

Kansas City Area Transportation Authority

Report to the Board of Commissioners
April 12, 2016





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April 12, 2016

Board of Commissioners
Kansas City Area Transportation Authority
Kansas City, Missouri

We are pleased to present this report related to our audit of the basic financial statements of the Kansas City Area Transportation Authority (the Authority) for the year ended December 31, 2015. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Authority's financial reporting process.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Kansas City Area Transportation Authority.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<p>Our Responsibilities With Regard to the Financial Statement Audit</p>	<p>Our responsibilities under auditing standards generally accepted in the United States of America, <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, and provisions of OMB's <i>Compliance Supplement</i> have been described to you in our arrangement letter dated February 10, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.</p>
<p>Overview of the Planned Scope and Timing of the Financial Statement Audit</p>	<p>We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.</p>
<p>Accounting Policies and Practices</p>	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. In the current year, the Authority adopted the following Governmental Accounting Standards Board (GASB) Statement:</p> <ul style="list-style-type: none"> • GASB Statement No. 68, <i>Financial Reporting for Pension Plans</i>. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplemental information (RSI). <p>As a result of implementing this Statement, the Authority reduced beginning net position by \$15.4 million, in order to record the net pension liability for both the salaried and union pension plans.</p>

Area	Comments
	<p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Accounting Pronouncements	Please refer to Note 12 of the financial statements for new accounting pronouncements that have been recently issued that may affect the Authority's financial reporting in future periods.
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	We have separately issued a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements, as required by the <i>Government Auditing Standards</i> . This communication is included within the Authority's December 31, 2015 compliance report.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Authority, including the representation letter provided to us by management, are attached as Exhibit A.

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the Authority's December 31, 2015 basic financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Depreciable Life of Capital Assets	The depreciable useful life of capital assets is set at the estimated useful life of the related asset.	The determination is made at the time the asset is placed into service and involves various judgments and assumptions based on prior experience.	We tested the propriety of information underlying management's estimates. Based on our procedures, we concluded that management's estimates are reasonable.
Other Postemployment Benefit Plan (OPEB) Assumptions	The Authority has an actuarial valuation performed to determine the annual required contribution. Any difference between the annual required contribution and actual contribution made is recorded as an asset or obligation in the financial statements of the Authority.	The Authority utilizes the services of an actuary to determine the Authority's Annual Required Contribution. Management and the actuary determine the appropriateness of the actuarial assumptions to be utilized. The actuary then performs the calculation, which is reviewed and approved by management of the Authority.	We obtained actuarial calculation reports and concluded the estimates and the process used by management are reasonable.
Legal Contingencies	Accruals for litigation are recorded when management has determined an obligation is probable and an amount can be reasonably estimated.	The Authority consults outside legal counsel to evaluate outstanding litigation, claims and assessments.	We received information about litigation, claims and assessments from the Authority's outside counsel. We believe the estimates and processes used by management of the Authority are reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Accrued Sick Leave	Fifty percent of any unused sick leave is paid at the time of retirement or death for eligible employees. The Authority uses the Termination Payment Method based on GASB Statement No. 16, <i>Accounting for Compensated Absences</i> . The estimated amount to be paid to employees at the time of retirement or death is recorded as a compensated absence liability.	The Authority uses past experience from the prior five years to determine accrued sick leave.	We tested the propriety of information underlying management's estimates. Based on our procedures, we concluded that management's estimates are reasonable.
Fair Value of Investments	The Authority records its investments at fair value.	Investment securities are based on quoted market prices.	We tested the proprietary of information underlying management's estimates, including the use of a third-party independent pricing source. Based on our procedures, we conclude that management's estimate is reasonable.
Worker's Compensation and Vehicular Liability Loss Reserve	The Authority records an estimated reserve for worker's compensation and vehicular liability based upon year-end computations performed by an actuary and include numbers assumptions and estimates.	The assumption factors include funding provisions, undiscounted mean loss and loss adjustment expense reserves. These factors are based upon historical and general market data.	We tested the information provided to the actuary. We believe the process used by management and the estimates are reasonable.
Net Pension Liability	The Authority's net pension liability and related deferred inflows and outflows of resources and pension expenses from participating in single employer pension plans are recorded in the financial statements in accordance with GASB Statement No. 68.	The Plans use an actuary to calculate the net pension liability and expense based on assumptions and estimates established by the Plans' Boards and management from past history and investment returns. Authority's management reviews the actuarial results and considers the appropriateness of the assumptions used by the Plans.	We analyzed management's methodology, tested the underlying data, obtained the calculation and actuarial report and had an internal specialist review the significant assumptions and conclusions. We concluded that the process used by management and the estimates are reasonable.

Exhibit A—Significant Written Communications between Management and Our Firm

April 12, 2016

RSM US LLP
4801 Main Street, Suite 400
Kansas City, MO 64112

This representation letter is provided in connection with your audits of the basic financial statements of Kansas City Area Transportation Authority (the Authority) as of and for the years ended December 31, 2015 and 2014 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of April 12, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 10, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. There are no subsequent events to that date of the financial statements and for which U.S. GAAP requires adjustment or disclosure.
6. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
7. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Restrictions on cash balances.
 - b. Net position classifications.

- c. Expenses and revenues have been appropriately classified.
 - d. Future changes in accounting pronouncements for GASB Statement Nos. 72, 75, 79 and 82, which have been issued, but which have not yet been adopted. GASB Statement Nos. 73, 74, 76, 77, 78 and 81 are not disclosed in the financial statements since the pending standards are not expected to significantly impact the Authority's financial statements.
- 8. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, or to special assessment bond holders.
 - 9. We agree with the findings of specialists in evaluating Other Postemployment Benefits under GASB Statement No. 45, pension related obligations and disclosures, and self-insurance liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
 - 10. We have complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance.
 - 11. We have no knowledge of any uncorrected misstatements in the financial statements.
 - 12. We believe the implementation of GASB Statement Nos. 68 and 71 are appropriate and their effect, if any, is properly disclosed in the basic financial statements to the Authority.
 - 13. We believe the Kansas City Area Transportation Authority Union Employees' Funded Pension Plan is properly excluded from the Authority's reporting entity due to the Authority not performing investment functions and not having significant administrative involvement.

Information Provided

- 14. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
 - d. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 15. All transactions have been recorded in the accounting records and are reflected in the financial statements.

16. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
17. We have no knowledge of allegations of fraud or suspected fraud affecting the Authority's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
18. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements received in communications from employees, former employees, analysts, regulators or others.
19. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
20. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
21. We have disclosed to you the identity of the Authority's related parties and all the related-party relationships and transactions of which we are aware.
22. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's ability to record, process, summarize and report financial data.
23. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
24. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

25. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

- d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
26. With respect to management's discussion and analysis, pension and postemployment information presented as required by GASB to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

Compliance Considerations

27. In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:
- a. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - b. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
 - c. Has identified and disclosed to the auditor there are no instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
 - d. Has identified and disclosed to the auditor there are no instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
 - e. Has identified and disclosed to the auditor there are no instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.
 - f. Is responsible for 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.
 - g. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
 - h. Has a process to track the status of audit findings and recommendations.

- i. Has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.
 - j. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.
28. In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we confirm:
- a. Management is responsible for complying, and has complied, with the requirements of Uniform Guidance.
 - b. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
 - c. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.
 - d. Management has prepared the schedule of expenditures of federal awards in accordance with Uniform Guidance and has included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance.
 - e. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance compliance audit.
 - f. Management has identified and disclosed to the auditor the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
 - g. Management has made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
 - h. Management has identified and disclosed to the auditor there are no amounts questioned or known noncompliance with the direct and material compliance requirements of federal awards.
 - i. Management believes that the auditee has complied with the direct and material compliance requirements.

- j. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Management has provided to the auditor there are no interpretations of any compliance requirements that are subject to varying interpretations.
- l. Management has disclosed to the auditor there are no communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- m. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- n. Management has provided the auditor with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- o. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stating that there were no such known instances.
- p. We are not aware of any changes in internal control over compliance or other factors that might significantly affect internal control that have occurred subsequent to the period covered by the auditor's report.
- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- r. The copies of federal program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- s. Management has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- t. If applicable, management has issued management decisions for audit findings that relate to federal awards it makes to subrecipients and that such management decisions are issued within six months of acceptance of the audit report by the FAC. Additionally, management has followed up to ensure that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews and other means that pertain to the federal award provided to the subrecipient from the pass-through entity.
- u. Management has considered the results of subrecipient monitoring and audits, and has made any necessary adjustments to the auditee's own books and records.

- v. Management has charged costs to federal awards in accordance with applicable cost principles and the Uniform Guidance.
- w. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance.
- x. The reporting package does not contain protected personally identifiable information.
- y. Management will accurately complete the appropriate sections of the data collection form.

Kanas City Area Transportation Authority



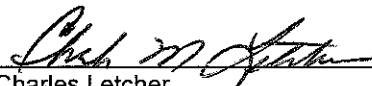
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President/CEO



Michael Graham,
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Charles Letcher,
Senior Manager of Finance

