# Utah Transit Authority

Financial Statements for the Years Ended December 31, 2016 and 2015; Other Information 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*

UTAH TRANSIT AUTHORITY
SINGLE AUDIT REPORT
Years Ended December 31, 2016 and 2015

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Utah Transit Authority
Salt Lake City, Utah

We have audited the accompanying financial statements of Utah Transit Authority (the "Authority") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Utah Transit Authority, as of December 31, 2016 and 2015, and the respective changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and relation ratios, and the statement of required employer contributions 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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Utah Transit Authority's basic financial statements. The schedule of expenditure of federal awards for the year ended December 31, 2016, is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards for the year ended December 31, 2016 is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated June 20, 2017, on our consideration of the Authority's internal control over financial reporting and on our test 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.

*Keddington & Christensen, LLC*

Keddington & Christensen, LLC
Salt Lake City
June 20, 2017

# Financial

UTAH TRANSIT AUTHORITY

For Fiscal Year Ended December 31, 2016 and 2015

This section of Utah Transit Authority's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended on December 31, 2016 and December 31, 2015.

Following this Management Discussion and Analysis are the basic financial statements of the Authority, together with the notes thereto, which are essential to a full understanding of the information contained in the financial statements.

## FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP), promulgated by the Governmental Accounting Standards Board. The Authority reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

## FINANCIAL HIGHLIGHTS

In November 2015, voters in three (3) of the counties within the Authority's service area approved a transportation initiative (Prop 1) which increased sales tax by a quarter of one percent (.25%). Forty percent (40%) of this revenue is dedicated to support transit service and enhancements within those specific counties. The tax became effective in Davis and Weber counties on April 1, 2016 and in Tooele County on July 1, 2016.

On August 16, 2016, the Authority sold $145.7 million of Subordinated Sales Tax Revenue Refunding Bonds. The purpose of these bonds was to eliminate interest-rate risk by reducing the Authority's exposure to short-term debt. This issuance was viewed favorably by the rating agencies and resulted in a rating upgrade for the Authority.

The Authority continues to recognize the importance of reserves. Reserves have been established for debt service, service stabilization, capital improvement, fuel and parts. These reserves were increased by $7.15 million during the year and stood at $58.54 million at the end of the year. Refunding savings of $4.3 million were included in that increase and added to the Debt Rate Service Stabilization reserve bringing its December 31, 2016 balance to $14.86 million.

In December 2016, the Authority was awarded federal funding in the amount of $70.98 million dollars by the U.S. Department of Transportation and Federal Transit Administration for the design, right-of-way acquisition, and construction of a 10.52 mile bi-directional Bus Rapid Transit (BRT) line located in Utah County. The project begins at the Orem Intermodal Center and ends at the Provo Intermodal Center and includes a total of 18 stations and the purchase of 25 vehicles. The project also includes an aerial bridge replacement with BRT guideway, bicycle, trail and pedestrian access site improvements, and construction of an expanded bus maintenance facility.

Downtown Salt Lake City – Clean Air Initiative

## CONDENSED STATEMENTS OF NET POSITION

| | 2016 | 2015 | *Difference* | *Percent difference* | 2014 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current and other assets | $ 238,290,698 | $ 231,099,087 | *$ 7,191,611* | *3%* | $ 255,392,107 |
| Restricted assets | 67,679,065 | 79,953,763 | *(12,274,698)* | *-15%* | 63,186,315 |
| Capital assets | 3,104,597,334 | 3,210,158,029 | *(105,560,695)* | *-3%* | 3,329,090,423 |
| Total assets | 3,410,567,097 | 3,521,210,879 | *(110,643,782)* | *-3%* | 3,647,668,845 |
| Deferred outflows of resources | 116,778,163 | 125,000,198 | *(8,222,035)* | *-7%* | 2,028,608 |
| Liabilities | | | | | |
| Current liabilities | 71,620,455 | 66,390,159 | *5,230,296* | *8%* | 70,900,996 |
| Long-term liabilities | 2,387,091,356 | 2,392,487,053 | *(5,395,697)* | *0%* | 2,160,447,389 |
| Total liabilities | 2,458,711,811 | 2,458,877,212 | *(165,401)* | *0%* | 2,231,348,385 |
| Deferred inflows of resources | 5,489,735 | 1,659,974 | *3,829,761* | *231%* | 1,153,885 |
| Net position | | | | | |
| Net investment in capital assets | 924,260,135 | 1,031,142,715 | *(106,882,580)* | *-10%* | 1,217,298,938 |
| Restricted | 67,415,969 | 78,064,113 | *(10,648,144)* | *-14%* | 62,860,625 |
| Unrestricted | 71,467,610 | 76,467,063 | *(4,999,453)* | *-7%* | 137,035,620 |
| Total net position | $ 1,063,143,714 | $ 1,185,673,891 | *$ (122,530,177)* | *-10%* | $ 1,417,195,183 |

### 2016 Results

In 2016, the Authority was awarded $70.98 million in the form of a federal grant for the construction of the Provo-Orem Bus Rapid Transit system. This grant represented 50% of the cost of the project, with the remaining 50% funded by Utah County. This project increased receivables at year end by over $17.7 million, and increased construction in progress by $20 million.

In August 2016, the Utah Transit Authority sold its $145,691,497 Subordinated Sales Tax Revenue Refunding Bonds, Series 2016 (the "Series 2016 Bonds"). This bond transaction was issued for a total par amount of $145,691,497 and generated $12,932,675 of Reoffering Premium, and refunded the Authority's bond issues for Series 2013 (Senior Bonds), Series 2014A (Subordinate Bonds), and Series 2014B (Subordinate Bonds) in full. This issuance represented a refunding of all of the Authority's variable rate short-term bond debt and reduced the Authority's interest rate exposure. The Series 2016 Bonds and the Series 2015 Bonds allowed the Authority to consolidate its restricted reserve requirements.

The Series 2015 bond issuance included $20 million restricted for the payment of a portion of the outstanding principal and interest of the refunded bonds through 2017. This cash flow strategy is referred to as a crossover refunding. This restricted account contributed approximately $8.5 million towards outstanding principal and interest in 2016 which explains the reduction of restricted assets from 2015 to 2016.

Capital assets decreased by $105.5 million primarily due to depreciation expense of $153.6 million exceeding capital asset additions of $48.1 million. In addition, the Authority performed a comprehensive multi-year review of construction in progress reported under capital assets. This review identified many projects that no longer met the requirements for asset recognition and required restatement as expense. Restatement was applied beginning in 2014 for those projects under this criteria. The net effect was a reduction of capital assets in the amount of $14.2 million in 2014 and $9.5 million in 2015.

CONDENSED STATEMENTS OF NET POSITION (continued)

2016 Results (continued)

As the second year reporting the *Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27,* the Authority recorded a net pension liability decrease of $4.5 million (3.8%) as a result of the Authority's continued dedication to contributing 16% of wages to the pension plan.

The Authority's Board remained steadfast in its dedication to building reserves for the stabilization of services and debt management. In 2016, the Board authorized an increase of almost $7.2 million to these reserves. At year end, these reserves equaled $58.5 million of cash and cash equivalents.

An increase in net position over time may serve as a useful indicator of a government entity's financial position. As of December 31, 2016, the Authority's net position decreased to $1.06 billion from $1.19 billion as of December 31, 2015. The majority of this change (96%) is directly attributed to the decrease in the net investment in capital assets due to depreciation and restatement, and the consolidation of the debt service reserve requirements.

2015 Results

In 2015, the Authority implemented the *Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions – an Amendment to GASB Statement No. 27.* The effect of this Statement is the recording of the Authority's net pension liability as of December 31, 2015 which increased deferred outflows of resources by $16.3 million, increased long-term liabilities by $117.4 million, and increased deferred inflows of resources by $1.7 million.

On January 26, 2015, Utah Transit Authority sold its $668,655,000 Sales Tax Revenue Refunding Bonds, Series 2015A (the "2015A Senior Bonds) and $192,005,000 Subordinated Sales Tax Revenue Refunding Bonds, Series 2015A (the "2015A Subordinate Bonds"). These two bond issues together are referred to as the "2015A Bonds". This major bond transaction was issued for a total par amount of $860,660,000 and generated $156,955,532 of Original Issue Premium, and involved the refunding of parts of four UTA bond issues, namely the 2008A (Senior Bonds), 2009A (Senior Bonds), 2007A (Subordinate Bonds), and the 2012 (Subordinate Bonds).

The primary purpose for issuing the 2015A Bonds, was for overall debt service savings. It should be noted that the True Interest Cost of the 2015A Bonds was 3.209%. This compares to the TIC for each of the refunded bond issues of 5.008%, 3.972%, 4.701%, and 4.048%, for the 2008A, 2009A, 2007A, and 2012 bonds, respectively.

This refunding resulted in total interest savings of $85,201,883, with net present value savings of $77,660,118, or 9.023% net savings of refunded principal. This represents average annual cash flow savings of $3,550,078. The transaction closed on February 25, 2015.

CONDENSED STATEMENTS OF NET POSITION (continued)

2015 Results (continued)

Additional benefits to UTA as a result of this refunding are the following;

Rider using the UTA mobile app

1. Elimination of Capital Appreciation Bonds.
2. A Rating upgrade on UTA's Subordinate Debt Portfolio by Standard & Poors, from A to A+.
3. A reaffirmation of all other prior bond ratings, as rated by Standard & Poors, Moody's, and Fitch.
4. A reshaping of the debt service schedule by smoothing out of the steep increase in debt service beginning in 2017.
5. Elimination of Bond specific Debt Service Reserve Fund for all Senior Debt.
6. This transaction also allowed us to make several changes to the Bond Indenture, adding important items to generate flexibility benefiting the overall bond program.

The Authority's Board remained steadfast in its dedication to building reserves for the stabilization of services and debt management. In 2015, the Board authorized an increase of almost $8.0 million to these reserves. At year end, these reserves equaled $51.4 million of cash and cash equivalents.

Capital assets decreased by $118.9 million primarily due to depreciation expense of $161.0 million exceeding capital asset additions of $48.6 million.

An increase in net position over time may serve as a useful indicator of a government entity's financial position. As of December 31, 2015, the Authority's net position decreased to $1.21 billion from $1.43 billion as of December 31, 2014 due to the increase in long-term liabilities from the implementation of the *GASB Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement 27* which resulted in an increased long-term liability of $117m, and the issuance of the Series 2015 bonds.

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

| | 2016 | 2015 | *Difference* | *Percent difference* | 2014 |
|---|---|---|---|---|---|
| Operating revenues | $ 52,891,021 | $ 54,346,242 | *$ (1,455,221)* | *-2.7%* | $ 53,761,223 |
| Operating expenses | 422,543,342 | 403,560,254 | *18,983,088* | *4.7%* | 412,835,043 |
| Excess of operating expenses over operating revenues | (369,652,321) | (349,214,012) | *(20,438,309)* | *-5.9%* | (359,073,820) |
| Non-operating revenues | 313,184,316 | 290,848,506 | *22,335,810* | *7.7%* | 274,965,988 |
| Non-operating expenses | 86,226,784 | 81,386,242 | *4,840,542* | *5.9%* | 92,122,756 |
| Income (loss) before contributions | (142,694,789) | (139,751,748) | *(2,943,041)* | *-2.1%* | (176,230,588) |
| Capital contributions | 20,164,612 | 9,068,708 | *11,095,904* | *122.4%* | 11,389,311 |
| Change in net positon | $ (122,530,177) | $ (130,683,040) | *$ 8,152,863* | *6.2%* | $ (164,841,277) |
| Total net position, January 1 | $ 1,185,673,891 | $ 1,417,195,183 | | | $ 1,577,104,903 |
| Prior period adjustment | | (100,838,252) [1] | | | 4,931,557 [2] |
| Total net position, December 31 | $ 1,063,143,714 | $ 1,185,673,891 | | | $ 1,417,195,183 |

[1] Effect of GASB Statement No. 68 implementation, net pension liability as of January 1, 2015.
[2] Recognition of represented employees trust in the amount of $3.26m, restatement of $1.67m of current liabilities to equity.

SUMMARY OF REVENUES FOR THE YEAR ENDED DECEMBER 31

| | 2016 | 2015 | *Difference* | *Percent difference* | 2014 |
|---|---|---|---|---|---|
| Operating | | | | | |
| Passenger revenue | $ 50,624,354 | $ 52,112,909 | *$(1,488,555)* | *-2.9%* | $ 51,461,223 |
| Advertising | 2,266,667 | 2,233,333 | *33,334* | *1.5%* | 2,300,000 |
| Total operating revenue | 52,891,021 | 54,346,242 | *(1,455,221)* | *-2.7%* | 53,761,223 |
| Non-operating | | | | | |
| Contributions from other gov'ts (sales tax) | 245,008,417 | 227,703,023 | *17,305,394* | *7.6%* | 214,683,276 |
| Federal noncapital assistance | 63,334,769 | 52,000,012 | *11,334,757* | *21.8%* | 50,754,876 |
| Interest income | 1,732,939 | 2,831,406 | *(1,098,467)* | *-38.8%* | 5,803,226 |
| Other | 3,108,191 | 8,314,065 | *(5,205,874)* | *-62.6%* | 3,724,610 |
| Total non-operating revenue | 313,184,316 | 290,848,506 | *22,335,810* | *7.7%* | 274,965,988 |
| Capital contributions | 20,164,612 | 9,068,708 | *11,095,904* | *122.4%* | 11,389,311 |
| Total revenues | $ 386,239,949 | $ 354,263,456 | *$31,976,493* | *9.0%* | $ 340,116,522 |

2016 Results

Passenger revenue showed a slight decrease of $1.5 million (2.9%) in 2016. This can be attributed to the low price of fuel and milder weather patterns. In addition, the Authority extended its FarePay discount fare program as a continued support of the conversion campaign from 2015.

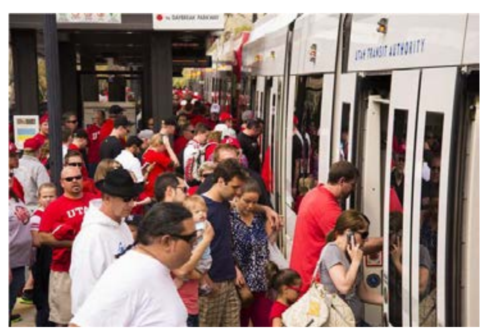
Since the Authority does not have the ability to tax, it relies on contributions dedicated by other governments for the purpose of mass transit in the form of sales tax as supplementary income to operations and development. As Utah's economy continues to improve and unemployment rates continue to decrease, this sales tax amount continues to increase. In 2016, the Authority recognized $17.3 million (6.2%) in increased contributions of sales tax. Of that increase, $6.4 million (37%) came from the quarter-cent sales tax of Prop 1.

Federal noncapital support increased by $11.3 million (22%) in 2016. This funding is distributed by the Federal Transit Administration (FTA) to transit agencies based on the age and use of their systems. As much of the Authority's rail system reaches the threshold of eligibility for federal preventive maintenance support, it is expected this funding will increase as demand for maintenance increases.

Capital contributions increased by over $11 million due to the federal and local participation in the construction of the Provo-Orem BRT line.

2015 Results

Passenger revenue showed a slight increase of $585,000 (1.3%) in 2015. This year, the Authority began to focus on electronic fare media (FarePay) through increased consumer education campaigns and fare incentives for conversion. This conversion campaign has seen significant success in converting cash customers to FarePay, however, the incentives have had an impact on passenger revenue growth.



Riders board TRAX at University of Utah

SUMMARY OF REVENUES FOR THE YEAR ENDED DECEMBER 31 (continued)

2015 Results (continued)

Since the Authority does not have the ability to tax, it relies on contributions dedicated by other governments for the purpose of mass transit in the form of sales tax as supplementary income to operations and development. As Utah's economy continues to improve and unemployment rates continue to decrease, this sales tax amount continues to increase. In 2015, the Authority recognized $13.0 million (6.2%) in increased contributions of sales tax.

In 2015, the investment market did not provide the same opportunities for short-term investments as 2014. With a decreased number of investment transactions, interest income decreased in 2015 by almost $3.0 million.

With the completion of the major rail lines, the Authority has begun to assess property and liquidate land no longer needed to support the Authority's purpose. In 2015, the Authority sold approximately 37.5 acres of land which contributed approximately $5.6m in other revenue.

SUMMARY OF EXPENSES FOR THE YEAR ENDED DECEMBER 31

| | 2016 | 2015 | *Difference* | *Percent difference* | 2014 |
|---|---|---|---|---|---|
| Operating expenses | | | | | |
| Bus service | $ 85,841,973 | $ 77,702,167 | *$ 8,139,806* | *10.5%* | $ 79,141,904 |
| Rail service | 84,165,069 | 74,266,265 | *9,898,804* | *13.3%* | 83,558,762 |
| Paratransit service | 19,341,116 | 18,573,738 | *767,378* | *4.1%* | 18,748,699 |
| Other services | 2,949,643 | 2,971,534 | *(21,891)* | *-0.7%* | 3,183,892 |
| Operations support | 37,831,682 | 35,901,226 | *1,930,456* | *5.4%* | 28,949,480 |
| Administration | 37,636,519 | 32,443,603 | *5,192,916* | *16.0%* | 33,287,754 |
| Major investment studies | 1,204,124 | 658,400 | *545,724* | *82.9%* | 2,488,179 |
| Depreciation | 153,573,216 | 161,043,323 | *(7,470,107)* | *-4.6%* | 163,476,373 |
| Total operating expenses | $ 422,543,342 | $ 403,560,256 | *$ 18,983,086* | *4.7%* | $ 412,835,043 |

2016 Results

Personnel cost for the Authority in 2016 was 66.2% of total operating expense less depreciation. Overall, personnel cost rose by $11.5 million (7.0%) in 2016.

The operational cost for all direct service increased in 2016 by $20.7 million as a result of increased system maintenance costs. These costs included the light rail vehicle mid-life overhaul project, pedestrian crossing upgrades, grade crossing replacements, tactile replacements, and other technology improvements to enhance the passenger experience.

Operating expense less personnel cost increased by $11.6 million (19.6%), all of which is the result of increased system maintenance costs.

Warehouse parts clerk

Within operating expense, administration expense increased by $5.1 million (16%), due to increased personnel and maintenance of the information systems infrastructure and increased risk management expense.

SUMMARY OF EXPENSES FOR THE YEAR ENDED DECEMBER 31 (continued)

2015 Results

Personnel cost for the Authority in 2015 was 68.7% of total operating expense less depreciation. Overall, personnel cost rose by $7.1 million (4.4%) in 2015.

With this increase as a reference, the operational cost for all direct service decreased in 2015 as a result of lower fuel costs as well as continued operational efficiencies and resource utilization adjustments.

Operating expense less personnel cost decreased by $13.9 million (15.4%) due to the decreased cost of fuel and reduced planning and studies cost.

Within operating expense, operational support increased by almost $7.0 million (24.0%) directly attributed to an increased cost for facility maintenance and public safety.

CAPITAL ASSET ACTIVITY

| | 2016 | 2015 | *Difference* | *Percent difference* | 2014 |
|---|---|---|---|---|---|
| Land and right of ways | $ 444,428,115 | $ 444,484,721 | *$ (56,606)* | *0.0%* | $ 445,737,902 |
| Infrastructure | 2,660,455,033 | 2,660,455,033 | - | *0.0%* | 2,659,779,176 |
| Revenue vehicles | 768,632,495 | 778,085,676 | *(9,453,181)* | *-1.2%* | 763,036,847 |
| Other | 420,530,145 | 420,778,076 | *(247,931)* | *-0.1%* | 411,580,491 |
| Construction in process | 98,584,168 | 52,277,885 | *46,306,283* | *88.6%* | 41,264,699 |
| Depreciation | (1,288,032,621) | (1,145,923,364) | *(142,109,257)* | *12.4%* | (992,308,692) |
| Total capital assets, net | $ 3,104,597,335 | $ 3,210,158,027 | *$ (105,560,692)* | *-3.3%* | $ 3,329,090,423 |

2016 Results

The Authority expended approximately $47.1 million for capital assets in 2016. Approximately $34.7 million was expended for major capital projects, with $20.6 million spent on the construction of the Provo-Orem BRT line and $11.6 million on the federally-mandated positive train control system. Additional projects include revenue vehicle replacement purchases, a fuel storage tank, and transit enhancements funded through Prop 1 sales tax.

2015 Results

The Authority expended approximately $34.6 million for capital assets in 2015. Approximately $18.9 million was expended for revenue vehicle replacements. This program included twenty-three (23) buses, fifty-five (55) RideShare vans, and fifty-six (56) paratransit vans.

In 2015, the Authority expended $15.7 million on major strategic projects. This included the Depot District (fueling and maintenance facility to support bus operations), the continued development of several Bus Rapid Transit (BRT) routes, and several other projects designed to enhance the system and passenger experience.

Readers wanting additional information should refer to Note 4 in the notes to the financial statements.

## DEBT ADMINISTRATION

Bond rating agencies have rated the Authority based on the types of bonds issued and an analysis of several financial conditions and influencing factors. The following chart summarizes those ratings by bond and agency:

### A. Ratings Summary

Effective: August 2016

| | Standard &Poor's | Fitch | Moody's |
|---|---|---|---|
| Senior Lien Bonds | | | |
| Current rating | AAA | AA | Aa2 |
| Outlook | Stable | Stable | Stable |
| Subordinate Lien Fixed Rate Bonds | | | |
| Current rating | A+ | AA | A1 |
| Outlook | Stable | Stable | Stable |

Effective: April 2015

| | Standard &Poor's | Fitch | Moody's |
|---|---|---|---|
| Senior Lien Bonds | | | |
| Current rating | AAA | AA | Aa2 |
| Outlook | Stable | Stable | Stable |
| Subordinate Lien Fixed Rate Bonds | | | |
| Current rating | A | A+ | A1 |
| Outlook | Stable | Stable | Stable |

### B. 2016 Debt Issuance

During 2016, the Authority issued the following subordinated lien bonds:

Subordinated Sales Tax Revenue Refunding Bonds, Series 2016: $147,691,497

Proceeds from the Series 2016 Subordinated Lien bond issue were used to refund the variable rate short-term refundable maturities of the Series 2013 revenue bonds ($13.9 million), Series 2014A revenue bonds ($80.4 million), and 2014B revenue bonds ($62.0 million).

### C. 2015 Debt Issuance

During 2015, the Authority issued the following senior lien bonds:

2015 Series Senior Lien revenue bonds: $668,655,000

Proceeds from the Series 2015 Senior Lien bond issue were used to refund the remaining refundable maturities of the Series 2008A revenue bonds ($645.7 million), and $44.55 million of the refundable maturities of the Series 2009A revenue bonds.

2015 Series Subordinate Lien revenue bonds: $192,500,000

Proceeds from the Series 2015 Subordinate Lien bond issue were used to refund the majority of refundable maturities of the Series 2007A capital appreciation revenue bonds ($132.3 million), and a small portion ($4.3 million) of the refundable maturities of the Series 2012A revenue bonds.

DEBT ADMINISTRATION (continued)

D. Interest Expense

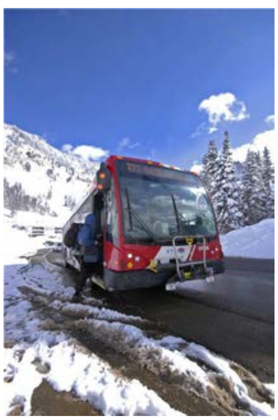
Interest expense increased to $85.4 million in 2016 from $80.6 million in 2015. The majority of this increase was the effect of the full year's interest burden of the Series 2015 bonds ($3.0 million), with the remaining amount attributed to the Series 2016 bonds and restructuring of the Authority's debt.

Readers wanting additional information should refer to Note 8 in the notes to financial statements.

SIGNIFICANT ACTIVITIES

2016 Results

*Transit Service* - UTA took advantage of multiple opportunities to improve service in 2016. Most notable were the changes made possible by the adoption of Proposition One in Davis, Weber, and Tooele counties. These funds allowed UTA to implement two new bus routes and provide seven others with more early, late, and weekend service, an overall increase of 15% in annual bus service in Davis and Weber counties. In addition, UTA worked aggressively on improving 70 bus stops by using Proposition One funds to add shelters and benches and improve access to stops for mobility-disadvantaged customers. Over 500 hours of service was added in Tooele County.


Ski bus service

In August, UTA was able to leverage federal grant money to add Saturday service to six flex routes, improving access to multiple destinations in Ogden and southwest Salt Lake County.

In December, UTA completed an overhaul of ski service that improved frequency on key corridors and added 35% more trips up Big and Little Cottonwood Canyons. This was a large effort that required cooperation among numerous internal and external stakeholders.

On time performance for 2016 was 93.66%.

*Transit-oriented Development (TOD)* - Jordan Valley TOD construction was completed and lease-up began on 270 residential units. Construction was also completed and lease-up began on 272 residential units at the Sandy East Village TOD. A fourth residential building started construction as well as a 150,000 square foot office building. At the South Jordan TOD, work commenced on the first of two 180,000 square foot office buildings as well as a full-service hotel.

*Customer Service* - UTA's redesigned website was launched. Signage and maps at UTA's TRAX and FrontRunner platforms were updated as were destination maps at the Airport station. Wayfinding signage was implemented at eight key stations.

The authority provided special event support for the Warriors over the Wasatch Air Show and the Veterans Administration Wheelchair Games as well as Utah Jazz games, University of Utah and Brigham Young University events, LDS Church General Conferences, the Salt Lake City Marathon, and other special events.

SIGNIFICANT ACTIVITIES (continued)

2016 Results (continued)

*Environment* - Adding 24 CNG buses raised the percentage of clean fuel vehicles in UTA's fleet to 62%. FrontRunner service eliminated 63.7 million commuter mile emissions and vanpooling reduced greenhouse gas emissions by 35.2 million pounds.

*Stewardship* - The Authority was awarded several grants including $71 million in small starts funds for the Provo-Orem bus rapid transit system, $20 million in TIGER funds for first/last mile solutions, and $2.4 million in discretionary funds. Taking advantage of historically low borrowing costs, the Authority replaced $156 million in short-term notes with $146 million in long-term, fixed-rated debt. Net savings from the component rebuild shop totaled $1.3 million and CNG fuel savings from UTA's CNG fueling station topped $400,000.


Sandy TOD – East Village Apartments

2015 Results

In conjunction with Utah County, the Utah Department of Transportation, the cities of Provo and Orem, and the Mountainland Association of Governments, the Authority continued the development of the Provo Orem Transportation Improvement Project (TRIP) which includes a bus rapid transit system.

Two new transit-oriented development (TOD) groundbreakings occurred in 2015 for Phases 2 and 3 of the Sandy TOD site. Phase 2 includes a 60,000 square foot office building preleased to the Utah State Division of Child and Family Services. Phase 3 includes construction of 67 apartment units.

Transit access improvements included increasing capacity for safe bicycle storage on trains and buses as well as providing bus amenities at 104 bus stops. In addition, the Authority launched several mobility management programs including a shared and donated vehicle program, RidePilot scheduling and dispatch software, and the first phase of the One-Click transportation and referral system.

The Authority hosted the 2015 American Public Transit Association Rail Conference and International Rail Rodeo.

Voters approved Proposition 1 in Weber, Davis, and Tooele counties. The Proposition adds a one-tenth cent transit sales tax with the tax becoming effective in 2016. Through extensive pre-election public outreach efforts, the Authority discussed potential service changes with over 8,000 citizens.

Continuous improvement initiatives included launching and facilitating the Community Transit Advisory Committee and starting the Light Rail Benchmarking Group in conjunction with the Imperial College of London. Another continuous improvement project increased the miles per gallon for all transit modes resulting in annual savings of over $600,000.

In August, the Authority added service to twelve bus routes, TRAX, and the S-line. Changes included increased frequency and extended hours of service.

The Authority continued design and construction of the federally-mandated positive train control system and completed construction of the Depot District CNG fueling facility.

## RIDERSHIP COMPARISON

The following information provides an annual comparison of ridership by service for years 2016, 2015, and 2014.

*Reported as passenger boardings in thousands*

| | 2016 | 2015 | *Difference* | *Percent difference* | 2014 |
|---|---|---|---|---|---|
| Bus service | 20,495 | 20,377 | *118* | *0.6%* | 20,487 |
| Light rail service | 18,762 | 19,704 | *(942)* | *-4.8%* | 19,868 |
| Commuter rail service | 4,546 | 4,645 | *(99)* | *-2.1%* | 4,416 |
| Paratransit service | 424 | 427 | *(3)* | *-0.7%* | 427 |
| Vanpools | 1,346 | 1,424 | *(78)* | *-5.5%* | 1,401 |
| Total ridership | 45,573 | 46,577 | *(1,004)* | *-2.2%* | 46,599 |

### 2016 Results

In 2016, the Authority realized a 2.2% decrease in overall ridership from 2015. Bus service increased in 2016 as the Authority continued to evaluate the demand for service, including service to the ski resorts during the season and additional service enhancements funded through Prop 1 sales tax revenue. Light rail experienced a decrease in ridership which can be attributed to low fuel costs which directly affect ridership. Other services experience little change.

### 2015 Results

In 2015, the Authority realized no change in overall ridership from 2014. However, commuter rail's attraction to the business commuter community resulted in a 5.2% increase in ridership. Light rail and bus operations reduced ridership slightly.

## COMPARATIVE STATEMENTS OF NET POSITION

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 103,689,945 | $ 123,456,952 |
| Receivables | | |
| Contributions from other governments (sales tax) | 45,646,114 | 41,966,003 |
| Federal grants | 13,611,438 | 8,292,008 |
| Other | 20,837,335 | 8,450,195 |
| Parts and supplies inventories | 28,361,640 | 21,871,283 |
| Prepaid expenses | 2,627,731 | 2,735,237 |
| **Total Current Assets** | **214,774,203** | **206,771,678** |
| **Noncurrent Assets:** | | |
| Amount recoverable - interlocal agreement | 23,516,495 | 24,327,409 |
| Restricted assets (Cash equivalents and investments) | | |
| Bonds funds | 51,279,017 | 62,996,201 |
| Interlocal agreements | 5,663,895 | 6,476,298 |
| Represented employee benefits | 3,269,716 | 3,039,873 |
| Escrow funds | 34,837 | 81,091 |
| Self-insurance deposits | 7,431,600 | 7,360,300 |
| Total restricted assets | 67,679,065 | 79,953,763 |
| Property, facilities and equipment: | | |
| Land and improvements | 130,401,281 | 130,457,888 |
| Rights of way | 314,026,833 | 314,026,833 |
| Infrastructure | 2,660,455,033 | 2,660,455,034 |
| Revenue vehicles | 768,632,495 | 778,085,676 |
| Other property and equipment | 420,530,145 | 420,778,076 |
| Construction in progress | 98,584,168 | 52,277,886 |
| Total property, facilities and equipment | 4,392,629,955 | 4,356,081,393 |
| Less accumulated depreciation and amortization | (1,288,032,621) | (1,145,923,364) |
| **Total Noncurrent Assets** | **3,195,792,894** | **3,314,439,201** |
| **TOTAL ASSETS** | **3,410,567,097** | **3,521,210,879** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Advanced debt refunding | 101,200,263 | 108,648,743 |
| Assumptions changes related to pensions | 15,577,900 | 16,351,455 |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | **$ 116,778,163** | **$ 125,000,198** |

See accompanying notes to the financial statements.

## COMPARATIVE STATEMENTS OF NET POSITION (continued)

| | 2016 | 2015 |
|---|---|---|
| **LIABILITIES** | | |
| **Current Liabilities:** | | |
| Accounts payable | $ 26,979,344 | $ 18,445,210 |
| Accrued liabilities, primarily payroll-related | 19,533,949 | 18,980,139 |
| Accrued interest | 4,226,445 | 4,162,032 |
| Accrued self-insurance liability | 2,336,975 | 2,284,463 |
| Current portion of long-term debt | 11,733,893 | 15,048,301 |
| Payable from restricted assets | 263,096 | 1,889,650 |
| Unearned revenue | 6,546,753 | 5,580,364 |
| **Total Current Liabilities** | **71,620,455** | **66,390,159** |
| **Long-Term Liabilities:** | | |
| Long-term debt | 2,269,803,569 | 2,272,615,756 |
| Long-term accrued interest | 1,603,827 | 1,203,331 |
| Long-term self-insurance liability | 2,758,839 | 1,230,095 |
| Long-term net pension liability | 112,925,121 | 117,437,871 |
| **Total Long-term Liabilities** | **2,387,091,356** | **2,392,487,053** |
| **TOTAL LIABILITIES** | **2,458,711,811** | **2,458,877,212** |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Changes to earnings on pension plan investments | 5,489,735 | 1,659,974 |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | **5,489,735** | **1,659,974** |
| **NET POSITION** | | |
| Net investment in capital assets | 924,260,135 | 1,031,142,715 |
| Restricted for: | | |
| Debt service | 51,279,017 | 62,996,201 |
| Interlocal agreements | 5,400,799 | 4,586,648 |
| Represented employee benefits | 3,269,716 | 3,039,873 |
| Escrow funds | 34,837 | 81,091 |
| Self-insurance deposits | 7,431,600 | 7,360,300 |
| Unrestricted | 71,467,610 | 76,467,063 |
| **TOTAL NET POSITION** | **$ 1,063,143,714** | **$ 1,185,673,891** |

See accompanying notes to the financial statements.

## COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| | 2016 | 2015 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Passenger fares | $ 50,624,354 | $ 52,112,909 |
| Advertising | 2,266,667 | 2,233,333 |
| **Total operating revenues** | **52,891,021** | **54,346,242** |
| **OPERATING EXPENSES** | | |
| Bus service | 85,841,973 | 77,702,167 |
| Rail service | 84,165,069 | 74,266,265 |
| Paratransit service | 19,341,116 | 18,573,738 |
| Other service | 2,949,643 | 2,971,534 |
| Operations support | 37,831,682 | 35,901,226 |
| Administration | 37,636,519 | 32,443,603 |
| Major investment studies | 1,204,124 | 658,400 |
| Depreciation | 153,573,216 | 161,043,323 |
| **Total operating expenses** | **422,543,342** | **403,560,256** |
| **Excess of operating expenses over operating revenues** | **(369,652,321)** | **(349,214,014)** |
| **NON-OPERATING REVENUES (EXPENSES)** | | |
| Contributions from other governments (sales tax) | 245,008,417 | 227,703,023 |
| Federal preventative maintenance grants | 59,772,235 | 49,452,677 |
| Federal planning grants | 3,562,534 | 2,547,335 |
| Investment income | 1,732,939 | 2,831,406 |
| Other | 3,108,191 | 8,314,065 |
| Interest expense | (85,415,870) | (80,575,328) |
| Recoverable sales tax - interlocal agreement | (810,914) | (810,914) |
| **Net non-operating revenues** | **226,957,532** | **209,462,264** |
| **INCOME (LOSS) BEFORE CONTRIBUTIONS** | **(142,694,789)** | **(139,751,750)** |
| **Capital contributions:** | | |
| Federal grants | 17,054,298 | 7,819,096 |
| Local | 3,110,314 | 1,249,614 |
| **Total capital contributions** | **20,164,612** | **9,068,710** |
| Change in Net Position | (122,530,177) | (130,683,040) |
| Total Net Position, January 1 (as restated) | 1,185,673,891 | 1,316,356,931 |
| TOTAL NET POSITION, DECEMBER 31 | $ 1,063,143,714 | $ 1,185,673,891 |

See accompanying notes to the financial statements.

## COMPARATIVE STATEMENTS OF CASH FLOWS

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Passenger receipts | $ 52,415,749 | $ 51,764,499 |
| Advertising receipts | 2,350,000 | 2,050,000 |
| Payments to vendors | (89,435,633) | (82,746,969) |
| Payments to employees | (120,050,277) | (115,194,297) |
| Employee benefits paid | (57,292,584) | (52,988,743) |
| Other receipts (payments) | 2,387,103 | 3,444,927 |
| **Net cash used in operating activities** | **(209,625,642)** | **(193,670,583)** |
| **Cash flows from noncapital financing activities:** | | |
| Contributions from other governments (sales tax) | 241,328,306 | 225,556,379 |
| Federal preventative maintenance grants | 62,709,565 | 48,690,739 |
| Federal planning assistance grants | 3,562,534 | 2,547,335 |
| Other receipts (payments) | (11,974,847) | - |
| **Net cash provided by noncapital financing activities** | **295,625,558** | **276,794,453** |
| **Cash flows from capital and related financing activities:** | | |
| Contributions for capital projects | | |
| Federal | 8,797,538 | 12,599,212 |
| Local | 2,629,071 | 273,373 |
| Proceeds from the sale of revenue bonds | 181,796,975 | 1,028,019,422 |
| Deposit into escrow for refunding bonds | (156,360,000) | (1,000,196,793) |
| Payment of bond principal | (15,416,104) | (12,054,502) |
| Interest paid on revenue bonds | (93,649,947) | (85,928,937) |
| Purchases of property, facilities, and equipment | (48,012,521) | (46,053,156) |
| Proceeds from the sale of property | 477,031 | 10,975,741 |
| **Net cash used in capital and related financing activities** | **(119,737,957)** | **(92,365,640)** |
| **Cash flows from investing activities:** | | |
| Purchases of investments | (37,567,565) | (109,429,557) |
| Proceeds from the sales of investments | 38,248,601 | 81,120,723 |
| Interest on investments | 694,709 | 1,965,924 |
| **Net cash provided by investing activities** | **1,375,743** | **(26,342,910)** |
| Net increase in cash and cash equivalents | (32,362,298) | (35,584,680) |
| Cash and cash equivalents at beginning of year | 174,272,793 | 209,857,474 |
| Cash and cash equivalents at end of year | $ 141,910,495 | $ 174,272,793 |

See accompanying notes to the financial statements.

## COMPARATIVE STATEMENTS OF CASH FLOWS (continued)

| | 2016 | 2015 |
|---|---|---|
| **Reconciliation of cash to the Statement of Net Position:** | | |
| Cash and cash equivalents at year end from cash flows | $ 141,910,495 | $ 174,272,793 |
| Investments | 29,458,515 | 29,137,922 |
| Total cash and cash equivalents and investments | 171,369,010 | 203,410,715 |
| | | |
| Cash and investments as reported on the Statement of Net Position | | |
| Cash and cash equivalents | 103,689,945 | 123,456,952 |
| Restricted assets (Cash equivalents and investments) | | |
| Bonds funds | 51,279,017 | 62,996,201 |
| Interlocal agreements | 5,663,895 | 6,476,298 |
| Represented employee benefits | 3,269,716 | 3,039,873 |
| Escrow funds | 34,837 | 81,091 |
| Self-insurance deposits | 7,431,600 | 7,360,300 |
| Total cash and cash equivalents and investments | $ 171,369,010 | $ 203,410,715 |

| | 2016 | 2015 |
|---|---|---|
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ (369,652,321) | $ (349,214,012) |
| Adjustments to reconcile excess of operating expenses over operating revenues to net cash used in operating activities: | | |
| Pension expense | 90,566 | 1,908,135 |
| Depreciation | 153,573,216 | 161,043,323 |
| Other revenues | 2,631,160 | 1,280,554 |
| Changes in assets and liabilities: | | |
| Receivables | (375,690) | 232,832 |
| Parts and supplies inventories | (6,490,357) | (1,802,544) |
| Prepaid expenses | 107,506 | 2,471 |
| Accounts payable - trade and restricted | 6,907,580 | (6,114,070) |
| Accrued liabilities | 2,135,064 | (1,848,366) |
| Unearned revenue | 1,447,634 | 841,094 |
| Advanced collections | - | - |
| **Net cash used in operating activities** | **$ (209,625,642)** | **$ (193,670,583)** |

See accompanying notes to the financial statements.

## NOTE 1 – DESCRIPTION OF THE AUTHORITY OPERATIONS AND DEFINITION OF THE ENTITY

A. Organization

The Utah Transit Authority (Authority) was incorporated on March 3, 1970 under authority of the Utah Public Transit District Act of 1969 for the purpose of providing a public mass transportation system for Utah communities.

The Authority's service area lies in the region commonly referred to as the Wasatch Front. The service area extends from the Wasatch Mountains on the east to the Great Salt Lake on the west, is approximately 100 miles long and 30 miles wide, and consists of an area of approximately 1,400 square miles that covers all or portions of six (6) principal counties (Box Elder, Davis, Salt Lake, Tooele, Utah and Weber). The service area also includes a small portion of Juab County. The total population within the six principal counties is approximately 2,400,000 which represents approximately 82% of the state's total population.

The Authority's operations include commuter rail service from Ogden to Provo, light rail service in Salt Lake County, and bus service, paratransit service for the transit disabled, rideshare and van pool programs system wide.

The Authority is governed by a 16 member Board of Trustees, which is the legislative body of the Authority and determines Authority policy. Twelve members of the Board of Trustees are appointed by each county municipality or combination of municipalities annexed to the Authority. In addition, one trustee is appointed by the Governor of Utah, one is appointed by the President of the State Senate, one is appointed by the Speaker of the State House of Representatives, and one is appointed by the State Transportation Commission.

B. Reporting Entity

The Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - An Amendment of GASB Statement No. 14*. Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statements No. 14 and No. 39, the Authority has no component units nor is it considered a component unit of any municipality or government. The Authority has, however, a slight connection with some municipalities by virtue of the fact that the Board of Trustees is appointed by the municipalities served by the Authority, and the municipalities serve as the taxing authority for sales tax contributed to support transit provided by the Authority.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organizations nor are any municipalities financially accountable for the Authority. Additionally, the Authority has considered the provisions of GASB No. 39 which follows the concept of economic independence. The Authority does not raise or hold economic resources for the direct benefit of a governmental unit and other governmental units do not have the ability to access economic resources held by the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provision of the Utah Code.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Authority reports as a single enterprise fund and uses the accrual method of accounting and the economic resources measurement focus. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred.

B. Standards for Reporting Purposes

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by GASB.

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

C. Federal Planning Assistance and Preventative Maintenance Grants

Federal planning assistance grants received from the Federal Transit Administration (FTA) and preventative maintenance grants are recognized as revenue and receivable during the period in which the related expenses are incurred and eligibility requirements are met. The FAST Act is a fully funded five-year authorization of surface transportation programs. This Act allows for the replacement and repair of aging infrastructure.

D. Federal Grants for Capital Expenditures

The U.S. Department of Transportation, through contracts between the Authority and the FTA, provides federal funds of 35% to 93% of the cost of property, facilities and equipment acquired by the Authority through federal grants. Grant funds for capital expenditures are earned and recorded as capital contribution revenue when the capital expenditures are made and eligibility requirements are met.

E. Classification of Revenues and Expenses

- *Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions such as passenger revenues and advertising revenues.
- *Operating expenses:* Operating expenses include payments to suppliers, employees, and third parties on behalf of employees and all payments that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities.
- *Non-operating revenues:* Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement No. 34. Examples of non-operating revenues would be the contributions from other governments (sales tax), federal grants and investment income.
- *Non-operating expenses:* Non-operating expenses include payments from transactions defined as capital and related financing, non-capital financing or investing activities.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Contributions from Other Governments

The counties and municipalities who receive transit services from the Authority have agreed to contribute a portion of sales tax to the Authority in exchange for service. These contributions are received by the Authority approximately 60 days after the collection of the sales tax, and as such are recorded as an accrual to revenue and receivable during that period.

The following percentage of sales have been authorized as Local Option Sales Tax and dedicated to support transit:

| | |
|---|---|
| Salt Lake County | 0.6875% |
| Davis County | 0.6500% |
| Weber County | 0.6500% |
| Box Elder County | 0.5500% |
| Utah County | 0.5260% |
| Tooele County | 0.4000% |

G. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and amounts invested in a repurchase agreement, a certificate of deposit and the Utah Public Treasurers' Investments Fund, including restricted cash equivalents. The Authority considers short-term investments with an original maturity of three (3) months or less to be cash equivalents (Note 3).

H. Investments

Cash in excess of operating requirements is invested by the Authority. The Authority's investments comply with the Utah Money Management Act, and are stated at fair value, which is primarily determined based upon quoted market prices at year end (Note 3).

*Investment policy:* The Authority's investment policy is established and may be amended by the President/CEO within the parameters established by the Board of Trustees and the Utah Money Management Act.

I. Receivables

Receivables consist primarily of amounts due to the Authority from sales tax collections, federal grants, local government partners, pass sales and investment income. Management does not believe any credit risk exists related to these receivables.

J. Parts and Supplies Inventories

Parts and supplies inventories are stated at the lower of cost (using the moving average cost method) or market. Inventories generally consist of fuel, lube oil, antifreeze and repair parts held for consumption. Inventories are expensed as used.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

K. Property, Facilities and Equipment

Property, facilities and equipment are stated at historical cost. Expenditures which substantially improve or extend the useful life of property are capitalized. Routine maintenance and repair costs are expensed as incurred. Property, facilities and equipment are capitalized if they have individual costs of at least $5,000 and a useful life of over one year.

Except for sales of assets in which the unit fair market value is less than $5,000 from the sale of property, proceeds from facilities and equipment purchased with funds provided by federal grants for capital expenditures are remitted to the FTA on the same percentage basis that such funds were provided by grant contracts with the FTA, or used for similar capital expenses.

Depreciation is calculated using the straight-line method over the established useful lives of individual assets as follows:

| | |
|---|---|
| Land and Rights of Way | Not depreciated |
| Infrastructure and Land Improvements | 10-50 years |
| Revenue Vehicles | 5-25 years |
| Other Property and Equipment | 3-10 years |

L. Amount Recoverable – Interlocal Agreement

In 2008, the Authority entered into an agreement with the Utah Department of Transportation (UDOT) which required the Authority to pay UDOT $15 million in 2008 and $15 million in 2009 for the rights to Salt Lake County's 2% of the 0.25% part 17 sales tax through the years 2045.

The Authority records such payments made to other entities for rights to future revenues as Amount Recoverable – Interlocal Agreement. This amount is amortized over the life of the agreement.

M. Compensated Absences

Vacation pay is accrued and charged to compensation expense as earned. Sick pay benefits are accrued as vested by Authority employees.

N. Risk Management

The Authority is exposed to various risks of loss related to torts; theft, damage and destruction of assets; environmental matters; worker's compensation self-insurance; damage to property; and injuries to passengers and other individuals resulting from accidents, errors and omissions.

Under the Governmental Immunity Act, the maximum statutory liability in any one accident is $2,407,700 for incidents occurring after July 1, 2014. The Authority is self-insured for amounts up to this limit. The Authority has Railroad Liability Coverage of $100 million per annum with $5 million of risk retention. The Authority is self-insured for worker's compensation up to the amount of $1 million per incident and has excess insurance for claims over this amount. The Authority has insurance for errors and omissions and damage to property in excess of $100,000 per annum.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Risk Management (continued)

The Authority has insurance or retains the risk depending on what is in the Authority's best interest for all other matters. There has been no significant reduction in insurance coverage or settlements in excess of insurance coverage during the last three years.

A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable (Note 6).

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Transit Authority Employee Retirement Plan and Trust ("the Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Net Position

The Authority's net position is classified as follows:

- *Net investment in capital assets:* This component of net position consists of the Authority's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

- *Restricted for debt service:* This component of net position consists of the amount restricted by bond covenants for debt service.

- *Restricted for interlocal agreement:* This component of net position consists of the amounts restricted by interlocal agreements with Mountain Accord and the municipalities of Willard, Perry and Brigham City in Box Elder County.

- *Restricted for represented employee benefits:* This component of net position consists of the amount restricted by the Utah Transit Authority Bargaining Unit Employees' Insurance Trust Account Agreement for the purpose of providing represented employee benefits.

- *Restricted for escrows:* This component of net position consists of the amount restricted by escrow agreement.

- *Unrestricted:* This component of net position consists of that portion of net position that does not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Budgetary and Accounting Controls

The Authority's annual budgets are approved by the Board of Trustees, as provided for by law. Operating and non-operating revenues and expenditures are budgeted on the accrual basis, except for depreciation. Capital expenditures and grant reimbursements are budgeted on a project basis. Multi-year projects are approved in whole, but are budgeted based on estimated annual expenses.

The Authority adopts its annual budget in December of the preceding year based on recommendations of staff and the Board Planning and Development Committee.

The first step in developing the Authority's budget is a review of the Transit Development Program and Long Range Financial Plan. This plan then acts as a focus for the development of programs and objectives. Concurrent with the development of programs and objectives, revenues for the coming year are estimated. The estimates of the coming year's revenues are then used as a guide for the Authority to determine the amount of change in service to be provided in the following year. Once the level of service for the coming year is determined, each manager develops a departmental budget.

The departmental budgets are then combined to form a preliminary budget request.

The Executive staff reviews the programs, objectives and requests to balance the total budget with the project revenues and service requirements and priorities. Once the preliminary budget is balanced, the Board Finance and Operations Committee reviews the budget request.

Within 30 days after the tentative budget is approved by the Board, and at least 30 days before the Board adopts its final budget, the Board sends a copy of the tentative budget, a signature sheet and notice of the time and place for a budget hearing to the chief administrative officers and legislative bodies of each municipality and unincorporated county area within the district of the Authority.

Within 30 days after it is approved by the Board and at least 30 days before the Board adopts its final budget, the Board sends a copy of the tentative budget to the Governor and the Legislature for examination and comment.

Before the first day of each fiscal year, the Board adopts the final budget by an affirmative vote of a majority of all the trustees. Copies of the final budget are filed in the office of the Authority. If for any reason the Board has not adopted the final budget on or before the first day of any fiscal year, the tentative budget for such year, if approved by formal action of the Board, is deemed to be in effect for such fiscal year until the final budget for such fiscal year is adopted.

The Board may, by an affirmative vote of a majority of all trustees, adopt an amended final budget when reasonable and necessary, subject to any contractual conditions or a requirement existing at the time the need for such amendment arises.

Individual department budgets are monitored for authorized expenditures on a department total rather than on a department line-item basis.

The Board must approve all increases or decreases to the net operating expense line, total capital budget line and total operating revenue line of the Authority's operating and capital budgets.

The Authority's budgetary process follows Title 17B, Chapter 1, Section 702 of the Utah Code Annotated, as amended. The annual budget is submitted to the State Auditors' Office within 30 days of adoption.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Budgetary and Accounting Controls (continued)

The following table shows actual revenues, operating expenses, and capital expenses for 2016 compared to budget. (Depreciation expense is not a budgeted item.)

| | 2016 Budget | 2016 Actual | Difference |
|---|---|---|---|
| **Revenues** | | | |
| Contributions from other gov'ts, sales tax | $ 241,979,732 | $ 245,008,417 | $ 3,028,685 |
| Federal non-capital assistance | 57,588,000 | 63,334,769 | 5,746,769 |
| Passenger revenues | 53,257,967 | 50,624,354 | (2,633,613) |
| Advertising | 2,283,000 | 2,266,667 | (16,333) |
| Investment income | 2,237,000 | 1,732,939 | (504,061) |
| Other income | 5,179,704 | 3,108,191 | (2,071,513) |
| Total revenues | $ 362,525,403 | $ 366,075,337 | $ 3,549,934 |
| **Operating Expenses** | | | |
| Bus services | $ 87,683,183 | $ 82,476,517 | $ 5,206,666 |
| Rail services | 75,669,773 | 68,933,765 | 6,736,008 |
| Paratransit services | 20,851,218 | 19,172,673 | 1,678,545 |
| Other services | 2,416,343 | 2,796,086 | (379,743) |
| Operations support | 39,317,298 | 36,248,482 | 3,068,816 |
| Administration | 28,952,339 | 32,311,210 | (3,358,871) |
| Planning and development | 4,569,000 | 3,040,969 | 1,528,031 |
| Major investment studies | 850,000 | 1,204,124 | (354,124) |
| Total operating expenses | $ 260,309,154 | $ 246,183,826 | $ 14,125,328 |
| **Non-Operating Expenses (Revenues)** | | | |
| Series 2015 Refunding Reserve | $ (8,970,655) | $ - | $ - |
| Interest expense | 94,630,655 | 80,575,328 | 14,055,327 |
| Amortized charges | - | 810,914 | (810,914) |
| Disposition of real estate | - | (5,642,129) | 5,642,129 |
| Total non-operating expenses (revenues) | $ 94,630,655 | $ 75,744,113 | $ 18,886,542 |
| **Capital Expenses (Revenues)** | | | |
| Federal and local grants | $ (56,178,370) | $ (17,054,298) | $ (39,124,072) |
| Local contributions | (66,139,321) | (3,110,314) | (63,029,007) |
| Sale of assets | (2,000,000) | - | (2,000,000) |
| Capital lease | (10,408,239) | - | (10,408,239) |
| State of good repair capital projects | 73,459,127 | 30,341,181 | 43,117,946 |
| Provo-Orem BRT | 106,000,000 | 16,750,597 | 89,249,403 |
| Other capital projects | 22,432,260 | 22,786,301 | (354,041) |
| Total capital expenses (revenues) | $ 67,165,457 | $ 49,713,467 | $ 17,451,990 |

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Recent Accounting Pronouncements

GASB Statement 72
*Fair Value Measurement and Application*
Issued: February 2015

This statement addresses accounting and fair value reporting issues related to fair value measurements by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. This statement is effective for the Authority's fiscal year beginning January 1, 2016.

GASB Statement 71
*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*
Issued: November 2013

This statement addresses an issue regarding application of the transition provision of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement is effective for the Authority's fiscal year beginning January 1, 2015.

GASB Statement 68
*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*
Issued: June 2012

This statement replaces the requirements of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers,* and Statement No. 50, *Pension Disclosures,* as they relate to government entities that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria.

This statement requires entities providing defined benefit pension to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This statement is effective for the Authority's fiscal year beginning January 1, 2015.

## NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Authority maintains a cash, cash equivalents and investment pool of restricted, designated, and unrestricted amounts to be used to manage the daily cash requirements necessary to support the Authority. The Authority's cash balance consisted of the following as of December 31, 2016 and 2015, respectively:

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents | | |
| Restricted | $ 58,138,257 | $ 50,815,841 |
| Designated | 58,546,501 | 51,399,708 |
| Unrestricted | 45,957,595 | 72,057,244 |
| Investments | | |
| Restricted | 9,540,808 | 29,137,922 |
| Total cash, cash equivalents, and investments | $ 172,183,161 | $ 203,410,714 |

While the Authority's carrying amount of cash and cash equivalents on December 31, 2016 was $162,642,353, the balance of the Authority's bank accounts and cash on-hand was $171,940,932 with the difference being outstanding checks and deposits in transit.

A. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are defined as funds restricted by legal requirement(s) outside of the Authority. The Authority is required to maintain certain accounts in connection with the issuance of bonds which are restricted per the bond covenants.

The Authority is currently acting as the trustee of funds for use by a consortium of other governments called the Mountain Accord. In addition, the Authority is acting as the trustee of funds for a represented employee benefits trust.

B. Designated Cash and Cash Equivalents

Designated cash and cash equivalents are considered designated through action by the Authority's Board of Trustees and have no outside legal restrictions. Designations include funds to stabilize operations and debt service in the case of changing economic environments. The following amounts were considered designated by the Board of Trustees as of December 31 of the respective years:

| | 2016 | 2015 |
|---|---|---|
| Early Debt Retirement | $ 14,858,258 | $ 10,535,764 |
| Fuel Reserve | 1,915,000 | 1,915,000 |
| Operating Reserve | 25,247,693 | 23,405,698 |
| Parts Reserve | 3,000,000 | 3,000,000 |
| Stabilization Reserve | 13,525,550 | 12,543,246 |
| Total designated cash and cash equivalents | **$ 58,546,501** | **$ 51,399,708** |

## NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

B. Designated Cash and Cash Equivalents (continued)

- *Designated for early debt retirement reserves* - This component of net position consists of savings experienced in the amount of actual variable interest expense from budgeted variable interest expense for the same time period, one-time contributions as determined by the President/CEO, and any unused monies from debt service reserve funds established for specific bonds when no longer encumbered for the initially reserved debt. Permitted use of these reserves is defined in the *Executive Limitations Policy No. 2.4.6 Debt Service Reserve and Rate Stabilization Fund Created.*

- *Designated for fuel reserves* - This component of net position consists of the amount designated by the Board of Trustees to mitigate the financial impact of unexpected and rapidly rising fuel prices. *(Executive Limitations Policy No. 2.3.3 Budgeting)*

- *Designated for operating reserves* - This component of net position consists of 9.33% (one month expense, plus 1%) of the annual budgeted operating expense, and is required by the Board of Trustees. *(Executive Limitations Policy No. 2.3.3 Budgeting)*

- *Designated for parts reserves* - This component of net position consists of the amount designated by the Board of Trustees to be accumulate funds in anticipation of a State of Good Repairs requirement. *(Executive Limitations Policy No. 2.3.3 Budgeting)*

- *Designated for stabilization reserves* - This component of net position consists of 5% of the Authority's annual budget for the purpose of preserving service levels when the Authority is facing a revenue shortfall or cost overrun due to extraordinary circumstances, such as an economic downturn or rapid rise in fuel prices or any combination of such events. *(Executive Limitations Policy No. 2.1.8 Service Stabilization Reserve Fund)*

C. Deposits and Investments

Deposits and investments for the Authority are governed by the Utah Money Management Act *(Utah Code Annotated,* Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council (the Council). Following are discussions of the Authority's exposure to various risks related to its cash management activities.

- *Custodial Credit Risk* - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. The Authority's policy for managing custodial credit risk is to adhere to the Act. The Act requires all deposits of the Authority to be in a *qualified depository,* defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Council.

  At December 31, 2016 and 2015, the balances in the Authority's bank demand deposit accounts and certificate of deposit accounts according to the bank statements totaled $17,940,932 and $15,564,520, respectively, of which $ 286,388 and $ 277,847 were covered by Federal depository insurance.

## NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

C. Deposits (continued)

- *Credit Risk* - Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Authority's policy for limiting the credit risk of investments is to comply with the Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's investor Service or Standard & Poor's; bankers acceptances; obligations of the U.S. treasury and U.S. government sponsored enterprise; bonds and notes of political subdivision of the state of Utah; fixed rate corporate obligations and variable rated securities rated "A" or higher by two nationally recognized statistical rating services as defined in the Act.

  The Authority is authorized to invest in the Utah Public Treasurers' Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to the participants on an amortized cost basis. The income, gains and losses, net of administration fees of the PTIF are allocated based upon the participants' average daily balances.

  The following are the Authority's investment as of December 31, 2016:

| | | Investment Maturity (in years) | | |
|---|---|---|---|---|
| | | Less than 1 | 1-5 | TOTAL |
| U.S. Agencies | AAA | $ - | $ 35,640,796 | $ 35,640,796 |
| Corporate Bonds | A+/A1/A+ | - | 14,457,636 | 14,457,636 |
| MM - Cash | | 33,029,467 | - | 33,029,467 |
| PTIF | | 62,062,374 | - | 62,062,374 |
| Total investments | | $ 95,091,841 | $ 50,098,432 | $ 145,190,273 |

- *Interest Rate Risk* - Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Authority manages its exposure by strictly complying with its Investment Policy which complies with the Act. The Authority's policy relating to specific investment-related risk is to adhere to the Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the fund to be invested. The maximum adjusted weighted average maturity of the portfolio is 432 days, or 1.18 years.

**NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

C. Deposits (continued)

- *Fair Value of Investments* – The Authority measures and records investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

  - Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities where the Authority has direct access. Since valuations are based on quoted prices readily and regularly available in an active market, valuation does not require any significant degree of judgement. Securities classified as Level 1 inputs include U.S. Government securities and certain other U.S. Agency and sovereign government obligations.

  - Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Securities classified as Level 2 include corporate and municipal bonds, and securitized certificates of deposit.

  - Level 3 – Valuations based on inputs that are unobservable and significant to overall fair value measurement.

The Authority invests with Zions Capital Advisors and the Utah Public Treasurers Investment Fund. Both of these organizations meet the requirements of the Utah Money Management Act. The following are the Authority's investment as of December 31, 2016 by organization and by fair value measurement:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | 12/31/2016 | Level 1 | Level 2 | Level 3 |
| Zions Capital Advisors | | | | |
| Agency | $ 35,640,796 | $ 35,640,796 | | |
| Corporate | 14,457,636 | | 14,457,636 | |
| Currency | 186,136 | 186,136 | | |
| Total Zions Capital Advisor investments | 50,284,568 | 35,826,932 | 14,457,636 | - |
| Zions Trustee Investments | | | | |
| Money market | 32,843,331 | 32,843,331 | | |
| Total Zions Trustee investments | 32,843,331 | 32,843,331 | - | - |
| Public Treasurers Investment Fund | 62,062,374 | | 62,062,374 | |
| Total investments by fair value level | $145,190,273 | $ 68,670,263 | $ 76,520,010 | $ - |

## NOTE 4 – PROPERTY, FACILITIES, AND EQUIPMENT

Construction in progress of $98,584,168 and $52,277,885 December 31, 2016 and 2015, respectively, consists of costs incurred in connection with the Authority's Provo/Orem Bus Rapid Transit (BRT) project, federally-mandated positive train control, and other bus and rail passenger enhancement projects. These costs consist of engineering, design, and construction.

| | Balance 12/31/2015 | Increases | Transfers | Decreases | Balance 12/31/2016 |
|---|---|---|---|---|---|
| Capital assets not being depreciated | | | | | |
| Land | $ 120,285,242 | $ - | $ - | $ (56,606) | $ 120,228,636 |
| Rights of way | 314,026,833 | - | - | - | 314,026,833 |
| Construction in process | 52,277,885 | 47,091,778 | (785,495) | - | 98,584,168 |
| Total capital assets not being depreciated | 486,589,960 | 47,091,778 | (785,495) | (56,606) | 532,839,637 |
| Capital assets being depreciated | | | | | |
| Infrastructure | 2,660,455,034 | - | - | - | 2,660,455,034 |
| Revenue vehicles | 778,085,676 | 690,215 | 390,458 | (10,533,854) | 768,632,495 |
| Other property and equipment | 420,778,076 | 308,484 | 395,037 | (951,452) | 420,530,145 |
| Land improvements | 10,172,645 | - | - | - | 10,172,645 |
| Total capital assets being depreciated | 3,869,491,431 | 998,699 | 785,495 | (11,485,306) | 3,859,790,319 |
| Less accumulated depreciation | | | | | |
| Infrastructure | (561,696,515) | (79,982,187) | - | | (641,678,702) |
| Revenue Vehicles | (313,271,388) | (38,781,665) | - | 10,528,218 | (341,524,835) |
| Other property and equipment | (261,499,439) | (34,438,115) | - | 951,452 | (294,986,102) |
| Land improvements | (9,456,022) | (386,960) | - | - | (9,842,982) |
| Total accumulated depreciation | (1,145,923,364) | (153,588,927) | - | 11,479,670 | (1,288,032,621) |
| Capital assets being depreciated, net | 2,723,568,067 | (152,590,228) | 785,495 | (5,636) | 2,571,757,698 |
| Total capital assets, net | $3,210,158,027 | $(105,498,450) | $ - | $ (62,242) | $3,104,597,335 |

| | Balance 12/31/2014 | Increases | Transfers | Decreases | Balance 12/31/2015 |
|---|---|---|---|---|---|
| Capital assets not being depreciated | | | | | |
| Land | $ 121,638,389 | $ - | $ 59,905 | $(1,413,052) | $ 120,285,242 |
| Rights of way | 314,026,833 | - | - | - | 314,026,833 |
| Construction in process | 41,264,699 | 23,311,285 | (11,187,229) | (1,110,870) | 52,277,885 |
| Total capital assets not being depreciated | 476,929,921 | 23,311,285 | (11,127,324) | (2,523,922) | 486,589,960 |
| Capital assets being depreciated | | | | | |
| Infrastructure | 2,659,779,176 | 2,570,987 | 1,977,325 | (3,872,454) | 2,660,455,034 |
| Revenue vehicles | 763,036,847 | 18,903,834 | 482,413 | (4,337,418) | 778,085,676 |
| Other property and equipment | 411,580,491 | 3,769,441 | 8,567,621 | (3,139,477) | 420,778,076 |
| Land improvements | 10,072,680 | - | 99,965 | - | 10,172,645 |
| Total capital assets being depreciated | 3,844,469,194 | 25,244,262 | 11,127,324 | (11,349,349) | 3,869,491,431 |
| Less accumulated depreciation | | | | | |
| Infrastructure | (481,956,454) | (79,740,968) | - | 907 | (561,696,515) |
| Revenue Vehicles | (278,895,209) | (38,642,743) | - | 4,266,564 | (313,271,388) |
| Other property and equipment | (222,568,671) | (42,091,947) | - | 3,161,179 | (261,499,439) |
| Land improvements | (8,888,358) | (567,664) | - | - | (9,456,022) |
| Total accumulated depreciation | (992,308,692) | (161,043,322) | - | 7,428,650 | (1,145,923,364) |
| Capital assets being depreciated, net | 2,852,160,502 | (135,799,060) | 11,127,324 | (3,920,699) | 2,723,568,067 |
| Total capital assets, net | $3,329,090,423 | $(112,487,775) | $ - | $(6,444,621) | $3,210,158,027 |

## NOTE 5 – FEDERAL FINANCIAL ASSISTANCE

The Authority receives a portion of its funding from the through the U.S. Department of Transportation's Federal Transit Administration (FTA) in the form of federal preventative maintenance, federal operating assistance, and federal capital assistance grants. The majority of these grants require the Authority to participate in the funding of the service and/or capital project. The FTA retains ownership in assets purchased with federal funds.

| | 2016 | 2015 |
|---|---|---|
| Operating assistance | | |
| Federal preventive maintenance grants | $ 59,772,235 | $ 49,452,677 |
| Federal operating assistance grants | 3,562,534 | 2,547,335 |
| | 63,334,769 | 52,000,012 |
| Capital projects | | |
| Federal capital projects | 17,054,298 | 7,819,096 |
| Total federal assistance | $ 80,389,067 | $ 59,819,108 |

## NOTE 6 – SELF-INSURANCE CLAIMS LIABILITY

Changes in the accrued claims liability in 2016 and 2015 were as follows:

| | Beginning liability | Changes in estimates | Claim payments | Ending liability |
|---|---|---|---|---|
| 2016 | $ 3,514,558 | $ 3,344,989 | $ (1,763,733) | $ 5,095,814 |
| 2015 | $ 3,571,622 | $ 2,237,055 | $ (2,294,119) | $ 3,514,558 |

## NOTE 7 – PENSION PLANS

A. General Information about the Pension Plan

*Plan description:* The Utah Transit Authority Employee Retirement Plan (the "Plan") is a single-employer defined benefit plan. The Plan's provisions were adopted by a resolution of the Authority's Board of Trustees, which appoints those who serve as trustees of the Plan. Any amendments to the Plan are adopted by a resolution of the Authority's Board of Trustees.

*Benefits provided:* The Plan covers all eligible employees and provides retirement benefits to Plan members and their beneficiaries. The Plan also provides disability benefits to Plan members. Retirement benefits are as follows:

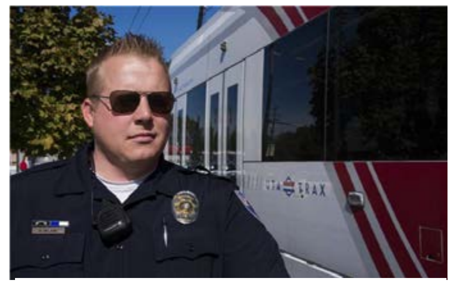
| **Final average salary** | **Years of service required** | **Age eligibility for benefit** | **Benefit percent per year** |
|---|---|---|---|
| Highest 5 years | 5 years | Must be age 55 or older | 2% for every year of service. A year of service consists of 1,000 hours worked during a calendar year. |

*Participation:* As of December 31, 2016, there were 1,973 active participants, 312 inactive participants, and 515 retirees and beneficiaries.

## NOTE 7 – PENSION PLANS (continued)

A. General Information about the Pension Plan (continued)

- *Contributions:* Through December 31, 2016, contributions to the Plan were recommended by an annual actuarial report and are approved by the Authority's Board of Trustees. As of January 1, 2014, a contribution based on a percentage of payroll was approved by the Authority's Board of Trustees. This percentage will be reviewed by the Board of Trustees annually as updated actuarial valuation reports become available. The Board of Trustees approved a contribution rate of 15% for 2015, and 16% for 2016 through 2034. This contribution rate is consistent with the Authority's adopted Plan funding policy which is focused on restoring the Plan's funding status to 100% within 20 years. Post 2034 contributions are assumed equal to the 8.2% of pay normal cost rate (including administrative expenses) from the 01/01/2015 plan funding valuation. The actual amount contributed by the employer during the 2016 fiscal year was $19,603,952.



UTA Police Officer

- *Reporting* - The Plan issues a publicly available financial report that includes financial statements and required supplementary information of that Plan. This report may be requested from the Authority's Comptroller's Office.

| | |
|---|---|
| By mail: | Utah Transit Authority<br>Comptroller's Office<br>669 West 200 South<br>Salt Lake City, UT 84101 |
| By email: | FEvans@rideuta.com |
| By phone: | (801) 287-2523 |

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

- *Net pension liability* - At December 31, 2016, the Authority reported a net pension liability of $112,925,121. The net pension liability was measured as of December 31, 2016, and was determined by an actuarial valuation as of January 1, 2016 and rolled-forward using generally accepted actuarial procedures.

- *Deferred outflows of resources and deferred inflows of resources* - At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred inflows of resources | Deferred outflows of resources |
|---|---|---|
| Differences between expected and actual experience | $ (2,133,382) | $ - |
| Changes of assumptions | (3,356,353) | 5,272,867 |
| Net difference between projected and actual earnings | - | 10,305,033 |
| Contributions made subsequent to measurement date | - | - |
| Total | $ (5,489,735) | $ 15,577,900 |

**NOTE 7 – PENSION PLANS (continued)**

B. Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

- *Pension expense* - For the year ended December 31, 2016, the Authority recognized pension expense of $3,365,259. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year ended December 31 | Deferred outflows (inflows) of resources |
|---|---|
| 2017 | $ 3,365,259 |
| 2018 | 3,365,259 |
| 2019 | 3,365,259 |
| 2020 | 902,176 |
| 2021 | (465,899) |
| Thereafter | (443,889) |

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

| | |
|---|---|
| Inflation | 2.30% |
| Salary Increases | 5.40% per annum for the first five (5) years of employment; 3.40% per annum thereafter |
| Investment rate of return | 7.25%, net of investment expenses |
| Mortality | RP-2014 Blue Collar Mortality Table, with MP-2014 Project Scale (Pre-retirement; Employee Table; Post-retirement Annuitant Table) |
| Bond Buyer General Obligation 20-Bond Municipal Bond Index | 3.78% |

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2008.

**NOTE 7 – PENSION PLANS (continued)**

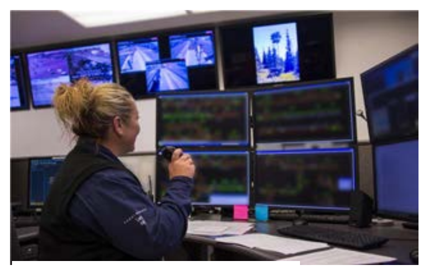
B. Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

- *Long-term rate of return:* The long-term rate of return is selected by the Plan's Pension Committee after a review of expected inflation and long-term real returns, reflecting expected volatility and correlation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocations as of December 31, 2016, is summarized in the table below.

| Asset Class | Target Asset Allocation | Long-term Expected Return |
|---|---|---|
| Global Equities | 63% | 6.7% |
| Fixed Income | 22% | 4.0% |
| Liquid Diversifiers | 10% | 5.1% |
| Real Assets | 4% | 6.1% |
| Cash & Equivalents | 1% | 2.8% |
| Total | 100% | 6.0% |

The 7.25% assumed investment rate of return is comprised of an inflation rate of 2.3% and a real return of 4.90% net of investment expense.

- *Discount rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed contribution rates as recommended by the Authority's Pension Committee and approved by the Board of Trustees. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive participants. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



UTA Dispatch Center

The following sensitivity analysis assumes rate volatility of plus and minus one percent of the discount rate of 7.25%.

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|---|---|---|---|
| Total pension liability | $ 318,014,666 | $ 278,960,378 | $ 246,700,715 |
| Fiduciary net position | 166,035,257 | 166,035,257 | 166,035,257 |
| Net pension liability | 151,979,409 | 112,925,121 | 80,665,458 |

## NOTE 7 – PENSION PLANS (continued)

B. Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

- *Schedule of valuation change:* The following tables show the pension valuation change over the past five (5) years.

| Actuarial valuation date | Actuarial value of assets | Actuarial accrued liability (AAL) using entry age normal | Unfunded AAL (UAAL) | Funded ratio | Approximate covered payroll | UAAL as a % of covered payroll |
|---|---|---|---|---|---|---|
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| 12/31/2016 | $ 166,035,257 | $ 278,960,378 | $ 112,925,121 | 59.52% | $ 115,430,618 | 97.83% |
| 12/31/2015 | 151,631,927 | 269,069,798 | 117,437,871 | 56.35% | 110,727,134 | 106.06% |
| 12/31/2014 | 146,854,399 | 247,692,651 | 100,838,252 | 59.29% | 106,004,057 | 95.13% |
| 1/1/2014 | 130,546,313 | 235,908,403 | 105,362,090 | 55.34% | 106,590,548 | 98.85% |
| 1/1/2013 | 118,878,693 | 222,734,287 | 103,855,594 | 53.37% | 102,099,985 | 101.72% |

- *Schedule of changes in total pension liability, plan fiduciary net position, and net pension liability:* The following table shows the change to the total pension liability, the plan fiduciary net position, and the net pension liability during the year.

| | Increase (Decrease) | | |
|---|---|---|---|
| Changes in Net Pension Liability | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances as of December 31, 2015 | $ 269,069,798 | $ 151,631,927 | $ 117,437,871 |
| Changes for the year: | | | |
| Service cost | 7,711,706 | | 7,711,706 |
| Interest on total pension liability | 19,604,345 | | 19,604,345 |
| Effect of member voluntary contributions | 437,923 | | 437,923 |
| Effect of economic/demographic gains or losses | (927,077) | | (927,077) |
| Effect of assumptions changes or inputs | (3,955,702) | | (3,955,702) |
| Benefit payments | (12,980,615) | (12,980,615) | |
| Employer contributions | | 19,603,952 | (19,603,952) |
| Member contributions | | 437,923 | (437,923) |
| Net investment income | | 7,591,211 | (7,591,211) |
| Administrative expenses | | (249,141) | 249,141 |
| Balances as of December 31, 2016 | $ 278,960,378 | $ 166,035,257 | $ 112,925,121 |

**NOTE 7 – PENSION PLANS (continued)**

C. Defined Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. As part of its fiduciary role, the Authority has an obligation of due care in selecting the third party administrators. In the opinion of management, the Authority has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan. The deferred compensation assets are held by third party plan administrators and are generally invested in money market funds, stock or bond mutual funds or guarantee funds as selected by the employee.

Facilities employee

## NOTE 8 – LONG TERM DEBT

The following provides detailed information about each of the Authority's debt issuances along with a summary of the long-term debt activity for the year.

A. Series 2005A Revenue Bond

Purpose: Advanced refunding of the 1997 Series Revenue Bonds
Interest rate: 3.25-5.25%
Original amount: $20,630,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 1,470,000 | $ 491,925 | $ 1,961,925 |
| 2018 | 1,550,000 | 412,650 | 1,962,650 |
| 2019 | 1,635,000 | 329,044 | 1,964,044 |
| 2020 | 1,720,000 | 240,975 | 1,960,975 |
| 2021 | 1,815,000 | 148,181 | 1,963,181 |
| 2022 | 1,915,000 | 50,269 | 1,965,269 |
| | $ 10,105,000 | $ 1,673,044 | $ 11,778,044 |

*Defeasence of Debt* - On August 10, 2005, the Authority defeased certain 1997 Series revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. The 1997 Series revenue bonds relating to this issuance were defeased on December 15, 2007.

B. Series 2006C Revenue Bond

Purpose: Advanced refunding of the 2002A Series revenue bonds
Interest rates: 5.00-5.25%
Original amount: $134,650,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 4,825,000 | $ 6,051,019 | $ 10,876,019 |
| 2018 | 5,085,000 | 5,790,881 | 10,875,881 |
| 2019 | 5,350,000 | 5,516,963 | 10,866,963 |
| 2020 | 5,635,000 | 5,228,606 | 10,863,606 |
| 2021 | 5,950,000 | 4,924,500 | 10,874,500 |
| 2022-2026 | 34,900,000 | 19,452,563 | 54,352,563 |
| 2027-2031 | 45,345,000 | 8,978,158 | 54,323,158 |
| 2032 | 10,580,000 | 277,725 | 10,857,725 |
| | $ 117,670,000 | $ 56,220,415 | $ 173,890,415 |

**NOTE 8 – LONG TERM DEBT (continued)**

B. Series 2006C Revenue Bond

*Defeasence of Debt* - On October 24, 2006, the Authority defeased certain 2002A Series revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. The 2002A Series revenue bonds relating to this issuance were defeased on December 15, 2012.

C. Series 2007A Capital Appreciation/Capitalized Interest Bond(s)

Purpose: Partial advanced refunding of the 2005B revenue bonds; construction and acquisition of improvements to the transit system.

Interest rates
- Capital Appreciation Bonds: 4.55-5.05%
- Capital Interest Bonds: 5.00%

Original amount
- Capital Appreciation Bonds: $132,329,109
- Capital Interest Bonds: $128,795,000

Debt service requirements to maturity, including interest:

*Series 2007A Subordinate Lien Capital Appreciation Bond*

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 190,309 | $ 190,309 |
| 2018 | - | 200,002 | 200,002 |
| 2019 | - | 210,188 | 210,188 |
| 2020 | - | 220,894 | 220,894 |
| 2021 | - | 232,145 | 232,145 |
| 2022-2026 | - | 1,350,592 | 1,350,592 |
| 2027-2031 | - | 1,631,406 | 1,631,406 |
| 2032 | 2,332,069 | 197,982 | 2,530,051 |
| | $ 2,332,069 | $ 4,233,518 | $ 6,565,587 |

*Series 2007A Subordinate Lien Capital Interest Bond*

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 2,455,000 | $ 6,262,375 | $ 8,717,375 |
| 2018 | 2,565,000 | 6,136,875 | 8,701,875 |
| 2019 | 2,710,000 | 6,005,000 | 8,715,000 |
| 2020 | 2,850,000 | 5,866,000 | 8,716,000 |
| 2021 | - | 5,794,750 | 5,794,750 |
| 2022-2026 | 16,970,000 | 27,198,500 | 44,168,500 |
| 2027-2031 | 35,655,000 | 20,453,125 | 56,108,125 |
| 2032-2035 | 63,270,000 | 8,014,250 | 71,284,250 |
| | $ 126,475,000 | $ 85,730,875 | $ 212,205,875 |

*Defeasence of Debt* - On June 19, 2007, the Authority defeased certain 2005B Series revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. The 2005B Series revenue bonds relating to this issuance were defeased on December 15, 2015.

## NOTE 8 – LONG TERM DEBT (continued)

D. Series 2008A Revenue Bond

Purpose: Cost of acquisition and construction of certain improvements to the Authority's transit system.
Interest rates: 4.75-5.25%
Original amount: $700,000,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 2,850,488 | $ 2,850,488 |
| 2018 | - | 2,850,488 | 2,850,488 |
| 2019 | 5,885,000 | 2,696,006 | 8,581,006 |
| 2020 | - | 2,541,525 | 2,541,525 |
| 2021 | - | 2,541,525 | 2,541,525 |
| 2022-2023 | 48,410,000 | 2,574,863 | 50,984,863 |
| | $ 54,295,000 | $ 16,054,895 | $ 70,349,895 |

E. Series 2009B Federally Taxable-Issuer Subsidy "Build America Bonds"

The Authority has elected to treat the 2009B bonds as "Build America Bonds" for the purposes of the American Recovery and Investment Act of 2009 (the Recovery Act) and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the Authority anticipated cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the 2009B bonds. However due to federal sequestration, the Authority's subsidy payments for 2016 were discounted by 6.8%, or $369,430. The Authority has projected a continued discount of this subsidy in 2017 of 6.9%, or $374,863.

Purpose: Cost of acquisition and construction of certain improvements to the Authority's transit system.
Interest rates: 5.937%
Original amount: $261,450,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total | Scheduled Federal Subsidy Payment |
|---|---|---|---|---|
| 2017 | $ - | $ 15,522,287 | $ 15,522,287 | $ 5,057,937 |
| 2018 | - | 15,522,287 | 15,522,287 | 5,432,800 |
| 2019 | - | 15,522,286 | 15,522,286 | 5,432,800 |
| 2020 | - | 15,522,286 | 15,522,286 | 5,432,800 |
| 2021 | - | 15,522,286 | 15,522,286 | 5,432,800 |
| 2022-2026 | - | 77,611,433 | 77,611,433 | 27,164,002 |
| 2027-2031 | 21,005,000 | 76,383,512 | 97,388,512 | 26,734,229 |
| 2032-2036 | 114,120,000 | 56,576,642 | 170,696,642 | 19,801,825 |
| 2037-2039 | 126,325,000 | 13,342,962 | 139,667,962 | 4,670,037 |
| | $ 261,450,000 | $ 301,525,981 | $ 562,975,981 | $ 105,164,663 |

## NOTE 8 – LONG TERM DEBT (continued)

F. Series 2010A Federally Taxable-Issuer Subsidy "Build America Bonds"

The Authority has elected to treat the 2010A bonds as "Build America Bonds" for the purposes of the American Recovery and Investment Act of 2009 (the Recovery Act) and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the Authority anticipated cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the 2010A bonds. However due to federal sequestration, the Authority's subsidy payments for 2016 were discounted by 6.8%, or $271,558. The Authority has projected a continued discount of this subsidy in 2016 of 6.9%, or $275,551.

| | |
|---|---|
| Purpose: | Cost of acquisition and construction of certain improvements to the Authority's transit system. |
| Interest rates: | 5.705% |
| Original amount: | $200,000,000 |

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total | Scheduled Federal Subsidy Payment |
|---|---|---|---|---|
| 2017 | $ - | $ 11,410,000 | $ 11,410,000 | $ 3,717,949 |
| 2018 | - | 11,410,000 | 11,410,000 | 3,993,500 |
| 2019 | - | 11,410,000 | 11,410,000 | 3,993,500 |
| 2020 | - | 11,410,000 | 11,410,000 | 3,993,500 |
| 2021 | - | 11,410,000 | 11,410,000 | 3,993,500 |
| 2022-2026 | - | 57,050,000 | 57,050,000 | 19,967,500 |
| 2027-2031 | - | 57,050,000 | 57,050,000 | 19,967,500 |
| 2032-2036 | - | 57,050,000 | 57,050,000 | 19,967,500 |
| 2037-2040 | 200,000,000 | 33,394,788 | 233,394,788 | 11,688,176 |
| | $ 200,000,000 | $ 261,594,788 | $ 461,594,788 | $ 91,282,624 |

Passengers waiting to board FrontRunner

**NOTE 8 – LONG TERM DEBT (continued)**

G. Series 2012A Revenue Bond

| | |
|---|---|
| Purpose: | Refunding of $32,020,000 of the 2006AB variable rate bonds; refunding of $100,000,000 of the 2011AB variable rate bonds; and the cost of acquisition and construction of certain improvements to the Authority's transit system. |
| Interest rates: | 4.00-5.00% |
| Original amount: | $295,520,000 |

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 13,401,750 | $ 13,401,750 |
| 2018 | - | 13,401,750 | 13,401,750 |
| 2019 | - | 13,401,750 | 13,401,750 |
| 2020 | - | 13,401,750 | 13,401,750 |
| 2021 | 2,840,000 | 13,330,750 | 16,170,750 |
| 2022-2026 | 16,440,000 | 64,316,250 | 80,756,250 |
| 2027-2031 | 20,295,000 | 59,753,125 | 80,048,125 |
| 2032-2036 | 16,315,000 | 55,468,975 | 71,783,975 |
| 2037-2041 | 154,755,000 | 41,578,425 | 196,333,425 |
| 2042 | 72,110,000 | 1,802,750 | 73,912,750 |
| | $ 282,755,000 | $ 289,857,275 | $ 572,612,275 |

*Defeasence of Debt* - On November 28, 2012, the Authority defeased all of the 2011AB variable rate revenue bonds, and certain 2006AB Series variable rate revenue bonds. The 2006AB and 2011AB Series revenue bonds relating to this issuance were defeased on November 28, 2012.

H. Series 2015A Revenue Bonds

On February 25, 2015, the Authority issued $668,655,000 in senior sales tax revenue bonds and $192,005,000 in subordinate sales tax revenue bonds to provide resources to purchase qualifying open market securities that were placed in an irrevocable trust for the purpose of generating resources for the advanced refunding of certain 2008A revenue bonds, certain 2009A revenue bonds, certain 2007A capital appreciation revenue bonds, and certain 2012A revenue bonds. These resources are intended to provide all future debt payments of $904,901,591 of senior and subordinate sales tax revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's financial statements. These advanced refundings were undertaken to reduce total debt service payments over the next 23 years by $85,099,817, and resulted in an economic gain of $77,660,118. As of December 31, 2016, no bonds have been defeased from the escrow fund.

The following represents the use of funds from this bond issuance:

| | |
|---|---|
| Proceeds of refunding bonds | $ 1,017,615,532 |
| UTA contribution from existing debt service funds | 5,805,640 |
| Underwriters fees and other costs of issuance | (2,542,037) |
| Payment to refunded bond escrow agent | $ 1,020,879,135 |

## NOTE 8 – LONG TERM DEBT (continued)

H. Series 2015A Revenue Bonds (continued)

*Series 2015A Senior Lien Revenue Bond*

Purpose: Advanced refunding of $645,705,000 of the 2008A revenue bonds and $44,550,000 of the 2009A revenue bonds; debt service reserve
Interest rates: 4.00-5.00%
Original amount: $668,655,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 31,072,663 | $ 31,072,663 |
| 2018 | - | 31,072,663 | 31,072,663 |
| 2019 | - | 31,072,663 | 31,072,663 |
| 2020 | 12,425,000 | 30,769,238 | 43,194,238 |
| 2021 | 18,235,000 | 30,029,138 | 48,264,138 |
| 2022-2026 | 116,990,000 | 138,883,404 | 255,873,404 |
| 2027-2031 | 201,520,000 | 93,692,250 | 295,212,250 |
| 2032-2036 | 218,445,000 | 47,833,900 | 266,278,900 |
| 2037-2038 | 101,040,000 | 5,114,500 | 106,154,500 |
| | $ 668,655,000 | $ 439,540,419 | $ 1,108,195,419 |

*Series 2015A Subordinate Lien Revenue Bond*

Purpose: Advanced refunding of $129,997,040 of the 2007A capital appreciation revenue bonds and associated accreted interest of $80,404,551, and $4,245,000 of the 2012A revenue bonds; debt service reserve
Interest rates: 3.00-5.00%
Original amount: $192,005,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 9,543,250 | $ 9,543,250 |
| 2018 | - | 9,543,250 | 9,543,250 |
| 2019 | - | 9,543,250 | 9,543,250 |
| 2020 | 2,850,000 | 9,500,500 | 12,350,500 |
| 2021 | 5,840,000 | 9,311,750 | 15,151,750 |
| 2022-2026 | 44,035,000 | 40,564,625 | 84,599,625 |
| 2027-2031 | 46,825,000 | 29,200,375 | 76,025,375 |
| 2032-2036 | 78,310,000 | 15,417,500 | 93,727,500 |
| 2037 | 14,145,000 | 353,625 | 14,498,625 |
| | $ 192,005,000 | $ 132,978,125 | $ 324,983,125 |

**NOTE 8 – LONG TERM DEBT (continued)**

I. Series 2016 Revenue Bonds

On August 24, 2016, the Authority issued $145,691,497 in subordinate sales tax revenue bonds with a reoffering premium of $12,932,675 to provide resources to purchase qualifying open market securities that were placed in an irrevocable trust for the purpose of generating resources for the advanced refunding of the 2013 revenue bonds and 2014AB revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Authority's financial statements. These advanced refundings were undertaken to remove the Authority's short-term debt which reduced total debt service payments by $156,360,000 over the next three (3) years. This issuance resulted in an economic loss of $8,045,006. As of December 31, 2016, no bonds have been defeased from the escrow fund.

The following represents the use of funds from this bond issuance:

| | |
|---|---|
| Proceeds of refunding bonds | $ 158,624,173 |
| Underwriters fees and other costs of issuance | (739,655) |
| Payment to refunded bond escrow agent | $ 157,884,518 |

*Series 2016 Subordinate Lien Revenue Bond*

| | |
|---|---|
| Purpose: | Refunding of $13,990,000 of the 2013 short-term bonds, and refunding of $142,370,000 of the 2014AB short-term bonds. |
| Interest rates: | 3.00-4.00% |
| Original amount: | $145,691,498 |

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 4,602,300 | $ 4,602,300 |
| 2018 | - | 4,602,300 | 4,602,300 |
| 2019 | - | 4,602,300 | 4,602,300 |
| 2020 | - | 4,602,300 | 4,602,300 |
| 2021 | - | 4,602,300 | 4,602,300 |
| 2022-2026 | - | 23,011,500 | 23,011,500 |
| 2027-2031 | 126,780,000 | 15,840,350 | 142,620,350 |
| | $ 126,780,000 | $ 61,863,350 | $ 188,643,350 |

## NOTE 8 – LONG TERM DEBT (continued)

I. Series 2016 Revenue Bonds (continued)

*Series 2016 Subordinate Lien Capital Appreciation Revenue Bond*

Purpose: Refunding of $13,990,000 of the 2013 short-term bonds, and refunding of $142,370,000 of the 2014AB short-term bonds.
Interest rates: 3.32004%
Original amount: $18,911,498

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ - | $ 639,541 | $ 639,541 |
| 2018 | - | 660,950 | 660,950 |
| 2019 | - | 683,076 | 683,076 |
| 2020 | - | 705,943 | 705,943 |
| 2021 | - | 729,575 | 729,575 |
| 2022-2026 | - | 4,030,992 | 4,030,992 |
| 2027-2031 | - | 4,752,410 | 4,752,410 |
| 2032 | 18,911,498 | 1,048,031 | 19,959,529 |
| | $ 18,911,498 | $ 13,250,518 | $ 32,162,016 |

J. 2015 Issuance 12-Year Lease Financing

Purpose: Acquisition of 10 CNG buses and equipment
Interest rates: 2.0908%
Original amount: $5,283,500

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 403,242 | $ 94,973 | $ 498,215 |
| 2018 | 411,755 | 86,460 | 498,215 |
| 2019 | 420,447 | 77,768 | 498,215 |
| 2020 | 429,322 | 68,893 | 498,215 |
| 2021 | 438,385 | 59,830 | 498,215 |
| 2022-2026 | 2,334,708 | 156,366 | 2,491,074 |
| 2027 | 288,610 | 2,015 | 290,625 |
| | $ 4,726,469 | $ 546,304 | $ 5,272,773 |

## NOTE 8 – LONG TERM DEBT (continued)

K. 2015 Issuance 5-Year Lease Financing

Purpose: Acquisition of 20 flex/paratransit vehicles
Interest rates: 1.3186%
Original amount: $3,583,370

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 702,133 | $ 29,514 | $ 731,647 |
| 2018 | 711,447 | 20,200 | 731,647 |
| 2019 | 720,885 | 10,762 | 731,647 |
| 2020 | 424,924 | 1,870 | 426,794 |
| | $ 2,559,389 | $ 62,346 | $ 2,621,735 |

L. 2015 Issuance 4-Year Lease Financing

Purpose: Acquisition of 50 RideShare vans
Interest rates: 1.1778%
Original amount: $1,582,018

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 395,082 | $ 10,014 | $ 405,096 |
| 2018 | 399,765 | 5,332 | 405,097 |
| 2019 | 235,380 | 926 | 236,306 |
| | $ 1,030,227 | $ 16,272 | $ 1,046,499 |

M. 2016 Issuance 12-Year Lease Financing

Purpose: Acquisition of 5 buses and equipment for use in the canyons for ski service
Interest rates: 1.6322%
Original amount: $2,480,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 189,405 | $ 38,302 | $ 227,707 |
| 2018 | 192,520 | 35,187 | 227,707 |
| 2019 | 195,686 | 32,021 | 227,707 |
| 2020 | 198,904 | 28,803 | 227,707 |
| 2021 | 202,175 | 25,532 | 227,707 |
| 2022-2026 | 1,061,854 | 76,680 | 1,138,534 |
| 2027-2028 | 392,586 | 5,901 | 398,487 |
| | $ 2,433,130 | $ 242,426 | $ 2,675,556 |

**NOTE 8 – LONG TERM DEBT (continued)**

N. 2016 Issuance 5-Year Lease Financing

Purpose: Acquisition of 33 flex/paratransit vehicles
Interest rates: 1.3008%
Original amount: $4,546,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 888,597 | $ 50,983 | $ 939,580 |
| 2018 | 900,226 | 39,355 | 939,581 |
| 2019 | 912,006 | 27,575 | 939,581 |
| 2020 | 923,940 | 15,640 | 939,580 |
| 2021 | 700,881 | 3,804 | 704,685 |
| | $ 4,325,650 | $ 137,357 | $ 4,463,007 |

O. 2016 Issuance 4-Year Lease Financing

Purpose: Acquisition of 56 RideShare vans
Interest rates: 1.2298%
Original amount: $1,647,000

Debt service requirements to maturity, including interest:

| Year ending December 31 | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 405,433 | $ 16,738 | $ 422,171 |
| 2018 | 410,448 | 11,724 | 422,172 |
| 2019 | 415,524 | 6,648 | 422,172 |
| 2020 | 315,012 | 1,616 | 316,628 |
| | $ 1,546,417 | $ 36,726 | $ 1,583,143 |

P. Capital Leased Assets

The following represents the assets acquired through the 2015 and 2016 series capital leases and the corresponding accumulated depreciation.

| | 2015 Series Leases | 2016 Series Leases |
|---|---|---|
| Revenue vehicles | | |
| 12-year lease | $ 4,859,620 | $ 2,409,786 |
| 5-year lease | 3,626,139 | - |
| 4-year lease | 1,587,375 | 1,107,052 |
| Subtotal | 10,073,134 | 3,516,838 |
| Accumulated depreciation | (1,959,015) | (100,689) |
| Total capital assets (net) | $ 8,114,119 | $ 3,416,149 |

## NOTE 8 – LONG TERM DEBT (continued)

| | Balance 12/31/2015 | Additions | Reductions | Balance 12/31/2016 | Amount due within one year |
|---|---|---|---|---|---|
| Bonds | | | | | |
| Series 2005A Revenue Bond | $ 11,505,000 | $ - | $ (1,400,000) | $ 10,105,000 | $ 1,470,000 |
| Series 2006C Revenue Bond | 122,240,000 | - | (4,570,000) | 117,670,000 | 4,825,000 |
| Series 2007A Capital Appreciation | 2,332,069 | - | - | 2,332,069 | - |
| Series 2007A Current Interest Bond | 128,795,000 | - | (2,320,000) | 126,475,000 | 2,455,000 |
| Series 2008A Revenue Bond | 54,295,000 | - | - | 54,295,000 | - |
| Series 2009A Revenue Bond | - | - | - | - | - |
| Series 2009B Build America Bond | 261,450,000 | - | - | 261,450,000 | - |
| Series 2010A Build America Bond | 200,000,000 | - | - | 200,000,000 | - |
| Series 2012A Revenue Bond | 288,030,000 | - | (5,275,000) | 282,755,000 | - |
| Series 2013 Revenue Bond | 13,995,000 | - | (13,995,000) | - | - |
| Series 2014 Revenue Bond | 142,370,000 | - | (142,370,000) | - | - |
| Series 2015A Revenue Bond (Sr) | 668,655,000 | - | - | 668,655,000 | - |
| Series 2015A Revenue Bond (Sub) | 192,005,000 | - | - | 192,005,000 | - |
| Series 2016 Revenue Bond | - | 126,780,000 | - | 126,780,000 | - |
| Series 2016 Capital Appreciation | - | 18,911,498 | - | 18,911,498 | - |
| 2015 12-Year Lease | 5,121,375 | - | (394,906) | 4,726,469 | 403,242 |
| 2015 10-Year Lease | 3,252,329 | - | (692,941) | 2,559,388 | 702,133 |
| 2015 4-Year Lease | 1,420,682 | - | (390,455) | 1,030,227 | 395,082 |
| 2016 12-Year Lease | - | 2,480,000 | (46,871) | 2,433,129 | 189,405 |
| 2016 10-Year Lease | - | 4,546,000 | (220,350) | 4,325,650 | 888,597 |
| 2016 4-Year Lease | - | 1,647,000 | (100,582) | 1,546,418 | 405,433 |
| | 2,095,466,455 | 154,364,498 | (171,776,105) | 2,078,054,848 | 11,733,892 |
| Unamortized Premiums | | | | | |
| Series 2005A Revenue Bond | 346,893 | - | (92,525) | 254,368 | |
| Series 2006C Revenue Bond | 8,670,588 | - | (927,681) | 7,742,907 | |
| Series 2007A Current Interest Bond | 7,247,623 | - | (521,533) | 6,726,090 | |
| Series 2008A Revenue Bond | 2,116,060 | - | (332,679) | 1,783,381 | |
| Series 2012A Revenue Bond | 26,000,208 | - | (1,442,871) | 24,557,337 | |
| Series 2014 Revenue Bond | 713,838 | - | (713,838) | - | |
| Series 2015A Revenue Bond (Sr) | 113,205,025 | - | (9,085,303) | 104,119,722 | |
| Series 2015A Revenue Bond (Sub) | 33,897,368 | - | (2,738,465) | 31,158,903 | |
| Series 2016 Revenue Bond | - | 12,932,675 | (292,419) | 12,640,256 | |
| | 192,197,603 | 12,932,675 | (16,147,314) | 188,982,964 | |
| Total bonds | $ 2,287,664,058 | $ 167,297,173 | $(187,923,419) | $ 2,267,037,812 | $ 11,733,892 |

## NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Authority is a defendant in various matters of litigation and has other claims pending as a result of activities in the ordinary courses of business. Management and legal counsel believe that by reason of meritorious defense, by insurance coverage or statutory limitations, these contingencies will not result in a significant liability to the Authority in excess of the amounts provided as accrued self-insurance liability in the accompanying financial statements.

As of December 31, 2016, the Authority also has purchasing commitments of approximately $28.63 million for revenue vehicles, and approximately $141.8 million to be paid to other contractors.

On December 22, 2016, Utah County issued a $65 million subordinated transportation sales tax revenue bond to be used for the construction of the Provo-Orem BRT. The Authority and Utah County have entered into an interlocal agreement that requires the Authority to reimburse Utah County for all bond costs (principal, interest, and cost of issuance) prior to 2029.

## NOTE 10 – RESTATEMENT OF THE FINANCIAL STATEMENTS FROM PRIOR YEARS

A review of construction in progress as it was originally reported was performed in 2016. This review determined many of the projects no longer met the requirements of an asset in progress and required a restatement of net position as of the beginning of the year ending December 31, 2015 in the amount of $14,209,015.

The following restatements have been made to the Authority's beginning net position for the year ending December 31, 2015.

| | 2015 |
|---|---|
| Total Net Position, January 1 as previously reported | $ 1,330,565,946 |
| Restatements | |
| Construction in progress | (14,209,015) |
| RESTATED TOTAL NET POSITION, JANUARY 1 | $ 1,316,356,931 |

In addition, the financial activity which occurred during the year ending December 31, 2015 related to the above items required restatement of the 2015 financial statements.

| Statements of Net Position | 2015 | |
|---|---|---|
| Noncurrent assets | $ ( 9,497,521) | Reduce construction in progress |
| Change in Net Position | ( 9,497,521) | |
| | | |
| Statement of Revenues, Expenses, and Changes in Net Position | | |
| Expenses | | |
| Operating expenses | 9,497,521 | Expense previously reported as construction in progress |
| Change in Net Position | ( 9,497,521) | |

The following restatements have been made to the Authority's ending net position for the year ending December 31, 2015.

| | 2015 |
|---|---|
| Total Net Position, December 31 as previously reported | $ 1,209,380,427 |
| Prior Year Restatements | |
| Construction in progress | (14,209,015) |
| 2015 Restatements | |
| Construction in progress | ( 9,497,521) |
| RESTATED TOTAL NET POSITION, DECEMBER 31 | $ 1,185,673,891 |

## NOTE 11 – SUBSEQUENT EVENTS

On April 26, 2017, the Authority's Pension Committee approved a reduction of the investment earnings interest rate for the January 1, 2017 actuarial valuation. The new approved interest rate is 7 percent, reduced from the previous assumed rate of 7.25 percent. In addition, the Pension Committee approved an adjustment of the pre-retirement turnover assumption rate. Both of these changes are anticipated to result in an increase in the net pension liability in 2017.

The Authority has performed an evaluation of subsequent events through May xxx, 2017 which is the date the basic financial statements were available to be issued.

# Required Supplementary Information

UTAH TRANSIT AUTHORITY

For Fiscal Year Ended December 31, 2016 and 2015

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – 10 YEARS

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| TOTAL PENSION LIABILITY | | | |
| Service cost | $ 7,711,706 | $ 7,545,804 | $ 7,284,379 |
| Interest on total pension liability | 19,604,345 | 18,717,411 | 17,623,248 |
| Effect of member voluntary contributions | 437,923 | 916,567 | 275,663 |
| Effect of economic/demographic (gains) or losses | (927,077) | (1,973,177) | - |
| Effect of assumption changes or inputs | (3,955,702) | 7,725,363 | - |
| Benefit payments | (12,980,615) | (11,554,824) | (10,181,732) |
| Net change in total pension liability | $ 9,890,580 | $ 21,377,144 | $ 15,001,558 |
| Total pension liability, beginning | $ 269,069,795 | $ 247,692,651 | $ 232,691,093 |
| Total pension liability, ending (a) | $ 278,960,375 | $ 269,069,795 | $ 247,692,651 |
| FIDUCIARY NET POSITION | | | |
| Employer contributions | $ 19,603,952 | $ 16,745,254 | $ 15,366,694 |
| Member voluntary contributions | 437,923 | 916,567 | 275,663 |
| Investment income net of investment expenses | 7,591,211 | (1,085,458) | 5,946,916 |
| Benefit payments | (12,980,615) | (11,554,824) | (10,181,732) |
| Administrative expenses | (249,141) | (244,011) | (219,504) |
| Net change in plan fiduciary net position | $ 14,403,330 | $ 4,777,528 | $ 11,188,037 |
| Fiduciary net position, beginning | $ 151,631,927 | $ 146,854,399 | $ 135,666,362 |
| Fiduciary net position, ending (b) | $ 166,035,257 | $ 151,631,927 | $ 146,854,399 |
| Net pension liability, ending = (a) - (b) | $ 112,925,118 | $ 117,437,868 | $ 100,838,252 |
| Fiduciary net position as a % of total pension liability | 59.52% | 56.35% | 59.29% |
| Covered payroll | $ 115,430,618 | $ 110,727,134 | $ 106,004,057 |
| Net pension liability as a % of covered payroll | 97.83% | 106.06% | 95.13% |

This schedule is intended to present 10 years of information. Subsequent years will be added as the information becomes available.

## STATEMENT OF REQUIRED EMPLOYER CONTRIBUTION – 10 YEARS

| Year | Actuarially determined contribution | Contributions in relation to actuarially determined contribution | Contribution deficiency (excess) | Covered-employee payroll | Contributions as a percentage of covered-employee payroll |
|---|---|---|---|---|---|
| 2016 | $ 17,147,568 | $ 19,603,952 | (2,456,384) | $ 115,430,618 | 16.98% |
| 2015 | 16,609,070 | 16,745,254 | (136,184) | 110,727,134 | 15.12% |
| 2014 | 14,757,446 | 15,366,694 | (609,248) | 106,004,057 | 14.50% |
| 2013 | 14,352,279 | 13,338,052 | 1,014,227 | 102,099,985 | 13.06% |
| 2012 | 12,206,257 | 11,645,982 | 560,275 | 96,750,285 | 12.04% |
| 2011 | 10,114,755 | 10,114,755 | - | 91,265,129 | 11.08% |
| 2010 | 10,047,874 | 10,047,874 | - | 93,259,215 | 10.77% |
| 2009 | 10,658,339 | 10,658,339 | - | 88,834,546 | 12.00% |
| 2008 | 7,679,956 | 7,679,956 | - | 75,324,187 | 10.20% |
| 2007 | 7,466,273 | 7,466,273 | - | 69,571,444 | 10.73% |

## NOTE 1 – VALUATION DATE

The valuation date is January 1, 2016. This is the date as of which the actuarial valuation is performed. The measurement date is December 31, 2016. This is the date as of which the net pension liability is determined. The reporting date is December 31, 2016. This is the employer's fiscal year ending date.

## NOTE 2 – METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

| | |
|---|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 18 years |
| Asset valuation method | 5-year smoothed market less unrealized |
| Cost of Living Adjustments | None |
| Inflation | 2.3% |
| Salary increases | 5.40% per annum for the first five years of employment;<br>3.40% per annum thereafter |
| Investment rate of return | 7.25%, net of investment expenses |
| Retirement age | Table of Rates by Age and Eligibility |
| Mortality | RP-2014 Blue Collar Mortality Table, with MP-2014 projection scale |

# SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

For Years Ended December 31, 2016 and 2015

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF TRANSPORTATION** | | | |
| Federal Transit - Capital investment Grants | 20.500 | | $ (725,125) |
| Federal Transit - Capital investment Grants | 20.500 | | 188,376 |
| Federal Transit - Capital investment Grants | 20.500 | | 1,915,058 |
| Federal Transit - Capital investment Grants | 20.500 | | (10,434) |
| Federal Transit - Capital investment Grants | 20.500 | | 61,212 |
| Federal Transit - Capital investment Grants | 20.500 | | - |
| Federal Transit - Capital investment Grants | 20.500 | | 75,463 |
| Federal Transit - Capital investment Grants | 20.500 | | 41,097 |
| Federal Transit - Capital investment Grants | 20.500 | | 19,936 |
| Federal Transit - Capital investment Grants | 20.500 | | 10,250,401 |
| | | | 11,815,984 |
| Federal Transit - Formula Grant | 20.507 | | 233,527 |
| Federal Transit - Formula Grant | 20.507 | | 777,783 |
| Federal Transit - Formula Grant | 20.507 | | 198,352 |
| Federal Transit - Formula Grant | 20.507 | | 384,388 |
| Federal Transit - Formula Grant | 20.507 | | 186,309 |
| Federal Transit - Formula Grant | 20.507 | | 575,414 |
| Federal Transit - Formula Grant | 20.507 | | 991,446 |
| Federal Transit - Formula Grant | 20.507 | | 620,912 |
| Federal Transit - Formula Grant | 20.507 | | 1,241,824 |
| Federal Transit - Formula Grant | 20.507 | | 46,141,985 |
| | | | 51,351,940 |
| Federal Transit - State of Good Repairs | 20.525 | | 761,750 |
| Federal Transit - State of Good Repairs | 20.525 | | 12,868,499 |
| | | | 13,630,249 |
| Federal Transit - Bus and Bus Facilities Formula Program | 20.526 | | 3,066,157 |
| **Total – Federal Transit Cluster** | | | **79,864,330** |
| Federal Transit - Capital Assistance Program for Elderly Persons | 20.513 | | 288,534 |
| Federal Transit - Public Transportation Research | 50.514 | | 3,500 |
| | | | **292,034** |

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF TRANSPORTATION (continued)** | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities | 20.513 | | $ 288,534 |
| Job Access and Reverse Commute (JARC) | 20.516 | 17-8233 | 31,194 |
| Job Access and Reverse Commute (JARC) | 20.516 | | 40,286 |
| New Freedom Program | 20.521 | 11-8785 | 861 |
| New Freedom Program | 20.521 | | 11,113 |
| **Total – Transit Services Program Cluster** | | | **371,988** |
| Highway Planning and Construction (CMAQ) | 20.205 | 17-8508 | 112,731 |
| Public Transportation Research, Technical Assistance | 20.514 | | 3,500 |
| **Total - Other** | | | **116,231** |
| **Total U.S. Department of Transportation** | | | **80,352,549** |
| **FEDERAL EMERGENCY MANAGEMENT AGENCY** | | | |
| FEMA Transit Security Program | 97.075 | | 24,263 |
| FEMA Transit Security Program | 97.075 | | 12,255 |
| **Total Federal Emergency Management Agency** | | | **36,518** |
| **TOTAL FEDERAL AWARDS EXPENDED** | | | **$ 80,389,067** |

A. Basis of Accounting

The supplementary schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

B. Pass-Through Awards

The Authority receives certain expenditures of federal awards from pass through awards of various state and other governmental agencies. The total amount of such pass-through awards is included in the supplementary schedule of expenditures of federal awards.

C. Use of De Minimus Indirect Rate

The Authority does not have a negotiated indirect cost rate and did not use the 10% de minimus indirect rate in 2016. All reported costs were direct.

Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

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

To the Board of Trustees,
Utah Transit Authority
Salt Lake City, Utah

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Utah Transit Authority (the "Authority") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 20, 2017.

**Internal Control Over Financial Reporting**

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

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Salt Lake City, Utah 84119

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Keddington & Christensen, LLC*

Keddington & Christensen, LLC
Salt Lake City
June 20, 2017

Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

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

To the Board of Trustees,
Utah Transit Authority
Salt Lake City, Utah

**Report on Compliance for Each Major Federal Program**

We have audited the Utah Transit Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

*Keddington & Christensen*

Keddington & Christensen, LLC
Salt Lake City, Utah
June 20, 2017

# SCHEDULE OF FINDINGS and QUESTIONED COSTS

For Years Ended December 31, 2016 and 2015

## SUMMARY OF AUDITORS RESULTS

A. Financial Statements

1. The independent auditors' report on the financial statements expressed an unmodified opinion.

2. No deficiencies were identified in internal control over financial reporting that were considered to be significant deficiencies or material weaknesses.

3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.

B. Federal Awards

4. No deficiencies were identified in internal control over compliance with requirements applicable to major award programs that were considered to be significant deficiencies or material weaknesses.

5. The independent auditors' report on compliance for each major federal program expressed an unmodified opinion.

6. The audit discloses no compliance findings required to be reported by *Government Auditing Standards* and the Uniform Guidance.

7. The major programs of Utah Transit Authority (the Authority) were:

Federal Transit Cluster

| | |
|---|---|
| CFDA #20.500 | Federal Transit – Capital Investment Grants |
| CFDA #20.507 | Federal Transit – Formula Grants |
| CFDA #20.525 | Federal Transit – State of Good Repairs |
| CFDA #20.526 | Federal Transit – Bus and Bus Facilities Formula Program |

8. A threshold of $2,411,672 was used to distinguish between Type A and Type B programs as those terms are defined in 2 CFR 200.516(a).

9. The Authority did not qualify as a low-risk auditee.

## FINANCIAL STATEMENT FINDINGS

None

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**SUMMARY OF AUDITORS RESULTS**

A. Financial Statements

1. The independent auditors' report on the financial statements expressed an unmodified opinion.

2. Significant deficiencies in internal control over financial reporting are identified in this schedule as findings 2015-2 and 2015-3. The deficiency in internal control over financial reporting is identified in this schedule as finding 2015-1, and is considered to be a material weakness.

3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.

B. Federal Awards

4. No deficiencies were identified in internal control over compliance with requirements applicable to major award programs that were considered to be significant deficiencies or material weaknesses.

5. The independent auditors' report on compliance for each major federal program expressed an unmodified opinion.

6. The audit discloses no compliance findings required to be reported by *Government Auditing Standards* and the Uniform Guidance.

7. The major programs of Utah Transit Authority (the Authority) were:

Federal Transit Cluster

| | |
|---|---|
| CFDA #20.500 | Federal Transit – Capital Investment Grants |
| CFDA #20.507 | Federal Transit – Formula Grants |
| CFDA #20.525 | Federal Transit – State of Good Repairs |

8. A threshold of $1,794,000 was used to distinguish between Type A and Type B programs as those terms are defined in 2 CFR 200.516(a).

9. The Authority did not qualify as a low-risk auditee.

**FINANCIAL STATEMENT FINDINGS**

A. Finding 2015-1: *Improper Accounting Treatment (Material weakness)*

**Condition** – General ledger accounts classified as equity reflected frequent use during the fiscal year. This treatment did not allow for equity evaluation and reconciliation for many years. Prior year audits recorded "report only" transactions transferring this activity from the Statement of Net Position to the Statement of Revenues, Expenses, and Change in Net Position to conform to the proper accounting treatment.

Since this treatment had been on-going for many years, a "report only" transaction in the amount of $822,837,478 was required to reach the correct equity balance as of December 31, 2014.

Another "report only" transaction of this same type was required for activity recorded during 2015 in the following amounts:

- $ 7,659,498 for federal contributions, and;
- $ 4,464,930 for local contributions, and;
- $ 161,043,323 for depreciation expense.

**Criteria** – Generally accepted accounting principles (GAAP), Governmental Standards Accounting Board (GASB) requirements

**Recommendation** – We recommend the Authority implement processes and controls to provide for proper accounting treatment and to ensure the Authority's equity accounts remain in reconciliation with reported amounts.

**Management's Response** – In an effort to increase transparency, the Authority will be redesigning its chart of accounts to provide for the proper recording of federal and local contributions, as well as depreciation expense. This project is expected to be complete prior to December 31, 2016. In addition, the Authority's Comptroller will be providing training to staff on proper accounting treatment.

B. Finding 2015-2: *Improper and/or lack of account reconciliations (Significant deficiency)*

**Condition** – Reconciliations are an internal control process that identifies the difference between what should be the balance in an account and the current actual balance in the account. If differences are noted in the reconciliations, then adjustments are made to the balance.

The accounts payable group consists of nine (9) accounts (excluding sub-accounts). Of those nine (9) accounts, we noted six (6) of those accounts did not have proper reconciliations. Reconciliations performed at our request resulted in an adjusting entry reducing the accounts payable liability by $2,000,000 at year end.

The accrued liabilities group consists of 37 accounts. Of those account, we noted eleven (11) did not have proper reconciliations. Reconciliations performed at our request resulted in an adjusting entry reducing the accrued liabilities by $1,230,488 at year end.

**Criteria** – Generally accepted accounting principles (GAAP), Governmental Standards Accounting Board (GASB) requirements

**FINANCIAL STATEMENT FINDINGS (continued)**

B. Finding 2015-2: *Improper and/or lack of account reconciliations (Significant deficiency) (continued)*

**Recommendation** – We recommend the Authority implement monthly reconciliation and review processes for these account groups.

**Management's Response** – The Authority's Comptroller will create a month-end closing process which will include specific account assignments of responsibility for monthly reconciliation. In addition, the Comptroller will be providing additional training on the reconciliation process and requirements to the professional staff assigned to perform this task. Reconciliations will also require a reviewer's approval signature each month.

C. Finding 2015-3: *Improper recording of expense and/or receivable (Significant deficiency)*

**Condition** – During our audit of the capital assets we noted the Authority often enters into interlocal agreements for construction projects. These agreements are between the Authority and Utah Department of Transportation, county, or municipality. In these projectS, the Authority is typically the lead entity in the construction and is responsible for then invoicing the interlocal agency to recover the cost of construction.

During our audit, we noted that accounting was often not informed of the agreement or the invoicing requirement, however, the capital development department managed these agreements and notified accounting when an invoice should be sent. The result of this process is an increased risk that the Authority would spend resources which are the responsibility of other government agencies. In addition, expenses which were not the responsibility of the Authority were recorded on the Authority's financial statements instead of recorded as an amount due the Authority.

During our testing, we also noted accounting was not notified in a timely manner when invoices should have been prepared and sent to the interlocal agency. As a result, an adjusting entry in the amount of $1,110,870 reducing expense and recording funds due the Authority was recorded at year end. This amount was directly related to a project between the Authority and the Utah Department of Transportation.

**Criteria** – Generally accepted accounting principles (GAAP), Governmental Standards Accounting Board (GASB) requirements.

**Recommendation** – We recommend the Authority implement a process to ensure all invoices due the Authority are recorded in the accounting system in a timely manner and construction billings are coded to the correct account type.

**Management's Response** – The Authority's Comptroller will coordinate with the capital development department to create a process which will support the ability of the accounting staff to identify funds paid which require reimbursement from another entity (receivable).

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None