

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.





**MISSOULA URBAN
TRANSPORTATION DISTRICT**

FINANCIAL REPORT

June 30, 2014 and 2013



C O N T E N T S

	<u>PAGE</u>
ORGANIZATION	1
INDEPENDENT AUDITOR’S REPORT	2 and 4
MANAGEMENT’S DISCUSSION AND ANALYSIS	5 to 13
 FINANCIAL STATEMENTS	
Statements of Net Position	14 and 15
Statements of Revenues, Expenses, and Changes in Net Position	16
Statements of Cash Flows	17 and 18
Notes to Financial Statements	19 to 28
 REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT’S DISCUSSION AND ANALYSIS	
Schedule of Funding Status for Retiree Health Insurance Benefit Plan	29
 SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	30
Note to Schedule of Expenditures of Federal Awards	31
Schedules of Functional Expenses	32 and 33
 SINGLE AUDIT SECTION	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34 and 35
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	36 and 37
Schedule of Findings and Questioned Costs	38 and 39

**MISSOULA URBAN TRANSPORTATION DISTRICT
MISSOULA, MONTANA**

ORGANIZATION

June 30, 2014

Board of Directors

Chairman Eric Hines
Vice-Chair Andrea Davis
Treasurer Richard King
Secretary Scott Hollenbeck
Trustee Donald MacArthur
Trustee Melanie Brock
Trustee Amy Cilimborg

Officials

General Manager Michael Tree
Operations Supervisor Jeffery Logan
Business Manager Dorothy Magnusen

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Missoula Urban Transportation District
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Missoula Urban Transportation District (the District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Audit Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014 and 2013, and its changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–13 and the schedule of funding status for retiree health insurance benefit plans 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

These schedules 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Anderson Zurmuehlen + Co., P.C.

Missoula, Montana
December 17, 2014

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the Missoula Urban Transportation District (the District) for the fiscal years ended June 30, 2014 and 2013. The MD&A is designed to assist readers of the financial statements in focusing on significant financial issues, provide an overview of the District's financial activity and identify changes in the District's net position. As this information is presented in summary form, it should be read in conjunction with the financial statements including the notes to the financial statements and other supplementary information that is provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

The District's total net position at June 30, 2014, was \$9,936,544, a decrease of \$686,496 or 6.5% from June 30, 2013. Of this amount, \$3,554,329 represents net position that is not invested in capital assets or restricted by regulation and may be used to meet the District's ongoing obligations to citizens and creditors. The District did not have long-term debt during the fiscal years 2012 through 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to the District's basic financial statements. The District's financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements are comprised of four components: statements of net position; statements of revenues, expenses and changes in net position; statements of cash flows; and notes to the financial statements.

The statement of net position presents information on assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the net position of the District is improving or deteriorating. The statement of revenues, expenses, and changes in net position presents information on operating revenues and expenses and non-operating revenues and expenses of the District for the fiscal year with the difference, the net income or loss, combined with any capital grants to determine the change in net position for the year. That change, combined with the previous year-end total net position, reconciles to the net position total at the end of the current fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows.

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The notes to the financial statements provide additional information that is essential to fully understand the data provided in the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows. Lastly, various federal agencies require certain information to be included in this report. This information is included after the notes to the financial statements under the title "Supplementary Information."

FINANCIAL ANALYSIS

Condensed Financial Information

Condensed financial information from the statement of net position and the statement of revenues, expenses and changes in net position is presented below.

Statement of Net Position

The District's total net position was \$9,936,544 at June 30, 2014, \$10,623,040 at June 30, 2013, and \$10,761,107 at June 30, 2012. The 6.5% decrease between 2014 and 2013 is the result of annual depreciation and decreased service contracts. The 1.3% decrease between 2013 and 2012 is the result of depreciation.

Total assets decreased \$737,827 or 6.6% and total liabilities decreased \$51,331 or 8.4% between June 30, 2013 and June 30, 2014 as a result of depreciation and construction payables. Between June 30, 2012 and June 30, 2013, total assets decreased \$189,505 or 1.7% and total liabilities decreased \$51,438 or 7.8% as a result of depreciation and construction payables.

Transit is a capital-intensive enterprise and at June 30, 2014, \$6,382,215 or 64% of the District's net position are invested in capital assets (land, buildings, vehicles and equipment). At June 30, 2013, \$7,459,203 or 70% were invested in capital assets, and \$8,253,384 or 72% were invested at June 30, 2012. These assets are used to provide services to citizens and therefore are not available for future spending.

Unrestricted net position include \$917,163 at June 30, 2014, \$857,563 at June 30, 2013, and \$840,295 at June 30, 2012, for the local match for awarded and anticipated federally funded capital projects as identified in the Transit Development Plan (TDP).

The budgeted revenues for fiscal year 2014 were \$5,038,510 and actual revenues were \$5,190,639. Budgeted expenses, without depreciation, were \$4,893,295 and actual expenses were \$4,631,265. The budgeted revenues for fiscal year 2013 were \$4,646,225 and actual revenues were \$5,531,014. Budgeted expenses, without depreciation, were \$4,432,720 and actual expenses were \$4,494,441. The budgeted revenues for fiscal year 2012 were \$4,432,720 and actual revenues were \$5,066,375. Budgeted expenses, without depreciation, were \$4,432,720 and actual expenses were \$4,096,477.

**MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013**

FINANCIAL ANALYSIS (CONTINUED)

Summary of Net position
As of June 30,

	<u>2014</u>	<u>2013</u>	Per Cent <u>Change</u>	<u>2012</u>	Per Cent <u>Change</u>
Current Assets	\$ 4,113,859	\$ 3,774,698	9.0%	\$ 3,170,022	19.1%
Capital Assets	<u>6,382,215</u>	<u>7,459,203</u>	-14.4%	<u>8,253,384</u>	-9.6%
Total Assets	<u>\$ 10,496,074</u>	<u>\$ 11,233,901</u>	-6.6%	<u>\$ 11,423,406</u>	-1.7%
Current Liabilities	\$ 203,115	\$ 278,673	-27.1%	\$ 343,211	-18.8%
Noncurrent Liabilities	<u>356,415</u>	<u>332,188</u>	7.3%	<u>319,088</u>	4.1%
Total Liabilities	559,530	610,861	-8.4%	662,299	-7.8%
Net Position:					
Invested in Capital Assets	6,382,215	7,459,203	-14.4%	8,253,384	-9.6%
Unrestricted	<u>3,554,329</u>	<u>3,163,837</u>	12.3%	<u>2,507,723</u>	26.2%
Total Liabilities and Net Position	<u>\$ 10,496,074</u>	<u>\$ 11,233,901</u>	-6.6%	<u>\$ 11,423,406</u>	-1.7%

Operating Revenues

Operating revenues include passenger fares, contract services, and advertising income.

Passenger fare revenue for fixed route services increased by \$77 or .08% from fiscal year 2013 and bus pass program revenue for the same period decreased by \$2,088 or 2.95%. Fixed Route passenger fare revenue decreased by \$1,111 or .01% from fiscal year 2012 and bus pass program revenue for the same period decreased by \$353 or .03%.

During fiscal year 2014, paratransit passenger fare revenue increased by \$491 or 1.76% as a result of increased ridership levels. During fiscal year 2013, passenger fare revenue for paratransit services increased by \$959 or 11% as a result of increased ridership levels. During fiscal year 2012, passenger fare revenue for paratransit services decreased by \$1,174 or 5% as a result of decreased ridership levels.

Advertising revenue is received in two forms: cash and trade advertising. Trade advertising allows Mountain Line to realize advertising benefits with media partners in exchange for exterior sign advertising space on buses. Cash received in fiscal year 2014 was \$67,315 compared to \$70,246 in fiscal year 2013 and \$63,843 in fiscal year 2012. Trade advertising used in fiscal year 2014 was \$18,100 compared to \$13,502 in fiscal year 2013 and \$13,662 in fiscal year 2012.

**MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013**

FINANCIAL ANALYSIS (CONTINUED)

<u>Ridership and Service Levels</u>	<u>FY2014</u>	<u>FY2013</u>	<u>Percent Change</u>	<u>FY2012</u>	<u>Percent Change</u>
Fixed Route					
Ridership	901,166	886,049	1.7%	924,469	-4.2%
Revenue Miles	574,814	582,914	-1.4%	637,171	-8.5%
Revenue Hours	44,724	44,630	0.2%	45,208	-1.3%
Paratransit					
Ridership	22,211	22,750	-2.4%	19,340	17.6%
Revenue Miles	121,570	125,254	-2.9%	100,406	24.7%
Revenue Hours	10,253	10,988	-6.7%	9,228	19.1%

Operating Expenses

Operating expenses include employment costs and other expenses. Employment costs include all employee wages and related overtime costs, employment taxes, health and dental insurance expenses, retirement costs and other fringe benefits. During fiscal years 2014, 2013, and 2012 overall employment costs increased 5.5%, 0.4% and 0.9% due to an increase in employee pay rates. Other operating expenses include fuel and lubricants, tires, parts, materials and supplies, insurance, utilities and other expenses. Increased fuel and vehicle maintenance costs resulted in increased expenses during fiscal year 2012.

Non-Operating Revenues

Non-operating revenues include property and other taxes, federal assistance, interest earnings, rent income from the Transfer Center and other miscellaneous revenue. Non-operating revenue decreased by \$34,716 or 0.7% in 2014 and increased \$663,716 or 16.5% in 2013 and \$374,638 or 10.3% in 2012.

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013

FINANCIAL ANALYSIS (CONTINUED)

Summary of Operating Revenues and Expenses
For the Years Ended June 30,

	<u>2014</u>	<u>2013</u>	<u>Percent Change</u>	<u>2012</u>	<u>Percent Change</u>
Operating Revenues					
Passenger Fares	\$ 232,561	\$ 232,481	0.0%	\$ 233,229	-0.3%
Advertising Income	67,315	70,246	-4.2%	63,843	10.0%
Contract Services	<u>101,865</u>	<u>242,360</u>	-58.0%	<u>248,397</u>	-2.4%
Total Operating Revenues	<u>401,741</u>	<u>545,087</u>	-26.3%	<u>545,469</u>	-0.1%
Operating Expenses					
Total operating expenses before depreciation	4,631,265	4,494,441	3.0%	4,096,477	9.7%
Depreciation	<u>1,245,870</u>	<u>1,174,640</u>	6.1%	<u>1,133,872</u>	3.6%
Total Operating Expenses Including Depreciation	<u>5,877,135</u>	<u>5,669,081</u>	3.7%	<u>5,230,349</u>	8.4%
Loss from operations	(5,475,394)	(5,123,994)	6.9%	(4,684,880)	9.4%
Nonoperating revenues, net	4,657,975	4,692,691	-0.7%	4,028,975	16.5%
Capital contributions	<u>130,923</u>	<u>293,236</u>	-55.4%	<u>491,931</u>	-40.4%
Change in Net Position	(686,496)	(138,067)	397.2%	(163,974)	-15.8%
Net Position, Beginning of Year	<u>10,623,040</u>	<u>10,761,107</u>	-1.3%	<u>10,925,081</u>	-1.5%
Net Position, End of Year	<u>\$ 9,936,544</u>	<u>\$ 10,623,040</u>	-6.5%	<u>\$ 10,761,107</u>	-1.3%

Capital Contributions

The District receives federal grants for essentially all of its capital construction and acquisitions with generally a 20% local match. Capital grant expenditures totaling \$130,923 during fiscal year 2014 consisted of \$130,923 of additions and no retirements and removals (net of depreciation). Depreciation expense of \$1,245,870 was recorded. Net additions to capital assets consisted of transportation equipment and additional furniture and fixtures.

Capital grant expenditures totaling \$293,236 during fiscal year 2013 consisted of \$293,236 of additions and a retirement of a bus (net of depreciation). Depreciation expense of \$1,174,640 was recorded. Net additions to capital assets consisted of transportation equipment and additional furniture and fixtures.

Capital grant expenditures totaling \$491,931 during fiscal year 2012 consisted of \$491,931 of additions and no retirements. Depreciation expense of \$1,133,872 was recorded. Net additions to capital assets consisted of the addition of a real-time passenger information system and shop equipment.

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013

FINANCIAL ANALYSIS (CONTINUED)

The District has a fund to provide the local match for capital projects. At the end of each fiscal year, the financial performance is evaluated and it is determined whether additional amounts need to be added to this fund for future projects. As of June 30, 2014, the capital project fund was \$917,163 of which \$565,773 was committed to projects in approved grants.

As of June 30, 2013, the capital project fund was \$857,563 of which \$82,732 is committed to projects in approved grants. Prior to any addition as a result of fiscal year 2013 financial performance, the remaining \$774,831 is available for use as a match for future projects as outlined in the Transit Development Plan.

As of June 30, 2012, the capital project fund was \$840,295, of which \$261,712 was committed to projects in approved grants. As of June 30, 2011, the capital project fund was \$666,201, of which \$198,205 was committed to projects in approved grants.

Capital Assets

Capital assets consist of transit coaches and other vehicles, land, buildings and equipment. As of June 30, 2014, the District had invested \$15,079,842 in capital assets. Net of accumulated depreciation, the District's net capital assets totaled \$6,382,215. This represents a decrease of \$1,076,988 or 14.4% from June 30, 2013. As of June 30, 2013, the District had invested \$14,966,664 in capital assets. Net of accumulated depreciation, the District's net capital assets totaled \$7,459,203. This represents a decrease of \$794,181 or 9.6% from June 30, 2012. As of June 30, 2012, the District had invested \$14,586,205 in capital assets. Net of accumulated depreciation, the District's net capital assets totaled \$8,253,384. This represents a decrease of \$484,443 or 5.6% from June 30, 2011.

Capital Assets (Net of Depreciation)
As of June 30,

	<u>2014</u>	<u>2013</u>	<u>Percent Change</u>	<u>2012</u>	<u>Percent Change</u>
Land	\$ 80,909	\$ 80,909	0.0%	\$ 80,909	0.0%
Buildings and Improvements	3,566,984	3,341,368	6.8%	3,594,465	-7.0%
Transportation Equipment	2,537,150	3,232,080	-21.5%	3,832,396	-15.7%
Shop Equipment	1,937	2,712	0.0%	3,487	0.0%
Furniture and Fixtures	195,235	260,799	-25.1%	292,100	-10.7%
Projects in Progress	-	541,335	-100.0%	450,027	20.3%
Total Net Capital Assets	<u>\$ 6,382,215</u>	<u>\$ 7,459,203</u>	-14.4%	<u>\$ 8,253,384</u>	-9.6%

Debt Administration

The District did not have any capital debt at the end of fiscal years 2014, 2013, and 2012.

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2014 and 2013

ECONOMIC FACTORS

This report is intended to provide a recap of accomplishments and challenges that occurred during fiscal year 2014 (FY14) and to provide insight into events that will impact the fiscal year 2015 (FY15) budget. Additional discussion is provided regarding factors that will influence planning decisions for the fiscal year 2016 (FY16) budget, and help recognize economic trends that will impact Mountain Line's financial condition beyond FY16.

FY 2014 Ridership and Service Levels

In August 2012 Phase I of the agency's five-phase blueprint of improvements was implemented. Areas of the Transportation District that could not support fixed route service had an elimination or reduction in service, while the more urbanized area of Missoula—where most people live, work, and play, had service improvements.

Phase I implementation included the elimination of Route 10 and a reduction in service levels, to peak only service, on Route 9. Route 1, the busiest bus route in the community, improved to 15-minute all day service. This service was branded BOLT! service and will significantly improve the livability and ease of use with the bus route that connects the downtown with the University of Montana and mid-town's Southgate Mall.

As forecasted by the Planner for the District, FY13 had fewer riders than FY12 due to a variety of factors, including the normal, temporary dip in ridership that is accompanied by a change in bus routes. Other factors include a more mild winter than normal, a reduction in the number of UM students, and lower fuel prices.

Per plans, in FY2014 ridership increased to 901,166, the second highest ridership in the agency's 35-year history. Ridership on the Route 1, the system's busiest route, increased 50% since implementation of BOLT! service in FY2013. Door-to-door paratransit and senior van ridership remained flat for FY2014.

Voter approved Phase II improvements that include BOLT! service on Route 2, late evening service until 10 p.m. on the four busiest routes, and improvements to paratransit service to begin January 5, 2015. Additionally, 14 community partners underwrote the cost of fares for the system in a three-year demonstration that will take all agency services to Zero-fare. The convenience of Zero-fare, along with Phase II improvements, is expected to increase ridership by 45% over the next three years. Thus, for the first time ever, Mountain Line is expected to carry over 1 million rides in FY2015.

Enhancements / Planning / Capital Projects

FY14 and FY15 feature the construction of several bike stations in the community. Completed were the bike stations at the Lewis & Clark transfer station, the Missoula County Library, the Bonner Post Office, and the University of Montana. Additionally, a bike station is under construction at the Southgate Mall. The bike stations include a self-serve repair pedestal complete with attached tools, a tire inflator, and bike parking. Most bike stations also include a vending machine loaded with bike parts.

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013

All Bike Station Projects were funded through an FTA Livability Grant.

Additional capital projects begun in FY14 and to be delivered in FY15 include the purchase of three (3) 35' buses for Phase II implementation and the purchase of two (2) small buses to be used for paratransit service during the day and fixed route service in the late evening. The two small buses will feature low floor technology and will have all of the amenities of the larger fixed route buses.

Finally, in FY15 the reconstruction of Third Street will be completed and feature four new bus stops. Two of the stops will include contemporary bus shelters complete with solar LED lighting. The bus stops are a partnership between the City's Redevelopment Agency and the Transportation District.

Planning efforts that will be initiated in FY14 and completed in FY15 include the Bus Stop Master Plan and the UM Transportation Study, which will look at public transportation in and around the University of Montana—including the working relationship between the District and ASUM Transportation. Finally, in FY15 there will be continued emphasis on future planning for a signal priority system and corridor development in the community.

MDT and Other Partnerships

In FY14, the Transit District completed its agreement with the city of Missoula for the transit portion of the Missoula In Motion program. The contract in future years will be a direct arrangement between the city of Missoula and the Montana Department of Transportation. The program focuses on continued development and implementation of a Transit Specific Transportation Demand Management (TDM) Program in Missoula. This program is specific to increasing the mode share of public transit. Activities include providing employer outreach, education, employer recruitment, support for pass programs, incentive programs for transit commuters, and general marketing services for modes other than the single occupancy vehicle.

In FY15, the Transportation District will renegotiate its contract with the University of Montana, which is a key piece in the Zero-fare partnership. Moving forward, the community is anticipating success with the Zero-fare program and the agency recognizes the significant amount of work that will be necessary to appropriately fund the project.

Key Economic Factors Impacting District Future Budgets

In FY10, tax revenue growth from district expansion flattened out and investment income decreased substantially. No change in this pattern is expected in FY15 or FY16. Currently, we are under contract for fuel twelve months out and the fuel budget for that term has been set. For the FY15 budget, our fuel costs should be stable at an average of \$3.36 per gallon. We will continue to hedge our purchases of fuel so that we can cost average, budget with reasonable confidence, and have some level of security should fuel prices skyrocket again.

In FY14 national insurance markets tightened and general liability for the Transportation District increased by 9%. Similarly, health care costs increased 4%. The Transportation District is

MISSOULA URBAN TRANSPORTATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2014 and 2013

monitoring closely these costs for FY15 and FY16, taking opportunity to aggressively shop the markets for improved rates.

Wage and benefit packages for administrative employees were increased in the FY15 budget and next year's increases are recommended to be in line with national trends in this field (2–3% cost of living increases). A new collective bargaining agreement with the Teamsters Union Local No. 2 was approved for the period July 1, 2014 to June 30, 2016. A new bargaining agreement will be worked on in FY16.

The FY15 Mountain Line budget increased by 12.10% over the FY14 budget for Phase II implementation with projected revenue increasing by a complementary amount for a balanced budget. We continue to diversify our funding resources and rely on a cross section of funding opportunities to meet our budgeted demands. Competition for these more flexible / competitive funding sources has increased significantly over the past few years and we must continue to look for outside partnerships and build public support in order to keep this funding level consistent.

New Federal Transportation Bill

On July 6, 2012, President Obama signed into law the Moving Ahead for Progress in the 21st Century Act, or MAP-21 surface transportation authorization bill. This bill was implemented after nearly three (3) years of program extensions following SAFE-TEA-LU's expiration in September 2009.

MAP-21 (originally a two-year transportation bill for FY2013 and 2014) is currently in a period of program extensions. The bill provides funding for the operations of small urban transit systems at historic levels, with slight adjustments for inflation. Funding for bus replacement and bus facility repair was changed from a discretionary program to a formula program that creates insufficient funds for capital replacement and repair long term. The new transportation bill under formation is seeking to fix this inconsistency, and to provide for additional funding for transit—including the continuation of transit's dedicated share of funding from the Highway Trust Fund.

This financial report is designed to provide readers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Missoula Urban Transportation District
Attn: Finance and Administration
1221 Shakespeare Street
Missoula, MT 59802
www.mountainline.com

FINANCIAL STATEMENTS

MISSOULA URBAN TRANSPORTATION DISTRICT
STATEMENTS OF NET POSITION
 June 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,138,574	\$ 674,354
Capital cash reserves	917,163	857,563
Receivables, net	1,873,590	2,082,153
Supplies inventory	158,086	146,008
Prepaid expenses	<u>26,446</u>	<u>14,620</u>
Total current assets	<u>4,113,859</u>	<u>3,774,698</u>
CAPITAL ASSETS AT COST		
Land	80,909	80,909
Buildings and improvements	5,978,119	5,419,632
Transportation equipment	8,375,202	8,290,512
Shop equipment	124,370	124,370
Furniture and fixtures	521,242	509,906
Projects in process	<u>-</u>	<u>541,335</u>
	15,079,842	14,966,664
Less accumulated depreciation	<u>(8,697,627)</u>	<u>(7,507,461)</u>
Net capital assets	<u>6,382,215</u>	<u>7,459,203</u>
Total assets	<u>\$ 10,496,074</u>	<u>\$ 11,233,901</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA URBAN TRANSPORTATION DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
June 30, 2014 and 2013

LIABILITIES AND NET POSITION	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts and warrants payable	\$ 112,175	\$ 219,832
Accrued liabilities	53,599	49,342
Unearned revenue	<u>37,341</u>	<u>9,499</u>
Total current liabilities	<u>203,115</u>	<u>278,673</u>
NONCURRENT LIABILITIES		
Compensated absences	287,329	283,250
Other postemployment benefits	<u>69,086</u>	<u>48,938</u>
Total noncurrent liabilities	<u>356,415</u>	<u>332,188</u>
 Total liabilities	 <u>559,530</u>	 <u>610,861</u>
NET POSITION		
Net investment in capital assets	6,382,215	7,459,203
Unrestricted	<u>3,554,329</u>	<u>3,163,837</u>
Total net position	<u>9,936,544</u>	<u>10,623,040</u>
 Total liabilities and net position	 <u>\$ 10,496,074</u>	 <u>\$ 11,233,901</u>

The Notes to Financial Statements are an integral part of these statements.

This page intentionally left blank

MISSOULA URBAN TRANSPORTATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Passenger fares	\$ 232,561	\$ 232,481
Contract services	101,865	242,360
Advertising	<u>67,315</u>	<u>70,246</u>
Total operating revenues	<u>401,741</u>	<u>545,087</u>
OPERATING EXPENSES		
Operations	3,863,618	3,810,895
Maintenance	608,682	561,615
General and administrative	<u>1,404,835</u>	<u>1,296,571</u>
Total operating expenses	<u>5,877,135</u>	<u>5,669,081</u>
Loss from operations	<u>(5,475,394)</u>	<u>(5,123,994)</u>
NON-OPERATING REVENUES		
Property and other taxes	2,805,596	2,582,534
Federal operating assistance	1,711,754	1,979,028
Federal planning assistance	116,252	109,352
Interest income	4,645	5,221
Other revenues	<u>19,728</u>	<u>16,556</u>
Total nonoperating revenues	<u>4,657,975</u>	<u>4,692,691</u>
Loss before capital contributions	(817,419)	(431,303)
Capital contributions	<u>130,923</u>	<u>293,236</u>
Change in net position	(686,496)	(138,067)
Net position, beginning of year	<u>10,623,040</u>	<u>10,761,107</u>
Net position, end of year	<u>\$ 9,936,544</u>	<u>\$ 10,623,040</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA URBAN TRANSPORTATION DISTRICT
STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from passengers	\$ 260,403	\$ 226,096
Receipts from contract services	169,180	312,606
Payments to suppliers	(1,635,541)	(1,471,850)
Payments to employees	<u>(3,201,561)</u>	<u>(3,044,012)</u>
Net cash flows from operating activities	<u>(4,407,519)</u>	<u>(3,977,160)</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Receipts from property and other taxes	2,757,848	2,572,558
Receipts from Federal operating grants	2,187,077	394,792
Other receipts	<u>19,728</u>	<u>16,556</u>
Net cash flows from non-capital financing activities	<u>4,964,653</u>	<u>2,983,906</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(168,882)	(380,459)
Receipts from Federal capital grants	<u>130,923</u>	<u>436,836</u>
Net cash flows from capital and related financing activities	<u>(37,959)</u>	<u>56,377</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>4,645</u>	<u>5,221</u>
Net cash flows from investing activities	<u>4,645</u>	<u>5,221</u>
Net change in cash and cash equivalents	523,820	(931,656)
Cash and cash equivalents, beginning of year	<u>1,531,917</u>	<u>2,463,573</u>
Cash and cash equivalents, end of year	<u>\$ 2,055,737</u>	<u>\$ 1,531,917</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA URBAN TRANSPORTATION DISTRICT
 STATEMENTS OF CASH FLOWS (CONTINUED)
 For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH AND CASH EQUIVALENTS ARE PRESENTED IN THE ACCOMPANYING STATEMENTS OF NET POSITION UNDER THE FOLLOWING CAPTIONS		
Cash and cash equivalents	\$ 1,138,574	\$ 674,354
Capital cash reserves	<u>917,163</u>	<u>857,563</u>
	<u>\$ 2,055,737</u>	<u>\$ 1,531,917</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CHANGE IN OPERATING CASH FLOWS		
Loss from operations	\$ (5,475,394)	\$ (5,123,994)
Adjustments to reconcile loss from operations to cash flows from operating activities		
Depreciation	1,245,870	1,174,640
Changes in operating assets and liabilities:		
Receivables	(102,760)	(20,866)
Supplies inventory	(12,078)	3,259
Prepaid expenses	(11,826)	41,239
Accounts and warrants payable	(107,657)	(46,077)
Accrued liabilities	4,257	(12,076)
Unearned revenue	27,842	(6,385)
Compensated absences	4,079	(3,637)
Other postemployment benefits	<u>20,148</u>	<u>16,737</u>
Net cash flows from operating activities	<u>\$ (4,407,519)</u>	<u>\$ (3,977,160)</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Missoula Urban Transportation District (the District) was organized under the laws of the state of Montana in 1976 to provide public transportation to the Missoula area. The District operates under the name “Mountain Line” and is authorized to levy taxes and charge fares to pay for the operations of the District.

The District is governed by a seven-member Board of Directors appointed by Missoula County (the County) and the City of Missoula (the City). The Board of Directors set District policy, levy taxes, appropriate funds, adopt budgets, and perform other duties required by state and federal law.

Financial Reporting Entity

The District is considered a separate legal entity since neither the County nor the City appoints a controlling majority of the governing board, and the District is not financially accountable or fiscally dependent on either the County or the City. Furthermore, the District is not considered a component unit of either the City or the County.

Basis of Accounting

The District’s financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, and follow proprietary fund reporting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District’s financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The District’s financial statements are presented using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized when incurred.

Operating revenues consist primarily of passenger fares. The District also recognizes revenue for contracted services and transit advertising revenue as operating revenue. Operating expenses comprise the costs of operating the District, including depreciation on capital assets. Capital contributions include grant revenue and other contributions related to capital acquisitions or construction. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The District has adopted the provisions of the following GASB pronouncement for fiscal year 2014:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. This statement defines new financial statement items called deferred inflows of resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities as deferred outflows or deferred inflows, respectively.

Restricted Assets

Restricted assets are assets set aside to meet externally imposed legal and contractual obligations. Restricted assets are used in accordance with their requirements. Where both restricted and unrestricted resources are available for use, restricted resources are used first, and then unrestricted resources as they are needed.

Budgets and Property Taxes

The District is required to submit an annual budget to the Board of County Commissioners for the purpose of certifying the amount of taxes to be levied for the subsequent fiscal year. Property tax levies are set on the second Monday in August in connection with the budget process and are assessed and collected by the County Treasurer on behalf of the District. Real property taxes are billed in October, and are payable in two equal installments on November 30 and May 31. Personal property taxes, which are based on prior year levies, are billed in July and due thirty days after billing. After these dates, they become delinquent and a lien is placed upon the property. Uncollected property taxes are shown on the statements of net position as receivables.

The taxable value of property in the District's taxing jurisdiction as of November 30, 2013 and 2012 was \$122,668,143 and \$121,254,523, respectively. The District levied 19.06 and 18.08 mills, with the value of one mill within the District's boundaries equating to \$113,100 and \$116,724 as of November 30, 2013 and 2012, respectively.

The 2001 and 2003 Montana State legislatures permitted local government units to increase the property tax levy for a portion of premium contributions for group health benefits. The District levied \$225,023 or 1.99 mills for November 2013 and \$166,497 or 1.43 mills for November 2012, respectively.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Legal Debt Margin

The District is authorized by law to incur bonded indebtedness of up to 28% of the District's taxable valuation. The District does not intend to issue bonded debt.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of funds on deposit with the Missoula County Treasurer. Such funds consist of demand and time deposits that are commingled with funds of other taxing districts. Information regarding credit risk, insurance, and collateral relating to cash equivalents can be found in Missoula County's annual financial report for the years ended June 30, 2014 and 2013. For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash funds designated for capital improvements amounted to \$917,163 and \$857,563, respectively, at June 30, 2014 and 2013. Interest revenue consists of allocations of income on funds held by the Missoula County Treasurer and bank account interest.

Receivables

Receivables consist mainly of amounts due for federal grant reimbursements and property taxes owed to the District. At June 30, 2014 and June 30, 2013, the District did not record an allowance for doubtful accounts. The allowance is based on historical trends, emphasizing collection history at Missoula County.

Prepaid Expenses

Prepaid expenses include amounts paid to vendors for services to be received in future months.

Capital Assets

Property and equipment are recorded at cost and depreciated on a straight-line basis over the following estimated useful lives:

Building and Improvements	40 years
Transportation Equipment	4–12 years
Shop Equipment	5 years
Furniture and Fixtures	5 years

Repairs and maintenance are expensed when incurred and betterments, which are expected to extend an asset's useful life, are capitalized in excess of \$1,000. Upon retirement or other disposition of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in nonoperating revenue and expenses. Projects in progress are not depreciated until placed in service.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

Unearned revenue consists of sales of prepaid bus passes which are valid for a specific period of time. Sales are recognized as income at the end of each month, with the total contract amount prorated evenly over the number of months of the contract.

Compensated Absences

All employees of the District receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated in the various categories of absence is based generally on length of service. Upon termination, all employees are paid 100 percent of any unused vacation benefits and 25 percent of their accrued sick leave. At the end of each calendar year, union employees may cash out 50 percent of any unused sick leave accumulated during the calendar year, less the amount of sick leave used, not to exceed 48 hours. Upon termination, union and non-union employees are entitled to additional severance pay equal to 25 percent of the value of unused sick leave accrued after January 1, 2003. Vacation leave that has been earned but not yet paid has been accrued in the accompanying financial statements.

Supplies Inventory

Supplies inventory consists of maintenance parts and supplies, including fuel, used in the ordinary course of operations. Materials and supplies are stated at the lower of average cost or market.

Other Postemployment Benefits

The District recognizes and reports its postemployment healthcare benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Classification of Net Position

The District classifies its net position as follows:

Net Investment In Capital Assets reflects the net position of the District that are invested in capital assets, including restricted capital assets, net of accumulated depreciation and related debt.

Restricted Net Position represents resources that are not accessible for general use because their use is subject to restrictions enforceable by creditors, grantors, contributors, laws and regulations, or enabling legislation. As of June 30, 2014 and 2013, the District had no restricted net position.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Position (Continued)

Unrestricted Net Position represents resources that do not meet the definition of restricted or invested in capital assets, and are available for general use.

Estimates

The preparation of financial statements in conformity with GAAP involves the use of management's estimates. These estimates are based upon management's judgments after considering past and current events and assumptions about future events. Actual results may differ from estimates.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net position or change in net position.

Subsequent Events

Management has evaluated subsequent events through December 17, 2014, the date which the financial statements were available to be issued.

NOTE 2. RECEIVABLES

Receivables at June 30 consist of the following:

	<u>2014</u>	<u>2013</u>
Federal grant reimbursements	\$ 1,401,206	\$ 1,760,277
Property taxes, net	282,808	235,060
Other	<u>189,576</u>	<u>86,816</u>
Total receivables	<u>\$ 1,873,590</u>	<u>\$ 2,082,153</u>

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 3. CAPITAL ASSETS

Substantially all property and equipment has been acquired under capital assistance grants administered by the U.S. Department of Transportation, Federal Transit Administration, whereby a percentage (usually 80 percent) of the cost of capital additions is reimbursed by the grantor, and the remaining portion is funded by the District. Under the terms of the grants, title to the assets rests with the District; however, the District is prohibited from disposing of grant-related assets without prior approval of the grantor prior to the end of its useful life, and a portion of the proceeds from such disposition may be payable to the grantor in proportion to the grantor's original contribution under certain conditions. A schedule of capital asset activity follows:

	Capital Assets Not Being Depreciated		Capital Assets Being Depreciated			
	Land	Projects in Process	Buildings and Improvements	Transportation Equipment	Shop Equipment	Furniture and Fixtures
Balance, June 30, 2012	\$ 80,909	\$ 450,027	\$ 5,419,632	\$ 8,052,395	\$ 124,370	\$ 458,872
Additions	-	315,079	-	238,117	-	51,034
Deletions (Transfers)	-	(223,771)	-	-	-	-
Balance, June 30, 2013	80,909	541,335	5,419,632	8,290,512	124,370	509,906
Additions	-	63,565	558,487	140,394	-	11,336
Deletions (Transfers)	-	(604,900)	-	(55,704)	-	-
Balance, June 30, 2014	<u>\$ 80,909</u>	<u>\$ -</u>	<u>\$ 5,978,119</u>	<u>\$ 8,375,202</u>	<u>\$ 124,370</u>	<u>\$ 521,242</u>
Accumulated Depreciation						
Balance, June 30, 2012	\$ -	\$ -	\$ 1,825,167	\$ 4,219,999	\$ 120,883	\$ 166,772
Depreciation	-	-	253,097	838,433	775	82,335
Deletions (Transfers)	-	-	-	-	-	-
Balance, June 30, 2013	-	-	2,078,264	5,058,432	121,658	249,107
Depreciation	-	-	332,871	835,324	775	76,900
Deletions (Transfers)	-	-	-	(55,704)	-	-
Balance, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,411,135</u>	<u>\$ 5,838,052</u>	<u>\$ 122,433</u>	<u>\$ 326,007</u>
Total Net Capital Assets						
June 30, 2013	<u>\$ 80,909</u>	<u>\$ 541,335</u>	<u>\$ 3,341,368</u>	<u>\$ 3,232,080</u>	<u>\$ 2,712</u>	<u>\$ 260,799</u>
June 30, 2014	<u>\$ 80,909</u>	<u>\$ -</u>	<u>\$ 3,566,984</u>	<u>\$ 2,537,150</u>	<u>\$ 1,937</u>	<u>\$ 195,235</u>

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 4. COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2013, the District had an agreement with the University of Montana (the University) to provide transportation service to students and faculty. Under the terms of the agreement, the University paid the District \$27,682 for the year ended June 30, 2013. There was no limit on the number of rides to be provided. There was no contract executed during the year ended June 30, 2014.

The Urban Mass Transportation Act of 1964 provides for the funding of a portion of the District's operating costs and capital needs based upon a defined formula grant program. Generally, funds may be utilized for 80 to 86 percent of project costs for capital assistance or 50 to 80 percent for operating assistance depending on the funding source. Funds are apportioned to the District annually and generally are available until expended.

NOTE 5. PENSION PLANS

The District has a defined contribution retirement plan, which covers essentially all union personnel. The District contributed \$2.00 and \$1.50 per hour compensated for the years ended June 30, 2014 and 2013, respectively, for union employees under the Teamsters Union retirement plan. The District's contributions totaled \$177,728 for the year ended June 30, 2014, and \$149,665 for the year ended June 30, 2013. Covered union payroll was \$1,564,829 in 2014 and \$1,588,826 in 2013.

The District has an Internal Revenue Code (IRC) Section 401(a) pension plan arrangement for non-union employees. The District contributed 10.0 percent of non-union employees' gross salary under the 401(a) plan for the years ended June 30, 2014 and 2013, respectively. The District's contributions totaled \$54,300 for the year ended June 30, 2014 and \$49,623 for the year ended June 30, 2013. Covered non-union payroll was \$587,289 in 2014 and \$532,143 in 2013.

All employees may participate in elective salary deferrals under an IRC Section 457 plan up to the maximum amount allowed by law. Union and non-union employees are eligible to participate in the plan from the date of employment.

NOTE 6. RISK MANAGEMENT

The District faces a number of risks including (a) loss or damage to property, (b) general liability, (c) workers' compensation, and (d) employee medical insurance. Commercial insurance policies are purchased for loss or damage to property and general liability.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 6. RISK MANAGEMENT (CONTINUED)

The District is a member of the Missoula County Workers' Compensation Plan (Plan). The Plan self-insures for workers' compensation coverage. Workers' compensation is covered up to \$250,000 per individual occurrence. Losses in excess of the self-insured limit are covered by reinsurance with a commercial carrier. Settled claims did not exceed the commercial coverage for the years ended June 30, 2014, 2013 or 2012. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liability accrual was required at June 30, 2014 and 2013.

The District's workers' compensation rates are based upon state rates, currently ranging from \$1.00 to \$12.76 per \$100 of covered payroll. Contributions for 2014 were \$198,481 and \$189,293 for 2013. As of June 30, 2014, there were no claims in excess of insured coverage under the Plan.

The District participates in the County's employee benefit plan which is a self-insured health plan providing medical and dental benefits to all employees electing to be covered. The Plan is self-insured up to \$150,000 per individual. Losses in excess of the individual self-insured limit are covered by reinsurance with a commercial carrier. During 2014 and 2013, the District paid \$458,191 and \$423,930 for the coverage while employees contributed \$82,493 and \$73,343, respectively.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

The District has adopted the provisions of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans*. GASB 45 requires employers to calculate the actuarial liability for future retiree benefits and the annual required contribution (ARC) for retirees. The provisions of this statement were applied prospectively. Information on the District's health benefit plan for retirees is included below.

The District participates in the Missoula County Employee Benefits Plan (MCEBP) – a Defined Benefit Multiple Employer Plan that provides for varying amounts of health insurance for eligible retired employees. The benefit is offered to all employees who, (1) retire on or after attaining age 65, (2) retire at age 60 with at least five years of service, or (3) employees who have completed at least thirty years of service. An employee may qualify for early retirement upon completion of five years of service and attained the age of 50 or completed at least 25 years of service. These benefits are established and may be amended by Missoula County. The plan issues stand-alone financial statements, which can be obtained, from Missoula County Risk & Benefits, 200 West Broadway, Missoula, Montana 59802.

MISSOULA URBAN TRANSPORTATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Retirees are able to purchase health benefits for themselves and their family at two different rates: the Medical Standard Plan or the Medical High Deductible Plan. Both Plans are self-funded through MCEBP, and the trust pays claim costs plus administrative expenses. Retirees may also elect optional dental or vision coverage.

Retirees pay a monthly premium based on their plan election and level of dependent coverage. The premiums effective July 1, 2013, are shown below.

Level of Coverage	Medical (Standard Plan)	Medical (High Deductible Plan)	Dental	Vision
Single	\$ 556.00	\$ 389.20	\$ 39.00	\$ 10.55
EE + Child	932.00	652.40	96.00	19.43
EE + Spouse	1,043.00	730.10	70.00	19.90
Family	1,419.00	993.30	127.00	28.77

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), and the amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. A schedule of the District's annual OPEB cost is presented below:

	<u>2014</u>	<u>2013</u>
Annual required contribution (ARC)	\$ 14,601	\$ 19,075
Interest on net OPEB	1,176	603
ARC adjustment	<u>4,371</u>	<u>(1,779)</u>
Annual OPEB cost	20,148	17,899
Contributions made	<u>-</u>	<u>(1,162)</u>
Change in net OPEB obligation	20,148	16,737
Net OPEB obligation – beginning of year	<u>48,938</u>	<u>32,201</u>
Net OPEB obligation – end of year	<u>\$ 69,086</u>	<u>\$ 48,938</u>
Percentage of annual OPEB cost contributed	0%	6%

As of June 30, 2014, the most recent actuarial valuation date, the District's portion of the plan's unfunded accrued actuarial liability was \$106,011. This liability is not funded under GASB 45 since there are no assets allocated to an irrevocable trust for the plan. Therefore, the funded status of the plan is 0%. The annual covered payroll was \$2,090,625 for fiscal year 2014; the unfunded actuarial liability was 5.07% of covered payroll.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results compare to the past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the substantive plan members to that point. Actuarial calculations reflect a long-term perspective and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

For the actuarial valuation performed at June 30, 2014, the projected unit credit actuarial cost method was used. The health care trend rate was 8% for 2014, decreasing overtime. The assumed discount rate was 4.20%. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years.

NOTE 8. SUBSEQUENT EVENT

The District will operate a zero-fare program beginning January 5, 2015, which is funded through contributions from supporting partners within Missoula County.

REQUIRED SUPPLEMENTAL INFORMATION OTHER THAN
MANAGEMENT'S DISUCSSION AND ANLAYSIS

MISSOULA URBAN TRANSPORTATION DISTRICT
SCHEDULE OF FUNDING STATUS FOR RETIREE
HEALTH INSURANCE BENEFIT PLAN
June 30, 2014

Actuarial Valuation Date 6/30/14

Accrued Actuarial Liability	\$ 106,011
Actuarial Value of Assets	<u>-</u>
Unfunded Actuarial Liability	<u>\$ 106,011</u>
Funded Ratio	0%
Annual Covered Payroll	\$ 2,090,625
Unfunded Actuarial Liability to Covered Payroll	5.07%

SUPPLEMENTARY INFORMATION

MISSOULA URBAN TRANSPORTATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

FEDERAL SOURCE				FUNDS
PASS-THROUGH SOURCE	GRANTOR		GRANT	EXPENDED
PROGRAM TITLE	CONTRACT	CFDA	AWARD	CURRENT
Type of Assistance	NUMBER	NUMBER	AMOUNT	YEAR
U.S. DEPARTMENT OF TRANSPORTATION				
Federal Transit Cluster				
Urbanized Area Formula Grants	MT-95-0011-00	20.507	\$ 600,329	\$ 1,038
Urbanized Area Formula Grants	MT-95-0012-00	20.507	438,476	34,762
Urbanized Area Formula Grants	MT-95-0015-00	20.507	411,636	301,814
Urbanized Area Formula Grants	MT-90-0108-00	20.507	1,944,724	328,728
Urbanized Area Formula Grants	MT-90-0111-00	20.507	560,250	560,250
Urbanized Area Formula Grants	MT-90-0112-00	20.507	<u>830,394</u>	<u>487,156</u>
Subtotal by CFDA Number			<u>4,785,809</u>	<u>1,713,748</u>
Bus and Bus Livability/State of Repair	MT-04-4016-00	20.500	709,400	12,320
Bus and Bus Facilities	MT-04-0019-00	20.500	<u>133,744</u>	<u>23,809</u>
Subtotal by CFDA Number			<u>843,144</u>	<u>36,129</u>
Subtotal Federal Transit Cluster			<u>5,628,953</u>	<u>1,749,877</u>
Elderly Persons and Persons with Disabilities	107704	20.513	<u>92,800</u>	<u>92,800</u>
Subtotal by CFDA Number			<u>92,800</u>	<u>92,800</u>
<i>Passed Through Missoula County, Montana</i>				
Transit Technical Studies Grants FY13	106744	20.505	96,214	16,112
Transit Technical Studies Grants FY14	107404	20.505	<u>132,221</u>	<u>100,140</u>
Subtotal by CFDA Number			<u>228,435</u>	<u>116,252</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>\$ 1,958,929</u></u>

See Accompanying Note to Schedule of Expenditures of Federal Awards.

MISSOULA URBAN TRANSPORTATION DISTRICT
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the same basis of accounting as described in Note 1 of the Notes to Financial Statements. The information include in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

MISSOULA URBAN TRANSPORTATION DISTRICT
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	Fixed Route	ADA Comparable Paratransit	General and Administrative	Total June 30, 2014
Wages and Fringe				
Operations	\$ 1,843,747	\$ 424,251	\$ -	\$ 2,267,998
Maintenance	412,625	7,385	-	420,010
Administration	-	-	537,780	537,780
Other Postemployment Benefit	11,198	2,717	3,658	17,573
Training	11,796	197	833	12,826
Professional/Technical	-	-	234,616	234,616
Maintenance	25,002	-	37,014	62,016
Fuel/Tires/Lubricants	474,669	42,706	-	517,375
Materials/Supplies	112,942	12,016	29,099	154,057
Utilities	34,727	4,490	37,670	76,887
Insurance	171,074	38,772	4,438	214,284
Promotion	-	-	72,731	72,731
Travel	1,847	-	18,425	20,272
Taxes/Dues/Subscriptions	-	-	10,673	10,673
Depreciation	786,720	49,379	409,771	1,245,870
Miscellaneous	4,040	-	8,127	12,167
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 3,890,387</u>	<u>\$ 581,913</u>	<u>\$ 1,404,835</u>	<u>\$ 5,877,135</u>
	66.20%	9.90%	23.90%	100.00%

MISSOULA URBAN TRANSPORTATION DISTRICT
SCHEDULE OF FUNCTIONAL EXPENSES (CONTINUED)
For the Year Ended June 30, 2013

	Fixed Route	ADA Comparable Paratransit	General and Administrative	Total June 30, 2013
Wages and Fringe				
Operations	\$ 1,817,963	\$ 412,734	\$ -	\$ 2,230,697
Maintenance	395,755	7,401	-	403,156
Administration	-	-	423,259	423,259
Other Postemployment Benefit	12,137	2,195	2,405	16,737
Training	20,320	223	401	20,944
Professional/Technical	-	-	229,205	229,205
Maintenance	37,781	-	27,913	65,694
Fuel/Tires/Lubricants	476,029	40,277	-	516,306
Materials/Supplies	96,745	6,495	28,623	131,863
Utilities	46,854	3,898	19,082	69,834
Insurance	157,568	34,396	5,326	197,290
Promotion	-	-	159,373	159,373
Travel	488	-	14,495	14,983
Taxes/Dues/Subscriptions	-	-	5,260	5,260
Depreciation	759,944	38,173	376,523	1,174,640
Miscellaneous	4,857	277	4,706	9,840
Totals	<u>\$ 3,826,441</u>	<u>\$ 546,069</u>	<u>\$ 1,296,571</u>	<u>\$ 5,669,081</u>
	67.50%	9.63%	22.87%	100.00%

SINGLE AUDIT SECTION

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

Board of Directors
Missoula Urban Transportation District
Missoula, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Missoula Urban Transportation District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
December 17, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Missoula Urban Transportation District
Missoula, Montana

Report on Compliance for the Major Federal Program

We have audited Missoula Urban Transportation District's (the District) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2014. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 District'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anderson Zurmuehlen Co., P.C.

Missoula, Montana
December 17, 2014

MISSOULA URBAN TRANSPORTATION DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section.510 (a)?	No

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.507 and 20.500	Federal Transit Cluster, Department of Transportation

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

MISSOULA URBAN TRANSPORTATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2014

Section II – Financial Statement Findings

None reported.

Section III – Federal Awards Findings and Questioned Costs

None reported.

Summary Schedule of Prior Audit Findings

The prior audit report contained no findings.



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

www.azworld.com