s) responsible for corrective action: Christopher Grenier, Controller, Namuna Burchfield, Accountant, and Monica Fowler, Chief Financial Officer

Anticipated Completion Date: Changes to organization structure were completed 1/01/2018.

Finding 2017-002 Assignment and Restriction of Access Rights– Material Weakness

Planned Corrective Actions: Management is in the process of replacing the current outdated enterprise resource planning system with a current scheduled 'go-live' date of September 17, 2018. Management has worked closely with consultant to ensure the necessary and appropriate security is present in the new system and is further strengthened with the proper segregation of duties.

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

Anticipated Completion Date: 09/17/2018

Finding 2017-003 **Passwords – Material Weakness**

Planned Corrective Actions: Management worked closely with IT to develop a best approach for ensuring password security after receiving independent auditor's comments. IT provided and extensive password policy with password requirements in an effort to improve security throughout the organization. The policy changes were effective October 31, 2017.

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

Anticipated Completion Date: Completed 10/31/2017

Status of Prior Year Single Audit Findings

Finding 2016-001

Financial Accounting and Reporting Environment

Responsible Official's Response: Management reviews accounting policies and procedures on a continuous basis. Management's changes to policies and procedures resulted in personnel turnover. Training has been a key objective with new and existing personnel to ensure that all accounting policies and procedures are understood and adhered to.

Status: Modified. See Finding 2017-001.

Finding 2016-002

Assignment and Restriction of Access Rights

Responsible Official's Response: Management was aware that this item would not be completely address until the new enterprise resource planning (ERP) system conversion was complete. We are scheduled to go-live on September 17, 2018.

Status: Repeated. See Finding 2017-002.

Finding 2016-003

Passwords

Responsible Official's Response: This was actually addressed soon after receiving a completed audit report and is no longer an outstanding item. The password policy was issued and implemented on October 31, 2017. The integrity of the password policy will have a similar security requirement in the new enterprise resource planning system.

Status: Modified. See Finding 2017-003.

Finding 2016-004

Fraud Risk Assessment

Status: Corrected.

Finding 2016-005

FTA Cluster Reporting

Status: Corrected.

FORT WORTH TRANSPORTATION AUTHORITY

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

September 30, 2017

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, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 11, 2018.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described as items 2017-001, 2017-002, and 2017-003 in the accompanying *schedule of findings and questioned costs,* that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

(Continued)

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 LLP

Crowe LLP

Dallas, Texas
September 11, 2018

Crowe LLP
Independent Member Crowe Global

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, 2017. 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.

Opinion on Regional Rail Vehicles Grant

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 Regional Rails Vehicle grant for the year ended September 30, 2017.

(Continued)

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of State Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated September 11, 2018 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State of Texas Uniform Grant Management Standards* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe LLP

Crowe LLP

Dallas, Texas
September 11, 2018

FORT WORTH TRANSPORATION AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended September 30, 2017

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	$ 2,842,320
Total expenditures of State awards		$ 2,842,320

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, 2017. 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?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

State Awards

Internal Control over major program:		
Material weakness (es) identified?	____ Yes	X No
Significant deficiency (ies) identified?	____ Yes	X None Reported
Type of auditor's report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with the State of Texas *Uniform Grant Management Standards*?	____ Yes	X 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 2017-001

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, not operating effectively or not followed as evidenced by the following:

1. Before audit adjustment, the net position classification of net investment in capital assets was misstated because the Tex Rail Loan and unspent bond proceeds were not included in the calculation.

2. Before audit adjustment, loan proceeds were reported in an improper category on the Statement of Cash Flows.

3. The Schedule of Expenditures of Federal Awards (“SEFA”) and the Schedule of Expenditures of State Awards (“SESA”) were revised multiple times as a result of audit testing.

4. While a change in the position was made subsequent to year-end, during fiscal year 2017, the back-up personnel 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 certain policies and procedures; policies and procedures that were in place were not adequately documented or followed; lack of knowledge as it relates to governmental accounting and report preparation at appropriate staff levels and lack of detailed review.

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 competent, 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 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.

(Continued)

Specifically, as related to the items enumerated above:

1. The calculation of net position categories should be prepared and reviewed by separate individuals.
2. The financial statements should be prepared and reviewed by separate individuals in a timely manner.

3. 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 / SESA is properly prepared. The SEFA / SESA should then be reviewed by the controller, CFO or other knowledge person other than the preparer.

4. 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 2017-002

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 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.

(Continued)

Finding 2017-003

Passwords – Material Weakness

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

Condition: While a policy change to set passwords to expire every 60 days and to use complex passwords was made subsequent to year-end, during 2017, Ellipse passwords were 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.

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

Effect: The use of simple passwords and 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.

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

Section III - State Award Findings and Questioned Costs

There were no state award findings.

<u>Finding 2017-001</u> Financial Accounting and Reporting Environment – Material Weakness

Planned Corrective Actions: Management reviews accounting policies and procedures on a continuous basis in an effort to provide better internal control, more accurate information and be able to detect errors in a timely manner. A robust review of accounting policies and procedures has been conducted to support the current Enterprise Resource Planning (ERP) system conversion and determine specific areas which could be improved upon. Specifically, as related to the enumerated above:

1. Management's changes to policies and procedures resulted in personnel turnover. Staff lacked experience and knowledge in understanding the nature of the TEX Rail Loan and treated it as a standard issued debt. Current policies and procedures require that preparation and review of items such as the calculation of net position are completed by separate individuals; this was not adhered to due to the lack of experience of new staff. Staff is fully capable and prepared to do so going forward.

2. Management's changes to policies and procedures resulted in personnel turnover. Current policies and procedures require that preparation and review of financial statements be completed in a timely manner and by separate individuals; this was not adhered to due to the lack of experience of new staff. Staff is fully capable and prepared to do so going forward.

3. Management's changes to policies and procedures resulted in personnel turnover. Staff lacked experience in the area of SEFA and SESA preparation. Training on preparing and understanding federal and state awards is being provided on an ongoing basis. Current policy and procedures require the Controller to review the completed SEFA and SESA and a final review by the Chief Financial Officer.

4. Management made changes to personnel structure after receiving independent auditor's concerns resulting in personnel responsible for payroll processing to be moved within the organization. The result is that individuals whose duties include payroll processing no longer have access to personnel files or the ability to add employees or change pay rates. This changes was effective January 1, 2018.

Contact person(s) responsible for corrective action: Christopher Grenier, Controller, Namuna Burchfield, Accountant, and Monica Fowler, Chief Financial Officer

Anticipated Completion Date: Changes to organization structure were completed 1/01/2018.

<u>Finding 2017-002</u> Assignment and Restriction of Access Rights– Material Weakness

Planned Corrective Actions: Management is in the process of replacing the current outdated enterprise resource planning system with a current scheduled 'go-live' date of September 17, 2018. Management has worked closely with consultant to ensure the necessary and appropriate security is present in the new system and is further strengthened with the proper segregation of duties.

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

Anticipated Completion Date: 09/17/2018

Finding 2017-003 **Passwords – Material Weakness**

Planned Corrective Actions: Management worked closely with IT to develop a best approach for ensuring password security after receiving independent auditor's comments. IT provided and extensive password policy with password requirements in an effort to improve security throughout the organization. The policy changes were effective October 31, 2017.

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

Anticipated Completion Date: Completed 10/31/2017

Status of Prior Year Single Audit Findings

Finding 2016-001

Financial Accounting and Reporting Environment

Responsible Official's Response: Management reviews accounting policies and procedures on a continuous basis. Management's changes to policies and procedures resulted in personnel turnover. Training has been a key objective with new and existing personnel to ensure that all accounting policies and procedures are understood and adhered to.

Status: Modified. See Finding 2017-001.

Finding 2016-002

Assignment and Restriction of Access Rights

Responsible Official's Response: Management was aware that this item would not be completely address until the new enterprise resource planning (ERP) system conversion was complete. We are scheduled to go-live on September 17, 2018.

Status: Repeated. See Finding 2017-002.

Finding 2016-003

Passwords

Responsible Official's Response: This was actually addressed soon after receiving a completed audit report and is no longer an outstanding item. The password policy was issued and implemented on October 31, 2017. The integrity of the password policy will have a similar security requirement in the new enterprise resource planning system.

Status: Modified. See Finding 2017-003.

Finding 2016-004

Fraud Risk Assessment

Status: Corrected.

Finding 2016-005

FTA Cluster Reporting

Status: Corrected.

Finding 2016-006

Matching

Status: Corrected.