STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

RICK SNYDER
GOVERNOR

KIRK T. STEUDLE
DIRECTOR

October 5, 2016

To: Transit Agencies and Certified Public Accountants Performing Public Transportation Audits

Subject: FY 2016 Audit Information for September 30th Year End

Audits completed for transit agencies with a local year end of September 30, 2016, must be submitted to the Office of Passenger Transportation (OPT) by March 31, 2017. It is preferred that the audit is uploaded to the Treasury's website at: http://michigan.gov/treasury/0,1607,7-121-1751_31038---,00.html

A hard copy of the audit (and management letter) may be mailed to: Trish D'Itri, Auditing Specialist, Michigan Department of Transportation, Office of Passenger Transportation/B425, P.O. Box 30050, Lansing, Michigan 48909.

The audit must comply with the Audit Guide for Transportation Authorities (Audit Guide), and the supplemental information provided in this letter. The Audit Guide and this letter can be located at: http://www.michigan.gov/mdotptd. Scroll down to the "Resources," and click on the drop down arrow associated with "Select a Resource." Select "Audit/Accounting Information," and click "go."

Reimbursement Percentages for Federal and State Operating Assistance

The calculation of Federal Section 5311 and Act 51 Operating Assistance is explained on page 30 of the Audit Guide. The reimbursement percentages for FY 2016 are:

- 18.5 percent for Federal Section 5311
- 35.7560 percent for Act 51 Non-urbanized areas (based on budget)
- 29.0011 percent for Act 51 Urbanized areas (population over 100,000, based on budget)

Federal Transit Administration (FTA) Apportionments and Allocations

This information can be accessed at: http://www.michigan.gov/mdotptd. Scroll down to "Program & Data," and click on the drop down arrow associated with "Select a Link." Select "Program Data," click "Go," then scroll down to the "Federal Apportionments" section at the bottom of the page.

Retroactive Change to the FY 2016 Local Public Transit Revenue and Expense (R&E) Manual

In the attached letter dated September 23, 2015, OPT adopted the MERS GASB 68 Implementation Guide as the standard to calculate defined benefit pension expense for the purpose of 41101 State Operating Assistance reimbursement, and made this change retroactive to the FY 2016 R&E Manual.

Upon the implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, expenses associated with other postemployment benefits (OPEB) are calculated pursuant to the MERS GASB 68 Implementation Guide for pension.

Other Audit Requirements

A. Assurances:

The annual audit must contain a statement for each subject listed below:

- Cost Allocation Plans
- Nonfinancial Methodology
- Capital Funds Used to Pay for Operating
- Depreciation
- Expenses associated with PTMS codes 406 & 407
- Retirement Benefits

Each of the six statements must either: (1) provide an assurance that the transit agency is in compliance with the requirements of the Local Public Transit R&E Manual and the Audit Guide, or (2) identify how the transit agency is not in compliance. The attachment to this letter provides various examples as to how the assurances can be worded to accurately report the transit agency's (non) compliance.

Optional Assurances that can be given in lieu of detail required by the R&E Manual

The R&E Manual requires:

1. Federal (PTMS code 41313) and State (PTMS code 41113) "Capital Contract Reimbursement for Administrative Expenses" revenue codes to be identified separately by Federal grant(s), State contract and authorization number(s). In lieu of listing Federal and State grants/contracts separately, a lump sum amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the Federal and State revenues have been properly subtracted from total expenses as ineligible under PTMS code 57603 Ineligible Administrative Expense Paid by Capital Contract.

2. Miscellaneous revenue to be itemized and explained such that ineligible expenses associated with the miscellaneous revenue can be identified. In lieu of itemizing and explaining, a lump sum "miscellaneous revenue" amount may be reported in the annual audit along with an assurance that any ineligible expenses associated with the miscellaneous revenue have been properly subtracted from total expenses as ineligible.

B. Schedule 3 "Operating and Contract Expenses":

1. Expenses associated with operating contracts must be shown separately by grant/contract and by year as illustrated below.

	MI-95-X481 02-0049-Z27 FY 2016 §5307/JARC	MI-95-X016 02-0049-Z20 FY 2015 JARC	MI-95-X381 02-0049-Z5 FY 2014 NF	Total
Expenses:				
Labor	$29,400	$23,259	$39,300	$169,897
Fringes	$14,036	$15,450	$23,903	$101,141
Tires	______	______	______	$ 10,716
Depreciation				
Total Operating Expenses	**$43,436**	**$38,709**	**$63,203**	**$281,754**

2. Do not lump similar contracts together. Unfortunately, the example of Schedule 3 provided on page 27 of the revised Audit Guide does not properly label each individual operating contract by its contract and authorization number. This example also does not illustrate operating contracts that are executed yearly with an expiration date of greater than one year (e.g., §5307). This inadequate example may inappropriately indicate that operating contracts may be lumped together by category (e.g., §5307, Job Access Reverse Commute (JARC)) and reported as a single amount.

C. Schedule 2 "Expenditures of Federal and State Awards":

The expenditure information on Schedule 2 "Expenditures of Federal and State Awards" (SEFA) is used in MDOT's review of operating and capital contracts. Both Federal and State funding must be included on this schedule with the information provided being consistent with both the fixed assets and revenues in the financial statements.

PLEASE NOTE: MDOT verifies the amounts reported on this schedule with its internal Record of Payments and the payables reported by the transit agency. Each transit agency is sent MDOT's Record of Payments for Federal and State disbursements for the 12 months ending September 30, 2016. In order to minimize the need for inquiry after the annual audit has been promulgated, please footnote any discrepancies between the amounts reported on: (1) the SEFA, and (2) MDOT's Record of Payments and recorded payables.

The website for the Catalog of Federal Domestic Assistance (CFDA) is on page 8 of the Audit Guide. This page also includes a summary of common transit CFDA numbers.

D. New Capital Programs:

1. Section 5337 – State of Good Repair Program

   This new grant program maintains public transportation systems in a state of good repair. It replaces the fixed guideway modernization program (Section 5309). Funding is limited to fixed guideway systems (including rail, bus rapid transit, and passenger ferries) and high intensity bus (high intensity bus refers to buses operating in high occupancy vehicle (HOV) lanes).

2. Section 5339 – Bus and Bus Facilities Program

   This new formula grant program replaces the previous Section 5309 discretionary Bus and Bus Facilities program. It provides funding to replace, rehabilitate, and purchase buses and related equipment, and to construct bus-related facilities.

E. Operating Assistance Report (OAR):

Revenues and expenses must be properly reported on each of the required OARs.

1. OARs for JARC (§5307, §5311, or §5316) and New Freedom (NF) (§5310 or §5317) Activities

   The Revenue Schedule *(OAR Schedule 4R):*

   The most common revenue codes for JARC and NF include:

   - *40100 Passenger Fares.* Fares earned for the Federal Section 5316 JARC and Federal Section 5317 NF cannot be used as local match and must be subtracted out as ineligible under 55000 Ineligible JARC and NF Fares. If farebox is not collected/recorded separately for each individual operating program (e.g., Formula, JARC, NF, Specialized Services), then the allocation of farebox must be included in the JARC and/or NF OPT approved cost allocation plan.

   The NF Program has the option to treat revenue from contracts to provide human service transportation (not paid on a per passenger basis) as: local match or a reduction to Total Eligible Expenses. The way the revenue is treated affects the calculation of the total eligible expenses, and therefore, the amount of NF operating assistance. This option allows a transit agency short on local funding a means to participate in the NF program.

In the following examples: The NF program has total operating expenses of $450,000. Revenues include: 40100 Passenger fares of $42,000, and 40950 Local Service /Local Source contract of $100,000.

Example 1 - Option to use local service contract as local match: This method maximizes the amount of NF total eligible expenses; however, the local share requirement is greater. Because $100,000 of the local share is from contract revenue, the additional local share requirement is $104,000 and the total eligible expense is maximized at $408,000.

Example 2 - Option to use local service contract to reduce eligible expenses: This method reduces the amount of NF total eligible expenses, but also reduces the total local share requirement. The total local share requirement is $154,000 and the total eligible expense is decreased to $308,000.

Calculation of Federal and Local Share	*Example 1* *Contract Revenue Used as Local Match*	*Example 2* *Contract Revenue Used to Reduce Total Eligible Expense*
Total (Operating) Expenses	*$450,000*	*$450,000*
Revenue from Human Service Contracts:		
55000 Ineligible JARC and NF Fares		
(also reported in: 40100 Passenger fares	*$ 42,000*	*$ 42,000*
Plus:		
Total Eligible Expense	*$408,000*	*$308,000*
Project Funding:		
Federal Share	*$204,000*	*$154,000*
Local Share required	*$204,000*	*$154,000*
Local Funds	*$104,000*	*$154,000*
Human Service Agency Contract	*$100,000*	

- *41399 Other Federal Transit Contracts.* JARC and NF funds reimburse 50 percent of JARC and NF net deficit up to the contract maximum. Net deficit is defined as total eligible operating expenses less 40100 Passenger fares (which may include all or a portion of fares received from human service agencies – see above).

- *43000 Contributed Services.* Contributed Services is eligible to be counted toward local match for NF provided the source of the contributed service is approved by OPT along with any methodology to allocate the contributed service. Non-cash sources such as donations, volunteered services, or in-kind contributions are eligible to be counted toward the local match as long as: (1) the value of each is documented and supported, (2) the cost represents an otherwise eligible expense under the program, (3) the net project costs are included in the budget, and (4) the source has been approved by OPT along with any allocation methodology.

Other examples of sources of local match include: local appropriations; other non-Department of Transportation Federal funds; dedicated tax revenues; private donations; revenue from human service contracts; and net income generated from advertising and concessions.

The Expense Schedule *(OAR Schedule 4E):*

JARC and NF expenses (and possibly revenues) must be:

- Allocated in accordance with an OPT approved cost allocation plan; and

- Reported separately, by contract, on Schedule 3 "Operating and Contract Expenses." Refer back to Paragraph B.

2. Specialized Services OARs

Each annual audit must contain a Specialized Services OAR if the transit agency:

- Is the direct recipient of both Specialized Services and State Operating Assistance funds; and

- Actually provides the service or expenses pass-through funds on its books.

The Revenue Schedule *(OAR Schedule 4R):*

The most common revenue code for Specialized Services is *41199 other MDOT/OPT Transit Contracts.*

The Expense Schedule *(OAR Schedule 4E):*

Specialized Services expenses must be:

- Allocated in accordance with an OPT approved cost allocation plan if the transit agency provides the service. An OPT approved cost allocation plan is required even if the transit agency only acts in a pass-through capacity. This pass-through cost allocation plan must state:

  (a) Whether or not the pass-through funds are expenses on the transit agency's books.

  (b) That none of the program funds are used to pay for the administrative costs of the organization acting as a pass-through agency.

- Reported separately, by contract, on Schedule 3 "Operating and Contract Expenses." Refer back to Paragraph B.

- When a transit agency is hired by a Specialized Services subrecipient to provide service, a cost allocation plan is not required. The transit agency only has to subtract out the revenue received from the Specialized Services subrecipient as ineligible on both: (1) OAR Schedule 4E (e.g., page 33 of the Audit Guide for an urban agency and page 37 for a nonurban agency), and (2) Schedule 5 "Operating Assistance Calculation" (page 40 of the Audit Guide).

3. Regular Service OARs

Cost overruns on JARC, NF, and Specialized Services may be reported on the Regular Service OAR. Enough JARC, NF, and Specialized Services expenses should be reported on the appropriate OAR to ensure full reimbursement under the contract. Any additional expenses not reimbursed by contract are eligible for State Operating Assistance, and should be reported on the Regular Service OAR.

Ineligible Expenses Reported on OAR Schedule 4E and Schedule 5 "Operating Assistance Calculation"

Ineligible expenses are explained in the FY 2016 R&E Manual dated October 1, 2015, through September 30, 2016. When reporting 50220 DB Pensions and the associated 58020 Ineligible DB Pension expense, consult the attached letter dated September 23, 2015.

The FY 2016 R&E Manual is located at: http://www.michigan.gov/mdotptd. Scroll down to "Resources," and click on the drop down arrow associated with "Select a Link." Select "Audit/Accounting Information," and click "Go."

Specifically note the following with regard to ineligible expenses.

A. Lobbying and Association Dues:

All expenses associated with lobbying are ineligible and should be subtracted out under 58005 Ineligible Lobbying Expense.

If a transportation organization incurs lobbying expenses, a percentage of dues paid to that organization is not eligible and should be subtracted out under 55009 Ineligible Percentage of Association Dues. The percentages of association dues ineligible for reimbursement under the State Operating Assistance Program and Section 5311 Operating Assistance Program are:

	FY 2016
APTA	18.9 percent
MassTrans	6.4 percent
MPTA	24.7 percent

B. Expenses paid by a Specialized Services subrecipient with funds that originated from OPT (refer back to Paragraph E.2) are ineligible, and must be subtracted out as ineligible under 55004 Other Ineligible State Contracts.

C. Capital money (e.g., Section 5307, Section 5309, Section 5310, and Section 5311) used to pay for operating expenses is ineligible.

   Please note: Small urban transit agencies and some large urban transit agencies may use Section 5307 Operating (see code 41302 on page 12 of the FY 2016 R&E Manual) to fund up to 50 percent of a transit agency's net deficit. These Section 5307 funds do not need to be subtracted out as ineligible. Net deficit is defined as total eligible operating expenses less 40100 Passenger Fares.

Additional Requirements and Information:

After the FY 2016 annual audit has been either submitted to OPT or posted to the Treasury's website, the transit agency has up to 30 days in which to notify OPT of any inaccuracies in the FY 2016 annual audit. Thirty days of silence means that the transit agency has reviewed the submitted/posted FY 2016 annual audit and certifies that:

A. The transit portion of the audit: (a) is correct, and (b) complies with the Audit Guide (which means, in part, that the transit manager has verified that all of the required statements in Paragraph A on page 2 are present and accurately report the transit agency's level of compliance).

B. All ineligible expenses, as defined by the R&E Manual and the attached letter dated September 23, 2015, are properly reported and properly subtracted out as ineligible.

Transit agencies that expend more than $750,000 in Federal funds must submit a copy of their Single Audit to the Federal Audit Clearinghouse. The Single Audit can be uploaded at: https://harvester.census.gov/facweb/default.aspx/

A hard copy can be put in the U.S. mail to:

Federal Audit Clearinghouse*
1201 East 10th Street
Jeffersonville, Indiana 47132
*No contact person necessary

If the audit contains an audit finding and/or a status of prior audit findings relating to a Federal award, a copy of the annual audit must be sent to:

Matthew Dietrich, Financial Analyst
Federal Transit Administration
200 West Adams Street, Suite 320
Chicago, Illinois 60606

OPT reviews and approves all cost allocation plan methodologies. To verify that the transit agency has an approved cost allocation plan, visit our website at: http://www.michigan.gov/mdotptd. In the "Resources" box, click on "Audit/Accounting Information." Then click on "cost allocation listing." This listing is updated periodically. It is possible that a transit agency's cost allocation plan was approved since the last listing was posted. If you have any questions about cost allocation plans, please contact Sandy Lovell, Accountant, at (517) 335-2525 or at lovells@michigan.gov.

Please contact Trish D'Itri, Auditing Specialist, at ditrit@michigan.gov or at (517) 335-2535 with questions or if you need information from the website mailed to you.

Sincerely,

Sharon L. Edgar, Administrator
Office of Passenger Transportation

Enclosures

RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

September 23, 2015

To: Act 51 Transit Agencies that Incur Pension Expense based on Actuarial Reports

Subject: Calculating and Reporting Pension Pursuant to GASB 68 and GASB 71

In June 2015, the Governmental Accounting Standards Board (GASB) issued "GASB 71" *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* "GASB 68" *Accounting and Financial Reporting for Pensions* is effective for fiscal years beginning after June 15, 2014. In response to the issuance of these GASBs, Michigan Employees' Retirement System (MERS) issued the "GASB 68 Implementation Guide" which incorporates the GASB 71 requirements. The Implementation Guide provides guidance to prepare financial statements, and gives examples to construct schedules, journal entries, note disclosures, and other required supplementary information. This Implementation Guide, issued based on different local year-ends, is located at http://www.mersofmich.com/Employer/Work-Scenarios/GASB-68.

GASB 71 is the latest of several statements that were issued after the Office of Passenger Transportation (OPT) issued its Local Public Transit Revenue and Expense Manuals (R&E Manual). The Comprehensive Transportation Fund (CTF) Administrative Rules requires the R&E Manual to be promulgated annually and finalized for inclusion in the annual application process. Essentially, this means that the drafting of each R&E Manual occurs approximately two years prior to its use. This early issue date complicates OPT's efforts to timely incorporate changes required by the GASB statements. Because of the complexity of the GASB statements, the significance of the dollar amount associated with pension costs, and the paramount importance to treat all transit agencies statewide equally, OPT has decided to: (1) adopt the MERS GASB 68 Implementation Guide as the standard for calculating defined benefit pension expense, and (2) make the change retroactive to the FY 2015 and FY 2016 R&E Manual.

Calculating 50220 DB Pension Expense

All transit agencies, whether a member of MERS or not, must calculate 50220 DB Pension expense pursuant to the methodology in the MERS GASB 68 Implementation Guide. The Table of Contents to the Implementation Guide identifies the six steps required to calculate an accrual-based pension expense:

Step 1: Calculate Interest on Total Pension Liability
Step 2: Calculate Net Pension Liability
Step 3: Calculate the Recognition of Experience & Assumption Changes
Step 4: Calculate the Projected Investment Return & Recognition of Investment Gain or Loss
Step 5: Update the Deferred Outflows and Inflows Spreadsheet
Step 6: Calculate Pension Expense

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Pension expense reported in 50220 DB Pension must agree with the "Total Pension Expense recognized" as calculated in STEP 6. If the uniqueness of a particular non-MERS defined benefit pension plan requires deviating from the MERS methodology, prior written approval is required by OPT. Pension expense not calculated pursuant to the MERS Implementation Guide and/or without the written approval of OPT are not eligible for 41101 State Operating Assistance reimbursement.

A transit agency is entitled to 41101 State Operating Assistance reimbursement for its entire 50220 pension cost when the cost is both expensed on the books and actually paid (e.g., an out-of-pocket payment). Pension costs expensed on the books but not paid must be subtracted out under 58020 Ineligible DB Pensions. This ineligible pension expense can be "tracked" and is eligible for 41101 State Operating Assistance reimbursement in the year paid. When paid, the payment amount is reported as a *negative* ineligible expense in 58020 Ineligible DB Pensions. Contributions made in excess of the calculated pension expense[1] can also be "tracked" and then matched to pension expense incurred in a subsequent year. This matching of unpaid pension expense in one year with an excess pension payment from another year is only permitted if the CPA audit tracks these amounts in a schedule reported in the Notes to the Financial Statements.

Reporting for Quarterly and Reconciled OARs

The information necessary to calculate the six-step accrual-based pension expense may not be available until the end of the third fiscal quarter (e.g., June 30th). Until the requisite information is available, quarterly reporting of 50220 DB Pension expense should equal the amount of pension contributions actually *paid* in that quarter necessary to cover the estimated pension expense. Because pension expense is only eligible to the extent paid, reporting quarterly pension expense on a cash basis produces the most reliable number for quarterly reporting purposes. When the information becomes available, the annual accrual-based pension expense calculated pursuant to the six-step process should be reported on the reconciled OAR and equitably prorated on the third and fourth quarterly OARs taking into consideration the "cash-based" pension expense reported in the first two quarters. The proration to "reconcile" the third and fourth quarters with the first two quarters should not create a large discrepancy causing a "reporting" hardship or windfall. However, if such occurs, it will be addressed on an individual basis.

Annual CPA Audit Requirements

1. The MERS Implementation Guide states:

> Net Pension Liability does not necessarily need to have its own line in your financial statements; this determination will depend on the size of the liability relative to other items on your financial statements.

In order for pension expense to be eligible for 41101 State Operating Assistance reimbursement, the Net Pension Liability number must have its own line in the financial statements. For disclosure and reporting purposes, GASB may not require its own separate line, but for reimbursement purposes, OPT does require it. The

[1] Again, that being "Total Pension Expense recognized" as calculated in STEP 6 of the MERS GASB 68 Implementation Guide.

presentation of the calculation of pension expense in the financial statements must be detailed such that OPT can verify the pension calculation required by the GASB 68 and MERS Implementation Guide.

2. For a transit agency to be eligible to match an unpaid pension expense in one year with an excess contribution paid from another year, the annual CPA audit must contain a schedule in the Notes to the Financial Statements that track: (1) pension costs expensed on the books, but not paid, and subtracted out under 58020 Ineligible DB Pensions, and (2) contributions made in excess of the calculated pension cost that has yet to be expensed on the books. OPT's policy to allow the matching of unpaid pension expense in one year with an excess pension payment from another year adds complexity to an already difficult calculation. Thus, such matching is only permitted if the annual CPA audit maintains a tracking schedule in the Note to the Financial Statements.

3. If the transit agency participates in a county or city-wide pension/OPEB plan, the transit portion must be broken out and reported separately in the transit portion of the annual CPA audit.

The possibility exists that different entities will have different year-ends. For example, a transit agency with a June 30th local year-end uses actuarial information based on a measurement date ending December 31st when OPT requires reporting on a September 30th year end. Under this scenario, a transit agency may choose a 12-month period to report retirement expenses and the associated ineligibles provided the same 12-month period is consistently applied year after year.

The accounting for retirement benefits is complex with its methods of measurement and recognition. Complying with GASB's reporting and disclosure pronouncements should not undermine the intent of Public Act 51 of 1951, as amended, which is to reimburse actual expenses incurred for public transportation purposes. If upon receipt of this letter, the 2015 CPA audit is substantially complete such that incorporating the required schedules would delay the issuance of the audit, please contact Trish D'Itri, Auditing Specialist, at ditrit@michigan.gov or at (517) 335-2535, to make arrangements to submit the required schedules separately.

If you have any questions or need assistance, please contact Trish.

Sincerely,

Sharon L. Edgar, Administrator
Office of Passenger Transportation

Examples of Assurances

Listed below are examples of possible wording to be used when giving the required assurances. Most important is that the assurance actually reflects the present circumstances of the transit agency.

□ Cost Allocation - **2 part** Assurance (Identify by Name & Adherence) – **both parts are required:**

Example 1:

The transit agency has two cost allocation plans (gasoline purchase and administrative costs) where the methodology has been approved by the Office of Passenger Transportation (OPT). These cost allocation plans were adhered to in the preparation of the financial statements.

Example 2:

The transit agency has prepared a JARC cost allocation plan that has yet to be approved by OPT. Although not yet approved by OPT, the JARC cost allocation plan was adhered to in the preparation of the financial statements.

Example 3:

No OPT approved cost allocation plans are required, and therefore, none were used in the preparation of the financial statements.

If an approved cost allocation plan is not used during the applicable financial period, do not list it.

□ Nonfinancial Methodology:

Example 1:

The methodology used for compiling miles for regular service has been reviewed and the recording method has been found to be adequate and reliable.

Example 2:

The methodology used for compiling miles for regular service and JARC service has been reviewed and the recording method has been found to be adequate and reliable.

□ Depreciation:

Example 1:

Depreciation expense included as eligible only includes assets purchased with local funds where the useful life of the asset was determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by OPT.

Example 2:

The depreciation expense reported in 51300 equals the ineligible depreciation reported in 55007. Therefore, the depreciation assurance regarding approval of useful life is not required.

Example 3:

Eligible depreciation includes assets purchased with local funds prior to 2012 where the useful life was not approved by OPT. Since 2012, the transit agency has not purchased any assets with local funds. The depreciation of any future assets purchased with local funds will not be included in eligible depreciation unless the useful life of the asset is determined pursuant to Appendix A of the Local Public Transit Revenue and Expense Manual or approved by OPT.

If there are no useful life approvals on file with OPT, then the assurance should not state that "the useful life of the asset has been approved by OPT."

□ Capital Used to Pay for Operating:

Example 1:

Operating expenses of $x,xxx were subtracted out as ineligible under 57604 "Other Ineligible Operating Expense paid by Capital Contract" because these expenses were paid for with capital funds. No other operating expenses were paid for with capital funds.

Example 2:

No operating expenses are subtracted out as ineligible because no capital money was used to pay for operating expenses.

□ Expenses Associated with 406 & 407:

Example 1:

All expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Non-transportation is subtracted out as ineligible under [then list the appropriate ineligible code] (e.g., 55010 Other Ineligible Expenses Associated with Auxiliary and Nontransportation Revenue, 56002 Ineligible Expenses Associated with Advertising Revenue, 56001 Ineligible Expenses Associated with the Sale of Maintenance Service, 56004 Ineligible Expenses Associated with Rentals, or 55008 Other Ineligible Expenses).

Example 2:

There are no expenses associated with 406xx Auxiliary Transportation Revenue and/or 407xx Non-transportation, and therefore, no expenses need to be subtracted out as ineligible. No expenses were incurred because [provide an explanation].

□ Retirement Benefits:

Example 1:

The only retirement benefit offered by the transit agency is a defined contribution plan. The entire amount of $xx was expensed on the books and reported in 50210 DC Pensions. The entire sum of $xx was paid (e.g., an out of pocket payment), and therefore, no DC pension expense is subtracted out under 58010 Ineligible Benefits. The transit agency did not incur, nor pay, any 50202 OPEB.

Example 2:

The transit agency offers three pension compensation plans: a 457 defined contribution, a 401(k) Profit Sharing Plan and Trust, and a defined benefit Transportation Workers Pension Trust: Pension costs incurred for the 457 and 401(k) were $x,xxx and $y,yyy, respectively. These amounts were expensed on the books and reported in 50210 DC Pensions. The entire sum of $z,zzz ($x,xxx + $y,yyy) was paid (e.g., an out of pocket payment) and therefore, no DC pension is subtracted out under 58010 Ineligible Benefits.

Pension costs incurred for the Transportation Workers Pension Trust were calculated pursuant to the MERS GASB 68 Implementation Guide. The total pension expense recognized as calculated in STEP 6 of the guide is $u,uuu. The entire amount of $ u,uuu was expensed on the books and is reported in 50220 DB Pensions. The transit agency paid (e.g., an out of pocket payment) $v,vvv, therefore, $w,www ($u,uuu less the amount paid) is subtracted out under 58020 Ineligible DB Pension.

Example 3:

The transit agency incurred $a,aaa in 50202 Other Post-Employment Benefits (OPEB) and expensed the entire amount on its books. Of the $a,aaa incurred, $bbb was paid. Therefore, $c,ccc ($a,aaa - $bbb) was subtracted out as ineligible under 58030 Ineligible OPEB.

Upon the implementation of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, expenses associated with other postemployment benefits (OPEB) are calculated pursuant to the MERS GASB 68 Implementation Guide for pension.