Ann Arbor Transportation Authority

Financial Statements as of and for the Years Ended September 30, 2011 and 2010 and Additional Information for the Year Ended September 30, 2011, Independent Auditors' Reports Required by the Office of Management and Budget Circular A-133 and Supplemental Schedule of Expenditures of Federal Awards for the Year Ended September 30, 2011, and Independent Auditors' Reports

ANN ARBOR TRANSPORTATION AUTHORITY

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Independent Auditor's Report

To the Board of Directors
Ann Arbor Transportation Authority

We have audited the accompanying basic financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the year ended September 30, 2011, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Ann Arbor Transportation Authority as of and for the year ended September 30, 2010 were audited by other auditors, whose report dated March 4, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ann Arbor Transportation Authority as of September 30, 2011 and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required GASB Statement 45 supplementary information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying additional information and schedule of expenditures of federal awards, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information presented in the additional information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The information presented in the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

February 22, 2012

As management of the Ann Arbor Transportation Authority (the "Authority") in Ann Arbor, Michigan, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2011. We encourage readers to consider the information in conjunction with the financial statements, related note disclosures and the required supplementary and additional information as listed in the table of contents.

Overview of the Financial Statements and Financial Analysis

The discussion is intended to present an overview of the Authority's financial performance for the years ended September 30, 2011 and 2010 and does not purport to make any statement regarding the future operations of the Authority. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

The annual report consists of the basic financial statements, which are the balance sheet, statement of revenue, expenses and changes in net assets, and the statement of cash flows, prepared in accordance with GASB principles. This report also contains other supplementary information in addition to the basic financial statements, as required by the State of Michigan Departments of Treasury and Transportation. The required supplemental information is required by GASB Statement No. 45.

The basic financial statements for the year ended September 30, 2010 have been audited by other auditors and are included herein for comparative purposes.

Financial Highlights

The Authority's total assets decreased from the prior year by $3.0 million (5.9%), primarily due to a decrease in net capital assets due to the depreciation expense of $3.8 million being less than purchases of capital assets of $2.0 million, primarily funded using federal and state capital grants.

Cash and investments decreased by $1.0 million (6.9%) primarily due to the timing from the collection of grant, property tax and other receivables and the decrease in accounts payable.

Total net assets decreased by $2.0 million (4.1%), primarily because net assets - invested in capital assets decreased from depreciation expense of $3.8 million being less than purchases of capital assets of $2.0 million. Unrestricted net assets decreased by $263,000.

Current liabilities decreased by $1.1 million (37.0%) due to the decrease in accounts payable from 2010, which included $406,000 payable for the construction of the CCTC as of September 30, 2010.

Total operating revenue increased $777,000 (16.9%) primarily due to the fare increases in May 2009 and May 2010.

Balance Sheets

The balance sheets include all assets and liabilities. It is prepared under the "full accrual" basis of accounting, whereby revenue and assets are recognized when the service is provided and expenses and liabilities are recognized when they occur, regardless of the timing of the related cash flows. Assets and liabilities are measured using the economic resources measurement focus. Capital assets are reported at historical cost less an allowance for depreciation.

A summary of the Authority's assets, liabilities and net assets at September 30, 2011, 2010 and 2009 follows (in thousands):

	2011	2010	2009
Assets:			
Current assets	$ 18,702	$ 20,034	$ 18,229
Capital assets - Net	30,086	31,798	29,931
Total assets	$ 48,788	$ 51,832	$ 48,160
Liabilities:			
Current liabilities	$ 1,939	$ 3,078 *	$ 1,362 *
Noncurrent liabilities	1,129	1,058	981
Total liabilities	3,068	4,136	2,343
Net Assets:			
Invested in capital assets	30,086	31,798	29,931
Unrestricted	15,634	15,898	15,886
Total net assets	45,720	47,696	45,817
Total liabilities and net assets	$ 48,788	$ 51,832	$ 48,160

* 2010 current and noncurrent liabilities have been reclassified to conform to the current year presentation

At September 30, 2011, the Authority's total assets were $48.8 million, compared to $51.8 million at September 30, 2010. The Authority's largest capital investments include buses and related equipment, net of depreciation, of $16.8 million in 2011 and $19.4 million in 2010 and the land and buildings, net of depreciation, of $12.7 million in 2011 and $11.7 million in 2010.

The majority of the Authority's current liabilities are accounts payable and other accrued expenses.

In 2006, the Authority implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This standard requires the Authority to recognize the expense related to these health care and life insurance benefits on an actuarially determined basis, to better match the expense of the benefits with the period in which employees earn the benefit instead of a "pay-as-you-go" basis. The unfunded actuarial accrued liability was $1,656,000 as of September 30, 2011.

From 1991 through 2005, the Authority recorded postemployment medical benefit obligations of $3,769,000 under the provisions of the Financial Accounting Standards Board (FASB) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. However, under GASB No. 45, only the amount of the annual required contribution not paid since the adoption of GASB No. 45 is recorded as a liability ($1,714,000 as of September 30, 2007). Therefore, the previously recorded liability of $3,769,000 as of September 30, 2005 was eliminated and reclassified into unrestricted net assets. In 2008, the Authority implemented a defined contribution health care savings plan under Internal Revenue Code Section 115. The Authority contributed a one-time contribution to each individual employee account based on months of service, totaling $3.4 million, using $1.7 million from the accrued liability at September 30, 2007 and expensing $1.7 million in 2008.

The total assets of the Authority exceeded its total liabilities by $45.7 million (net assets) as of September 30, 2011. Of this amount, $15.6 million (unrestricted net assets) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2011 property tax levy of $9.2 million has been included in nonoperating revenue for the year ended September 30, 2011 even though the majority of it will be needed to help fund operations from October 1, 2011 to June 30, 2012.

Statement of Revenue, Expenses, and Changes in Net Assets

A summary of the Authority's revenue, expenses and changes in net assets for the years ended September 30, 2011, 2010, and 2009 follows (in $1,000s):

	2011	2010	2009
Operating revenue	$ 5,381	$ 4,605	$ 4,203
Operating expenses	(29,532)	(28,673)	(27,606)
Operating loss	(24,151)	(24,068)	(23,403)
Nonoperating revenue	20,212	20,246	19,866
Change in net assets before capital contributions	(3,939)	(3,822)	(3,537)
Net capital contributions	1,963	5,701	6,029
Change in net assets after capital contributions	(1,976)	1,879	2,492
Net assets - Beginning of year - As restated	47,696	45,817	43,325
Net assets - End of year	$ 45,720	$ 47,696	$ 45,817

The Authority's primary sources of operating revenue are passenger fares collected in the farebox in each bus, sales of 30-day passes and tokens. Other operating revenues are special fares whereby someone else other than the rider pays the fare, such as the go!pass program paid by the Downtown Development Authority of the City of Ann Arbor and MRide program paid by the University of Michigan.

Total operating expenses of $29,531,500 include operations ($19,440,000), vehicle and facility maintenance ($3,340,500) and general administration ($6,751,000). The largest portion of all expenses is for employee wages and fringe benefits of $15,026,000 or 50.9 percent of all expenses.

Nonoperating revenue include federal, state and local operating assistance. The State of Michigan Department of Transportation is not allowed to fund the Authority at an amount lower than the "1997 Floor," which is $6,317,122 for Urban Formula Operating Assistance.

Capital contributions represent federal and state grants for the purchase of new capital assets. In 2010, the Authority partnered with the University of Michigan to build the Central Campus Transit Center, which the Authority and the University will both use for transit services. Most of the funds for capital assets are provided through federal formula grants (Section 5307) administered by the Federal Transportation Administration. A portion of these federal formula dollars can be used as operating assistance. In 2011 and 2010, the Authority used $2,457,000 and $2,292,000, respectively, for operating assistance, such as preventive maintenance, planning, and capital cost of contracting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

Restatement of Prior Period Unrestricted Net Assets

The financial statements for the year ended September 30, 2010 have been restated in order to properly reflect the City of Ann Arbor property tax levy as a government mandated non-exchange transaction under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The total amount of the July 1, 2009 transit millage should have been recognized as revenue on the date of the levy and should not have had 75 percent of it recorded as unearned on September 30, 2009. Therefore, the previously recorded unearned revenue of $7,374,167 has been reclassified to net assets as of September 30, 2009. The majority of the 2011 tax levy has been collected by September 30, 2011 and will be used to help fund operations from October 1, 2011 to June 30, 2012.

Economic Factors and Next **Year's Budget (Fiscal Year 2012**)

The Authority receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The source of these funds includes a portion of state gasoline taxes, vehicle related sales taxes, license fees, and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. These funds are also subject to a "floor" amount equal to the formula operating assistance received in fiscal year 1997 ($6,317,122). The poor economy in the state of Michigan has reduced the total amount of funds available in the State Operating Budget.

For fiscal year 2011, the board of directors adopted a budget, which included drawing upon reserves of $992,000.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. The July 1, 2011 property tax levy decreased 1.2 percent from the July 1, 2010 levy. Current projections show a further decrease of 1.0 percent in the July 1, 2012 tax levy because of declining property values.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the transit provider's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller/Manager of Finance, Ann Arbor Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104. Previous years' financial statements, back to 2004, are available on the State of Michigan website at www.michigan.gov/treasury, "Local Government Services," "Local Unit Audit Reports" for the Authority and all other governmental entities in the state of Michigan.

ANN ARBOR TRANSPORTATION AUTHORITY

BALANCE SHEETS
SEPTEMBER 30, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 4,218,114	$ 2,069,030
Investments (Note 2)	9,649,578	12,821,602
Accounts receivable - Less allowance of $0 in 2011 and 2010	678,226	623,429
Grants receivable (Note 3)	2,098,409	2,213,477
Other receivables (Note 4)	466,633	722,668
Inventory	814,628	801,042
Prepaid expenses	776,491	782,284
Total current assets	18,702,079	20,033,532
CAPITAL ASSETS (Note 5):		
Land and improvements	2,180,821	2,180,821
Park and Ride lot construction	5,158,935	4,012,797
Buildings and improvements	17,420,856	17,309,639
Equipment and other	41,341,060	41,514,237
Construction in progress	730,070	185,607
Total capital assets	66,831,742	65,203,101
Less accumulated depreciation	36,745,772	33,404,810
Net capital assets	30,085,970	31,798,291
TOTAL ASSETS	$ 48,788,049	$ 51,831,823

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES:		
Accounts payable	$ 1,204,205	$ 1,655,381
Grant refunds payable (Note 3)	67,386	180,451
Accrued payroll	202,941	549,795
Accrued compensated absences - Current portion	103,092	97,547
Other accrued expenses	77,631	100,736
Unearned revenue (Note 6)	284,170	494,471
Total current liabilities	1,939,425	3,078,381
CONTINGENCIES (Note 8)	-	-
NONCURRENT LIABILITIES:		
Accrued compensated absences	927,830	877,921
Postemployment benefit obligation (Note 12)	200,583	179,685
Total noncurrent liabilities	1,128,413	1,057,606
Total liabilities	3,067,838	4,135,987
NET ASSETS:		
Invested in capital assets	30,085,970	31,798,291
Unrestricted (Note 17)	15,634,241	15,897,545
Total net assets	45,720,211	47,695,836
TOTAL LIABILITIES AND NET ASSETS	$ 48,788,049	$ 51,831,823

See Notes to Financial Statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
OPERATING REVENUE (Note 9)	$ 5,381,549	$ 4,604,872
OPERATING EXPENSES (Notes 7, 9 and 12):		
Operations	19,440,175	18,771,452
Maintenance	3,340,415	3,790,695
General administration	6,750,875	6,111,311
Total operating expenses	29,531,465	28,673,458
OPERATING LOSS	(24,149,916)	(24,068,586)
NONOPERATING REVENUE:		
Local	9,884,079	10,231,187
State	7,126,340	6,658,242
Federal	3,201,094	3,356,578
Total nonoperating revenue	20,211,513	20,246,007
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(3,938,403)	(3,822,579)
CAPITAL CONTRIBUTIONS - FEDERAL AND STATE	1,829,862	5,701,587
CAPITAL CONTRIBUTIONS - LOCAL MATCH (Note 14)	132,916	-
CHANGE IN NET ASSETS	(1,975,625)	1,879,008
TOTAL NET ASSETS - BEGINNING OF YEAR - As restated (Note 17)	47,695,836	45,816,828
TOTAL NET ASSETS - END OF YEAR	45,720,211	47,695,836
UNRESTRICTED NET ASSETS, END OF YEAR	15,634,241	15,897,545

See Notes to Financial Statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	$ 4,391,469	$ 3,637,079
Payments for salaries and wages and fringe benefits	(15,297,444)	(13,991,019)
Payments to suppliers	(6,678,413)	(4,606,885)
Payments for claims and insurance	(515,250)	(427,829)
Payments for purchased transportation	(3,305,095)	(3,632,038)
Net cash used in operating activities	(21,404,733)	(19,020,692)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenue:		
Local	10,092,399	10,365,698
State	6,759,169	6,598,061
Federal	3,202,948	3,084,772
Net cash provided by noncapital financing activities	20,054,516	20,048,531
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,895,479)	(5,718,122)
Capital contributed by state and federal grants	2,183,182	6,259,461
Proceeds from insurance claims	-	14,000
Net cash provided by capital and related financing activities	287,703	555,339
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(9,868,366)	(24,151,792)
Proceeds from sale and maturities of investment securities	12,984,458	12,197,173
Interest income	95,506	46,254
Net cash provided by (used in) investing activities	3,211,598	(11,908,365)
NET INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS	2,149,084	(10,325,187)
CASH and CASH EQUIVALENTS AT BEGINNING OF YEAR	2,069,030	12,394,217
CASH and CASH EQUIVALENTS AT END OF YEAR	$ 4,218,114	$ 2,069,030

See Notes to Financial Statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (24,149,916)	$ (24,068,586)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,740,716	3,767,316
Changes in assets and liabilities which (used) provided cash:		
Receivables	(54,797)	(12,108)
Inventory	(13,586)	(95,432)
Prepaid expenses	5,793	(140,485)
Payables	(451,176)	965,443
Accrued payroll	(346,854)	66,670
Other accrued expenses	53,247	85,629
Unearned revenue	(188,160)	410,861
Total adjustments	2,745,183	5,047,894
NET CASH USED IN OPERATING ACTIVITIES	$ (21,404,733)	$ (19,020,692)

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Ann Arbor Transportation Authority (the "Authority") is a governmental unit established under Act 55 of 1963 of the State of Michigan to provide a mass transportation system within and beyond the corporate limits of the City of Ann Arbor.

The Authority is not included in the financial reporting entity of the City of Ann Arbor because the City does not have the ability to exercise significant oversight over the Authority. The Authority can independently generate revenue, adopt budgets and borrow funds. The members of the governing board of directors are appointed by the mayor of the City and confirmed by the City Council.

Significant Accounting Policies

Basis of Accounting - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue from operations, investments, and other sources is recorded when earned. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to follow FASB standards issued after November 30, 1989.

Investments - Investments are held primarily in certificates of deposit and in pooled municipal investment trust funds. These trust funds consist of certificates of deposit, United States Treasury securities, repurchase agreements and commercial paper. Investments are stated at fair value.

Classification of Revenue - Revenue is classified as operating revenue, nonoperating revenue and capital contributions according to the following criteria:

> *Operating Revenue* - Operating revenue, such as passenger fares and special transit fares, include activities that have the characteristics of exchange transactions, in which each party receives and gives up essentially equal values.

Nonoperating Revenue - Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, in which the Authority receives value without directly giving equal value in return, such as federal and state operating grants, City of Ann Arbor tax levies, fees paid by other municipalities under purchase of service agreements, and interest income. On an accrual basis, revenue from these grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Capital Contributions - Capital contributions are federal and state grants designated for the purchase and/or construction of land, buildings and equipment and are recognized as revenue and are included in the statement of revenue, expenses and changes in net assets. On an accrual basis, revenue from these contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Property Taxes - Property taxes are levied as an enforceable lien on property on July 1 by the City of Ann Arbor. Property taxes are recognized as revenue when levied, with proper allowances made for estimated adjustments and Michigan Tax Tribunal refunds.

Derivative Financial Instruments - The Authority periodically enters into heating oil contracts to manage a portion of the exposure to fluctuating biodiesel fuel prices. Changes in the price of heating oil contracts have a high correlation to changes in the price of biodiesel fuel. These derivative financial instruments, which inherently contain market risk, are generally effective in reducing fluctuation in biodiesel fuel prices. The market risk is the potential adverse effect on the value of heating oil contracts that results from a change in heating oil prices. The Authority does not enter into fuel future contracts for trading or speculative purposes.

The Authority records the fair market value of the fuel contracts in Investments. The resulting realized gains and losses are recorded as an offset to the expense (gain) or an additional expense (loss) in the statement of revenue, expenses and changes in net assets in the fuel and lubricants expense line item. (See Note 6).

Compensated Absences - The Authority records the expense for vacation and sick pay benefits when earned by the employees. The portion of the accrual for unused vacation and sick leave that is reported as a current liability is based on an estimate of the amount employees are expected to use in the upcoming year. The remainder of the accrual is reported as a noncurrent liability.

Inventories - Inventory is stated at the lower of cost (first-in, first-out basis) or market.

Statement of Cash Flows - For purposes of this statement, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets - Capital assets are defined by the Authority as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Capital assets include land, buildings, vehicles and other equipment, which are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Improvements which are expected to extend the useful lives of existing assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Park and ride lot construction	10 to 40
Buildings and improvements	3 to 30
Vehicles and related equipment	3 to 12
Radio and telephone systems	5 to 10
Fare collection equipment	5 to 10
Maintenance equipment	3 to 10
Office equipment and furniture	3 to 10
Passenger shelters	5 to 10
Advanced operating system	3 to 6

Eligible depreciation expense includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the State of Michigan Department of Transportation Bureau of Passenger Transportation.

Grant Activities - The federal government, through the Federal Transit Administration (FTA) and the Michigan Department of Transportation (MDOT), provides financial assistance and grants directly to the Authority for operations and acquisition of property and equipment. Operating grants are recorded as grant receivables and revenue when the qualified expenditures are recorded. Federal and state capital acquisition grants fund the purchase of capital items, including buses and related transportation equipment used by the Authority. Capital grants for the acquisition of capital assets are recorded as grants receivable in the balance sheet and capital contributions in the statement of revenue, expenses, and changes in net assets when the related qualified expenditures are incurred.

When assets acquired with capital grant funds are disposed, the Authority is required to notify the granting federal agency. A proportional amount of the sale proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement assets or can be remitted to the granting federal agency at its discretion.

Net Assets - Net assets are displayed in two components as follows:

Invested in Capital Assets - This consists of capital assets, net of accumulated depreciation.

Unrestricted - This consists of net assets that do not meet the definition of “invested in capital assets.”

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts from the prior year have been reclassified to conform to the current year presentation.

2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2011 and 2010:

	2011	2010
Balance Sheet		
Cash and cash equivalents	$ 4,218,114	$ 2,069,030
Investments	9,649,578	12,821,602
Total	$ 13,867,692	$ 14,890,632

	2011	2010
Deposits and Investments		
Bank deposits (checking, savings, and certificates of deposit)	$13,073,164	$13,852,086
Investment in government liquid asset fund accounts	155,203	154,834
Money market fund	507,373	507,302
Heating oil futures account	125,082	369,540
Cash on hand	6,870	6,870
Total	$13,867,692	$ 14,890,632

Public Act 20 of 1943, as amended, authorizes the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. It has not been determined if heating oil futures are in compliance with applicable state statutes.

Investments - In addition to the State restrictions noted above, the Authority's policy is to limit investments to the following:

- Certificates of deposit, depository receipts, and repurchase agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the state of Michigan. The total investment (exclusive of checking accounts) in any financial institutions shall not exceed the lesser of 20 percent of that financial institution's capital and surplus or $4,000,000.

- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.

- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than $500,000 may be invested in a single corporation.

- Governmental mutual funds which invest only in authorized investments for local units of government under state law and which offer daily liquidity.

The Authority chooses to disclose its investments by specifically identifying each. As of September 30, 2011, the Authority had the following investments.

Investment	Maturity	Interest Rate	Fair Value	Rating
RBC Wealth Management Money Market Fund	N/A	0.01%	$ 479,744	Moody's Aaa-mf
Heating oil futures	N/A	Various	125,082	Not rated
Government liquid assets funds	N/A	Various	155,203	Not rated
JPMorgan Chase money market fund	N/A	0.05%	13,769	Moody's Aaa-mf
Comerica money market fund	N/A	0.74%	13,860	Not rated
			$ 787,658	

Investment and Deposit Risk

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except as noted in the Authority's investment policy above.

Credit Risk - State law limits investments to specific government securities, certificates of deposits, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at September 30, 2011.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of September 30, 2011, $1,798,216 of the Authority's bank balance of $14,890,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

Concentration of Credit Risk - State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy limits investments as described above.

3. GRANTS RECEIVABLE/GRANT REFUNDS PAYABLE

The Authority recognizes a receivable under approved grants as related project expenditures are incurred and the grant revenue earned. Grant refunds payable represent amounts to be returned to the grantor. The following grant amounts were outstanding at September 30:

	2011	2010
Michigan Department of Transportation:		
Rideshare program	$ 400,072	$ 225,000
Operating assistance	84,914	(100,250)
Planning	8,347	-
Buses and related equipment	273,000	273,000
Facilities	39,850	95,241
Transit centers	183,532	200,746
Job access/reverse commute (state match)	11,491	12,903
Federal Transit Administration:	-	-
Buses and related equipment	-	58,131
Passenger shelters	-	22,218
Facilities	84,430	60,881
Park and Ride lot construction	-	12,017
Transit centers	471,126	712,851
Job access/reverse commute	6,576	9,938
New Freedom	-	6,119
Planning	258,656	302,580
Preventive maintenance	180,000	65,000
Commuter express	-	63,448
Computer hardware and software	29,029	13,203
NET GRANTS RECEIVABLE	$ 2,031,023	$ 2,033,026
REMAINING UNEARNED BALANCES ON ABOVE GRANTS	$ 18,038,476	$ 10,519,719

The grants receivable/grant refunds payable are reported on the balance sheets as follows:

	2011	2010
Grants receivable	$ 2,098,409	$ 2,213,477
Grant refunds payable	(67,386)	(180,451)
Net grants receivable	$ 2,031,023	$ 2,033,026

4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2011	2010
City of Ann Arbor - Tax levy	$ 450,487	$ 609,078
City of Ann Arbor - Inventory replacement tax	-	74,574
Interest receivable	16,146	39,016
Workers' compensation insurance refund	-	-
Total	$ 466,633	$ 722,668

5. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2011 is as follows:

	Balance October 1 2010	Additions	Deletions	Balance September 30 2011
Capital assets not being depreciated:				
Land and improvements	$ 2,180,821	$ -	$ -	$ 2,180,821
Construction in progress	185,607	546,378	1,915	730,070
Total capital assets not being depreciated	2,366,428	546,378	1,915	2,910,891
Capital assets being depreciated:				
Park and ride lot construction	4,012,797	1,146,138	-	5,158,935
Buildings	17,309,639	111,217	-	17,420,856
Vehicles and related equipment	33,382,626	40,297	202,106	33,220,817
Radio and telephone systems	294,329	11,975	87,024	219,280
Fare collection equipment	1,035,416	-	-	1,035,416
Maintenance equipment	497,586	-	11,019	486,567
Office equipment and furniture	1,958,983	42,328	12,713	1,988,598
Passenger shelters	876,599	131,977	20,535	988,041
Other	136,095	-	-	136,095
Advanced operating system	3,332,603	-	66,357	3,266,246
Total capital assets being depreciated	62,836,673	1,483,932	399,754	63,920,851
Less accumulated depreciation:				
Park and ride lot construction	856,560	153,646	-	1,010,206
Buildings	11,114,004	674,467	-	11,788,471
Vehicles and related equipment	15,014,609	2,526,556	202,106	17,339,059
Radio and telephone systems	165,013	34,313	87,024	112,302
Fare collection equipment	161,124	107,418	-	268,542
Maintenance equipment	461,192	19,336	11,019	469,509
Office equipment and furniture	1,667,956	128,828	12,713	1,784,071
Passenger shelters	563,953	76,033	20,535	619,451
Other	136,094	-	-	136,094
Advanced operating system	3,264,305	20,119	66,357	3,218,067
Total accumulated depreciation	33,404,810	3,740,716	399,754	36,745,772
Total capital assets being depreciated - Net	29,431,863	(2,256,784)	-	27,175,079
TOTAL CAPITAL ASSETS - NET	$ 31,798,291	$ (1,710,406)	$ 1,915	$ 30,085,970

5. CAPITAL ASSETS (Concluded)

Capital asset activity during the fiscal year ended September 30, 2010 is as follows:

	Balance October 1 2009	Additions	Deletions	Balance September 30 2010
Capital assets not being depreciated:				
Land and improvements	$ 2,180,821	$ -	$ -	$ 2,180,821
Construction in progress	355,842	152,750	322,985	185,607
Total capital assets not being depreciated	2,536,663	152,750	322,985	2,366,428
Capital assets being depreciated:				
Park and ride lot construction	1,494,007	2,518,790	-	4,012,797
Buildings	16,738,015	571,624	-	17,309,639
Vehicles and related equipment	30,943,146	2,479,037	39,557	33,382,626
Radio and telephone systems	225,537	81,397	12,605	294,329
Fare collection equipment	1,035,416	-	-	1,035,416
Maintenance equipment	493,986	3,600	-	497,586
Office equipment and furniture	2,193,915	173,981	408,913	1,958,983
Passenger shelters	816,672	59,927	-	876,599
Other	185,051	-	48,956	136,095
Advanced operating system	3,332,603	-	-	3,332,603
Total capital assets being depreciated	57,458,348	5,888,356	510,031	62,836,673
Less accumulated depreciation:				
Park and ride lot construction	748,725	107,835	-	856,560
Buildings	10,470,621	643,383	-	11,114,004
Vehicles and related equipment	12,509,523	2,541,950	36,864	15,014,609
Radio and telephone systems	147,038	30,580	12,605	165,013
Fare collection equipment	53,706	107,418	-	161,124
Maintenance equipment	440,653	20,539	-	461,192
Office equipment and furniture	1,771,614	224,236	327,894	1,667,956
Passenger shelters	494,114	69,839	-	563,953
Other	185,050	-	48,956	136,094
Advanced operating system	3,242,769	21,536	-	3,264,305
Total accumulated depreciation	30,063,813	3,767,316	426,319	33,404,810
Total capital assets being depreciated - Net	27,394,535	2,121,040	83,712	29,431,863
TOTAL CAPITAL ASSETS - NET	$ 29,931,198	$ 2,273,790	$ 406,697	$ 31,798,291

6. UNEARNED REVENUE

Unearned revenue represents amounts not earned, and consists of the following amounts:

	2011	2010
Federal Capital	$ 27,731	$ 41,731
State Capital	6,933	6,933
Local share of WALLY intergovernmental revenue	157,000	120,000
Get Downtown Program	81,649	126,790
Unrealized gains on Fuel Futures account	10,857	199,017
Total	$ 284,170	$ 494,471

7. EMPLOYEES' PENSION PLAN

The Authority provides pension benefits for substantially all of its employees through a defined contribution plan called the Ann Arbor Transportation Authority Employees' Pension Plan (the "Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority's contributions for each employee and interest allocated to the employee's account are fully vested after five years of employment. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current year contribution requirement. Employees contribute 4 percent of their gross earnings to the plan, effective January 1, 2011. Previously, employees contributed 3 percent of their gross earnings. Employee contributions amounted to $365,000 and $264,000 for the years ended September 30, 2011 and 2010, respectively. Effective January 1, 2011, the Authority's contribution to the plan is 8 percent of the employee's gross earnings less forfeitures. Previously, the Authority contributed 9 percent of the employees' gross earnings. Authority contributions amounted to $750,000 and $793,000 for the years ended September 30, 2011 and 2010, respectively. Total payroll and covered payroll was approximately $10,687,000 and $9,762,000 for 2011 and $10,070,000 and $8,806,000 for 2010.

The Authority's board of directors administers the Plan, and also establishes contribution requirements and approves any Plan amendments.

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to vehicle liability, property loss, torts, errors and omissions, storage tanks, and employee injuries (workers' compensation). The Authority is also a defendant in several pending personal injury lawsuits and a freedom of speech lawsuit. The Authority has purchased commercial insurance for personal injury, vehicle liability, property loss, general commercial liability, public officials, employee practices liability, storage tank, and workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. In the opinion of management, the outcome of this litigation and other matters will not significantly affect the Authority's financial position or results of its operations.

9. SUBCONTRACT SERVICE

The Authority subcontracts with taxi cab companies to provide certain services. The Authority pays the companies fees based on the level of service provided, and the companies collect and retain the passenger fares as an advance against the monthly billings. Operating revenue and operating expenses include approximately $504,000 and $468,000 of fares for these services in the years ended September 30, 2011 and 2010, respectively.

10. COST ALLOCATION PLANS

The Bus Transit Division of the Michigan Department of Transportation has approved the Authority's cost allocation plans for all material allocated expenses. The Nonurban Service Cost Allocation Plan and the Specialized Service Cost Allocation Plan have been used in the preparation of the financial statements.

11. INFORMATIONAL SUMMARY OF PROJECTED REVENUE, EXPENDITURES AND METHOD OF FINANCING CAPITAL PROJECTS

The Authority has prepared and made available for inspection the informational summary of projected revenue, expenses and capital project costs recommended in Section 15, subsection 1(h), Act 621, PA 1978, as amended, (MCLA 141.435) (MSA 5.3228 (35)) and as required in Act 51, 10e (1) (d) (vii).

12. POSTEMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description - The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. The benefits for bargaining employees are specified by union contract while the board of directors establishes those for non-bargaining employees. This Plan was closed and active bargaining and non-bargaining employees, who were eligible to retire based upon attaining age 62 with at least 15 years of service, were eligible to elect to stay in this plan when they retire. Also, active employees who had over 30 years of service, regardless of their age, were also eligible to elect to stay covered by this plan when they retire. Eligible retirees have the option to select an alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130 percent of that year's core HMO single person premium. For retirees who retired between July 1, 2002 and December 31, 2007, their spouses are eligible to receive 50 percent of the monthly premium for the core HMO single person premium toward medical coverage.

Eligible bargaining and non-bargaining employees who retire at or after age 59-1/2 with at least 15 years of service are eligible for life insurance coverage in the amount of $30,000 until age 65, $20,000 from age 65 to 69, and $10,000 age 70 and over.

Funding Policy and Annual OPEB Cost - For this plan, contribution requirements of the plan members and the Authority are established and may be amended by union contract for bargaining employees and for non-bargaining employees by the board of directors. The Authority has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The Authority's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* using the Alternative Measurement Method (AMM) as permitted for employers in plans with fewer than 100 total plan members.

Funding Progress - The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 25 years. The following schedule shows the components of the Authority's annual OPEB cost for the current year, the amount actually contributed to the plan and the changes in the net OPEB obligation:

	2011	2010
Annual required contribution (recommended)	$ 87,083	$ 85,391
Interest on net OPEB obligation	7,187	6,525
Adjustment to annual required contribution	(7,960)	(7,227)
Total annual OPEB cost	86,310	84,689
Contributions made - Payment of current health care premiums	(65,412)	(67,140)
Increase in net OPEB obligation	20,898	17,549
OPEB obligation - Beginning of year	179,685	162,136
OPEB obligation - End of year	**$ 200,583**	**$ 179,685**

The Authority's annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended September 30, 2011 and 2010 for the plan are as follows:

Years Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
9/30/2006	$886,635	4.3%	$ 848,931
9/30/2007	$922,100	6.2%	$1,713,963
9/30/2008	$147,911	4.4%	$ 83,219
9/30/2009	$145,395	45.7%	$ 162,136
9/30/2010	$ 83,987	80.3%	$ 179,685
9/30/2011	$ 86,310	75.8%	$ 200,583

Funded Status and Funding Progress - The funded status of the plan as of September 30, 2011 is as follows:

Actuarial accrued liabilities (a)	$ 1,656,087
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (a) - (b)	$ 1,656,087
Funded ratio (b)/(a)	0%
Covered payroll (c)	$ 216,570
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) - (b)]/(c))	765%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation date and the historical pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. As permitted by GASB Statement No. 45, *Alternative Measurement Method,* with its simplifications of certain assumptions, was employed in measuring actuarial accrued liabilities and the ARC. The Plan currently covers four active employees, 11 retirees and three retirees' spouses. The following simplifying assumptions were made:

Actuarial valuation date	9/30/2010
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Remaining amortization period	25 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	2.8%
Healthcare inflation rate	9.0% in 2012, Grading to 6.0% in 2018
Retirement age	67
Marital status	Marital status to continue throughout retirement
Mortality	2004 U.S. Male and Female life tables
Turnover	0%

13. HEALTH CARE SAVINGS PLAN

Effective January 1, 2008, the Authority established a defined contribution Health Care Savings Plan (HCSP) under Internal Revenue Code Section 115. The HCSP is a public employer-sponsored program administered by the Municipal Employees' Retirement System of Michigan (MERS) which allows employees to save pre-tax money to pay postemployment medical expenses and/or health insurance premiums. Virtually all active employees participate and vested funds that accumulate in the plan shall become accessible to the employee upon the employee's separation from employment due to retirement, resignation, termination or any other reason. Employees are vested in employer contributions after 10 years of service.

For each employee who was actively employed as of January 1, 2008, the Authority made a one-time lump-sum contribution on a graduated scale between $100 and $150 per month into each employee's HCSP account based upon their accumulated months of service. One-time lump-sum contributions are subject to the same 10 years of continuous vesting requirement as monthly contributions. The total of this one-time contribution was $3,442,000. Of this total, $1,714,000 was funded from the accrued post-retirement benefit obligation as of September 30, 2007 and the remaining amount of $1,728,000 was expensed as a fringe benefit in the year ended September 30, 2008.

Beginning January 1, 2008, the Authority makes pre-tax contributions of $125 each month into each eligible employee's HCSP account. The employees shall make a mandatory monthly pre-tax contribution of at least $2, but not more than $100 per pay period. Employees may make voluntary pre-tax contributions to the HCSP to the extent allowable by the HCSP or by law.

14. CAPITAL CONTRIBUTIONS - LOCAL MATCH

During 2011, the Authority recognized contributed capital - local match from the University of Michigan Central Campus Transit Center project in the amount of $132,916.

15. COMMITMENTS

At September 30, 2011, the Authority had outstanding commitments relating to the purchase of 10 hybrid diesel electric buses for $6.4 million, the design and construction management of rebuilding the Blake Transit Center for $285,000, the design and construction management of the expansion of the bus storage garage for $131,000, the design and construction of the maintenance lift replacement project for $959,000, and the redesign of the website for $52,000.

At September 30, 2010, the Authority had outstanding commitments relating to the purchase of 10 hybrid diesel electric buses for $6.4 million, the construction of the Central Campus Transit Center for $406,000, and the design of the rebuilt Blake Transit Center for $338,000. Funding for these commitments are through federal and state capital grants.

16. UPCOMING ACCOUNTING PRONOUNCEMENTS

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the Authority's 2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Authority's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet.

17. RESTATEMENT OF PRIOR YEAR NET ASSETS

The financial statements for the year ended September 30, 2010 have been restated in order to properly reflect the City of Ann Arbor property tax levy as a government mandated non-exchange transaction under the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The total amount of the July 1, 2009 transit millage should have been recognized as revenue on the date of the levy and should not have had 75 percent of it recorded as unearned on September 30, 2009. Therefore, the previously recorded unearned revenue of $7,374,167 has been reclassified to net assets as of September 30, 2009.

The unrestricted net assets of the Authority as of September 30, 2009 were restated to correct the balances. The effects of this correction are described in the following table.

	2011	2010
Net assets - Beginning of year - As previously stated	$ 40,619,001	$ 38,442,661
Prior-period adjustment - To properly reflect revenue	-	7,374,167
Net assets - Beginning of year - As restated	47,695,836	45,816,828
Change in net assets	(1,975,625)	1,879,008
Net assets - End of year	$ 45,720,211	$ 47,695,836

The accompanying financial statements for fiscal year 2010 have been restated to correct an error made in a prior year related to property tax revenue recognition. Certain amounts were recorded as deferred (unearned) revenue, but should have been recognized as revenue. The effect of the restatement was to decrease the change in net assets for 2010 by $297,332. Net assets at the beginning of 2010 have been adjusted for the effects of the restatement on prior years.

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Required GASB Statement No. 45
Supplementary Information

ANN ARBOR TRANSPORTATION AUTHORITY

GASB STATEMENT 45 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR RETIRED EMPLOYEES HEALTHCARE PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
9/30/2006	$ -	$ 10,482,425	$ 10,482,425	$ -	$ 9,449,000	110.90%
9/30/2007	$ -	$ 11,338,930	$ 11,338,930	$ -	$ 9,539,000	118.90%
9/30/2008	$ -	$ 2,025,259	$ 2,025,259	$ -	$ 9,819,000	20.63%
9/30/2009	$ -	$ 2,025,259	$ 2,025,259	$ -	$ 9,631,900	21.03%
9/30/2010	$ -	$ 1,656,087	$ 1,656,087	$ -	$ 195,288	848.02%
9/30/2011	$ -	$ 1,656,087	$ 1,656,087	$ -	$ 201,147	823.32%

Schedule of Employer Contributions:

Year Ended September 30,	Annual Required Contribution	Percent Contributed
2006	$ 886,635	4.3%
2007	922,100	6.2%
2008	147,911	4.4%
2009	145,395	45.7%
2010	85,689	78.7%
2011	86,310	75.8%

NOTE TO REQUIRED GASB STATEMENT NO. 45 SUPPLEMENTARY INFORMATION YEARS ENDED SEPTEMBER 30, 2011 AND 2010

A. FACTORS THAT SIGNIFICANTLY AFFECTED TRENDS IN ACTUARIAL VALUATIONS

The benefits for bargaining employees are specified by union contract while the board of directors establishes those for non-bargaining employees. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. The Plan was closed to all active employees, except those bargaining and non-bargaining employees who were eligible as of January 1, 2008 to retire based upon attaining age 62 with at least 15 years of service or those with 30+ years of service regardless of age. These employees were eligible to elect to stay in this defined benefit plan when they eventually retire. These eligible employees made the irrevocable option to keep working and retire with benefits under the defined benefit OPEB Plan or sign up under the new defined contribution Health Care Savings Plan (HCSP) and have an amount "front-loaded" into their individual accounts. The Plan currently covers four active employees, eleven retirees, and three retirees' spouses.

From 1991 to 2005, the Authority recorded an actuarial-determined liability for post-retirement health care benefits under the provisions of Statement of Financial Accounting Standards (FASB) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. As of September 30, 2005, the accrued liability was $3,769,000. However, the adoption of GASB Statement No. 45, effective October 1, 2005, eliminated this liability and transferred this amount to unrestricted net assets.

Additional Information for the Year Ended September 30, 2011

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF REVENUE
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
LOCAL OPERATING REVENUE:		
Passenger fares:		
Urban fixed route	$ 2,067,955	$ 1,882,698
Urban demand response	504,346	468,360
Commuter express	89,671	76,193
Nonurban demand response	430,937	426,495
Special fares:		
City of Ann Arbor DDA - go!pass sales	443,875	327,370
Ann Arbor Public Schools	-	29,500
Eastern Michigan University	172,213	109,906
University of Michigan	1,587,559	1,140,203
Washtenaw Community College	84,993	144,147
Total local operating revenue	$ 5,381,549	$ 4,604,872
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
City of Ypsilanti	239,098	94,330
Pittsfield Township	148,017	149,616
Superior Township	31,430	27,388
Ypsilanti Township	297,390	264,453
Total purchase of service agreements	715,935	535,787
City of Ann Arbor - Property tax levy	8,778,816	9,291,516
City of Ann Arbor - Inventory replacement tax		74,574
City of Ann Arbor - Downtown Development Authority (GetDowntown)	35,023	
City of Ann Arbor - Downtown Development Authority (Connector Study)	17,552	60,134
City of Ann Arbor (Connector Study)	17,552	60,134
University of Michigan (Connector Study)	35,102	120,268
Job Access/Reverse Commute pass-through	136,036	-
Interest income	72,636	85,271
Advertising income	70,853	68,756
Other revenue	4,574	18,460
Loss on sale of equipment	-	(83,713)
Total local nonoperating revenue	9,884,079	10,231,187
Total local operating and nonoperating revenue	15,265,628	14,836,059
STATE OF MICHIGAN NONOPERATING REVENUE:		
Formula operating assistance - Urban (Act 51)	6,669,584	6,317,122
Formula operating assistance - Nonurban (Act 51)	336,001	296,970
Prior year's formula adjustments - Urban and nonurban	5,273	(57,699)
Job Access/Reverse Commute (State Match)	17,321	12,903
Planning	8,347	-
Specialized services	89,814	88,946
Total state nonoperating revenue	7,126,340	6,658,242
FEDERAL NONOPERATING REVENUE:		
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Section 5307)	641,957	617,431
State Planning and Research Program - Public Opinion Survey (Section 5304)	-	103,441
Federal operating assistance - Nonurban (Section 5311) - Passed through the State	167,458	135,398
Federal operating assistance - Nonurban (Section 5311) - Passed through the State (ARRA)	-	21,156
Capital cost of contracting (Section 5307)	200,000	200,000
Congestion Mitigation/Air Quality (Section 5307)	52,230	162,190
Job Access/Reverse Commute	58,315	51,608
New Freedom	16,622	35,914
Operating assistance (ARRA)	-	280,000
Preventive maintenance (Section 5307)	1,615,000	1,475,000
Travel Demand Management (CMAQ - Passed through the State of Michigan)	400,072	225,000
Total federal nonoperating revenue	3,201,094	3,356,578
TOTAL NONOPERATING REVENUE	$ 20,211,513	$ 20,246,007

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2011 WITH COMPARATIVE TOTALS FOR 2010

	Operations	Maintenance	General Administration	2011 Total	2010 Total
LABOR:					
Operators' salaries and wages	$ 5,148,782	$ -	$ -	$ 5,148,782	$ 4,785,684
Other salaries and wages	703,319	$ 1,537,155	$ 1,613,880	3,854,354	3,664,052
FRINGE BENEFITS					
Fringe wages	1,046,322	297,547	339,500	1,683,369	1,619,858
Social Security payroll taxes	523,036	137,458	140,878	801,372	745,586
Medical insurance	1,197,169	384,118	160,508	1,741,795	1,520,968
Pension	473,708	140,161	135,997	749,866	792,525
Health care savings plan	162,750	50,625	35,125	248,500	248,750
Post-retirement medical benefits	59,936	16,489	9,885	86,310	84,689
Other fringe benefits	530,179	116,014	65,454	711,647	688,805
SERVICES:					
Advertising fees	-	-	150,904	150,904	37,532
Other services	117	439,792	1,550,603	1,990,512	1,933,903
Auditing fees	-	-	15,400	15,400	20,600
MATERIALS AND SUPPLIES CONSUMED:					
Fuel and lubricants	1,560,547	6,231	-	1,566,778	1,767,984
Tires and tubes	131,341	-	-	131,341	53,329
Materials and supplies	514,706	193,403	557,222	1,265,331	1,130,442
UTILITIES	-	-	474,941	474,941	516,618
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	376,235	-	-	376,235	323,094
Other casualty and liability costs	-	-	133,008	133,008	132,927
PURCHASED TRANSPORTATION	4,240,378	-	-	4,240,378	4,526,893
MISCELLANEOUS EXPENSES:					
Travel and meetings	-	-	45,589	45,589	33,483
Advertising and promotion media	-	-	189,107	189,107	87,053
Association dues and subscriptions	-	-	71,827	71,827	68,070
Other	-	2,086	88,576	90,662	91,348
LEASES AND RENTALS	7,211	-	15,530	22,741	31,949
DEPRECIATION	2,764,439	19,336	956,941	3,740,716	3,767,316
TOTAL OPERATING EXPENSES	$ 19,440,175	$ 3,340,415	$ 6,750,875	$ 29,531,465	$ 28,673,458

ADDITIONAL INFORMATION
SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance -Beginning of year	$ 29,945,797	$ 27,795,195
Contributions - Federal and state capital grants	1,829,863	5,701,587
Transfer of federal and state interest in equipment from (to) deferred revenue	-	14,000
Loss on disposal of assets purchased with federal and state capital grants	-	(11,307)
Depreciation on assets purchased with federal and state capital grants	(3,532,129)	(3,553,678)
Balance - End of year	$ 28,243,531	$ 29,945,797
Detail of federal and state interest in capital assets at September 30:		
Federal government	$ 51,268,643	$ 49,720,483
State of Michigan	10,026,541	10,013,504
Total	61,295,184	59,733,987
Less accumulated depreciation on contributed assets	33,021,653	29,793,578
Net federal and state interest in capital assets	28,273,531	29,940,409
Net local interest in capital assets	1,812,439	1,857,882
Net assets invested in capital assets	$ 30,085,970	$ 31,798,291

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011

Federal and State Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures Total	Federal	State	Local	Prior Years' Expenditures	Amount Remaining
U. S. Department of Transportation (Federal):									
Direct assistance - Capital Grants:									
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI90-0221	$ 1,608,012	$ 204,579	$ 204,579	$ -	$ -	$ 73,880	$ 1,329,553
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI04-0037	735,000	-	-	-	-	-	735,000
Capital (Section 5309) (State of Good Repair) (80/20)	20.500	MI04-0064	1,013,000	-	-	-	-	-	1,013,000
Capital (Section 5307) (FY 2006) (80/20 or 100/0)	20.507	MI90-X490	1,056,000	6,010	6,010	-	-	1,049,990	-
Capital (Section 5307) (FY 2007) (80/20 or 100/0)	20.507	MI90-X519	4,583,324	120,331	120,331	-	-	4,329,864	133,129
Capital (Section 5307) (FY 2008) (80/20 or 100/0)	20.507	MI90-X550	1,724,000	41,975	41,975	-	-	1,565,086	116,939
Capital (Section 5307) (FY 2009) (80/20 or 100/0)	20.507	MI90-X593	380,000	53,039	53,039	-	-	247,358	79,603
Capital (Section 5307) (FY 2010) (80/20 or 100/0)	20.507	MI90-X615	640,549	57,913	57,913	-	-	-	582,636
Capital (Section 5307) (FY 2011) (80/20 or 100/0)	20.507	MI90-X641	4,266,400	-	-	-	-	-	4,266,400
Clean Fuels Grant Program (Section 5308) (80/20)	20.519	MI58-0002	1,697,350	-	-	-	-	-	1,697,350
Surface Transportation Program	20.507	MI95-X052	125,549	125,549	125,549	-	-	-	-
Surface Transportation Program	20.507	MI95-X052-01	780,644	406,113	406,113	-	-	-	374,531
Capital (Section 5307 - ARRA)	20.507	MI96-X009	4,160,000	197,839	197,839	-	-	3,962,161	-
Capital (Section 5307 - ARRA)	20.507	MI96-X024	2,290,056	544,195	544,195	-	-	54,731	1,691,130
Subtotal - Direct Federal Capital			$ 25,059,884	$ 1,757,543	$ 1,757,543	$ -	$ -	$ 11,283,070	$ 12,019,271
Direct assistance - Operating grants:									
Unified Planning Program (Section 5303) (80/0)	20.505	11005	49,440	61,800	49,440	-	12,360	-	-
Planning (Section 5307) (FY 2009) (100/0)	20.507	MI90-X593	695,000	240,664	240,664	-	-	445,079	9,257
Planning (Section 5307) (FY 2010) (100/0)	20.507	MI90-X615	675,000	367,907	367,907	-	-	79,962	227,131
Planning (Section 5307) (FY 2010) (100/0)	20.507	MI90-X641	320,000	33,386	33,386	-	-	-	286,614
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X615	200,000	200,000	200,000	-	-	-	-
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X641	160,000	-	-	-	-	-	160,000
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X615	1,680,000	1,615,000	1,615,000	-	-	65,000	-
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X641	1,344,000	-	-	-	-	-	1,344,000
Commuter Express Service (Section 5307) (100/0)	20.507	MI90-X408	495,000	52,230	52,230	-	-	442,770	-
Job Access/Reverse Commute (JARC)	20.516	MI37-X032	128,000	42,764	42,764	-	-	85,236	-
Job Access/Reverse Commute (JARC)	20.516	MI37-X039	125,000	8,363	8,363	-	-	-	116,637
Job Access/Reverse Commute (JARC)	20.516	MI37-X044	140,000	7,188	7,188	-	-	-	132,812
New Freedom (Mobility Management)	20.521	MI57-X006	67,000	14,522	14,522	-	-	52,478	-
New Freedom (Mobility Management)	20.521	MI57-X012	60,000	-	-	-	-	-	60,000
New Freedom (Mobility Management)	20.521	MI57-X016	151,110	2,100	2,100	-	-	-	149,010
Subtotal - Direct Federal Operating			6,289,550	2,645,924	2,633,564	-	12,360	1,170,525	2,485,461
Passed Through Michigan Department of Transportation:									
Congestion Mitigation/Air Quality (Rideshare FY 2011)	20.507	2010-0168	432,250	400,072	400,072	-	-	-	32,178
Congestion Mitigation/Air Quality (Rideshare FY 2012)	20.507	2011-2014	455,000	-	-	-	-	-	455,000
Planning (Wally Commuter Rail) (Section 5304)	20.515	2007-0162/Z25	48,000	-	-	-	-	-	48,000
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2007-0162/Z29	183,113	167,458	167,458	-	-	-	-
Subtotal - Federal Passed Through MDOT Operating			1,118,363	567,530	567,530	-	-	-	535,178

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS (Continued)
YEAR ENDED SEPTEMBER 30, 2011

Federal and State Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures Total	Federal	State	Local	Prior Years' Expenditures	Amount Remaining
U. S. Department of Transportation (Federal) (Continued):									
Transfer - Capital grants:									
Capital (Insurance proceeds)	20.507	MI90-X380	$ 90,708	$ -	$ -	$ -	$ -	$ 62,977	$ 27,731
Capital (Insurance proceeds)	20.507	MI90-X490	14,000	14,000	14,000	-	-	-	-
			104,708	14,000	14,000	-	-	62,977	27,731
TOTAL FEDERAL EXPENDITURES			$ 32,572,505	$ 4,984,997	$ 4,972,637	$ -	$ 12,360	$ 12,516,572	$ 15,067,641

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS (Continued)
YEAR ENDED SEPTEMBER 30, 2011

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures Total	Federal	State	Local	Prior Years' Expenditures	Amount Remaining
Michigan Department of Transportation (State):									
Direct assistance - Capital grants:									
Capital (Downtown Transit Center)	N/A	2002-0007/Z19	$ 402,003	$ 51,145	$ -	$ 51,145	$ -	$ 18,470	$ 332,388
Capital (Downtown Transit Center)	N/A	2007-0162/Z26	183,750	-	-	-	-	-	183,750
Capital (State of Good Repair)	N/A	2007-0162/Z30	253,250	-	-	-	-	-	253,250
Capital (FY 2006)	N/A	2002-0007/Z21	176,000	(22,900)	-	(22,900)	-	198,900	-
Capital (FY 2007)	N/A	2007-0162/Z5	911,831	30,074	-	30,074	-	787,152	94,605
Capital (FY 2008)	N/A	2007-0162/Z12	273,000	-	-	-	-	273,000	-
Capital (FY 2009 - Toll Credits)	N/A	2007-0162/Z17	-	-	-	-	-	-	-
Capital (FY 2010 - Toll Credits)	N/A	2007-0162/Z22	-	-	-	-	-	-	-
Capital (FY 2011)	N/A	2007-0162/Z32	1,066,600	-	-	-	-	-	1,066,600
Capital (Clean Fuels Program)	N/A	2007-0162/Z31	424,338	-	-	-	-	-	424,338
Subtotal - Direct State Capital			3,690,772	58,319	-	58,319	-	1,216,815	2,354,931
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	6,669,584	6,669,584	-	6,669,584	-	-	-
Operating assistance - Act 51 Non-Urban	N/A	N/A	336,001	336,001	-	336,001	-	-	-
Prior year formula adjustments	N/A	N/A	5,273	5,273	-	5,273	-	-	-
Planning	N/A	2007-0162/Z32	30,589	8,347	-	8,347	-	-	22,242
Capital Cost of Contracting	N/A	2007-0162/Z32	40,000	-	-	-	-	-	40,000
Preventive Maintenance	N/A	2007-0162/Z32	336,000	-	-	-	-	-	336,000
Specialized Services (FY 2010)	N/A	2007-0162/Z24	176,840	8,676	-	8,676	-	168,164	-
Specialized Services (FY 2011)	N/A	2007-0162/Z28	176,840	273,975	-	81,138	192,837	-	-
Job Access/Reverse Commute (FY 2008)	N/A	2007-0162/Z11	32,000	10,690	-	10,690	-	21,310	-
Job Access/Reverse Commute (FY 2009)	N/A	2007-0162/Z20	31,250	781	-	781	-	-	30,469
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27	35,000	5,850	-	5,850	-	-	29,150
New Freedom (Mobility Management)	N/A		151,110	-	-	-	-	-	151,110
Subtotal - Direct State Operating			8,020,487	7,319,177	-	7,126,340	192,837	189,474	608,971
Transfer - Capital grants:									
Capital (Insurance proceeds)	N/A	2002-0070/Z4	22,677	-	-	-	-	15,744	6,933
Subtotal - Transfer			22,677	-	-	-	-	15,744	6,933
TOTAL STATE EXPENDITURES			$ 11,733,936	$ 7,377,496	$ -	$ 7,184,659	$ 192,837	$ 1,422,033	$ 2,970,835
STATE PASS-THROUGH:									
Specialized Services (FY 2010)		2007-0162/Z24	87,026	-	-	-	-	84,959	2,067
Specialized Services (FY 2011)		2007-0162/Z28	82,438	82,438	-	82,438	-	-	-
Total State Pass-through Special Services			$ 169,464	$ 82,438	$ -	$ 82,438	$ -	$ 84,959	$ 2,067

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES
YEAR ENDED SEPTEMBER 30, 2011, WITH COMPARATIVE TOTALS FOR 2010

	Specialized Services 2007-0162/Z__ FY 2011	Job Access/ Reverse Commute MI37-X032 MI37-X039 MI37-X044 2007-0162/Z11 2007-0162/Z20 2007-0162/Z27	New Freedom MI57-0006 MI57-0012 MI57-0016 2007-0162/Z13 2007-0162/Z 2007-0162/Z	Rideshare Program 2010-0168 FY 2011	Non Urban Operations (Sec. 5311: 2007-0162/Z24) 2007-0162/Z23) FY 2011	Urban Operations Paratransit	Urban Operations Fixed Route	2011 Total	2010 Total
TOTAL OPERATING EXPENSES:									
Labor	$ -	$ -	$ -	$ 108,545	$ 12,987	$ 129,374	$ 8,752,230	$ 9,003,136	$ 8,449,736
Fringe benefits	-	-	-	42,804	9,313	89,655	5,881,087	6,022,859	5,701,181
Services	-	193,066	16,622	44,308	5,850	6,391	1,890,579	2,156,816	1,992,035
Materials and supplies	-	-	-	45,866	2,941	59,915	2,854,728	2,963,450	2,951,755
Utilities	-	-	-	-	-	20,632	454,309	474,941	516,618
Casualty and liability costs	-	-	-	-	3,831	40,862	464,550	509,243	456,021
Purchased transportation	282,651	39,607	-	54	868,652	3,049,414	-	4,240,378	4,526,893
Other	-	-	-	158,495	1,602	9,743	227,345	397,185	279,954
Leases and rentals	-	-	-	-	-	-	22,741	22,741	31,949
Depreciation	-	-	-	-	-	15,744	3,724,972	3,740,716	3,767,316
TOTAL EXPENSES	$ 282,651	$ 232,673	$ 16,622	$ 400,072	$ 905,176	$ 3,421,730	$ 24,272,541	$ 29,531,465	$ 28,673,458

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUE
YEAR ENDED SEPTEMBER 30, 2011

Code	Description	Line-Haul (Fixed Route)	Demand Response	Total Urban
401 :	Farebox Revenue			
40100	Passenger Fares	$ 2,157,626	$ 504,349	$ 2,661,975
40200	Contract Fares	2,288,640	-	2,288,640
406 :	Auxiliary Transit Revenue			
40615	Advertising	70,853	-	70,853
407 :	NonTransit Revenue			
40799	Gain (Loss) on Sale of Equipment			
40799	Other Revenue	4,574	-	4,574
408 :	Local Revenue			
40800	Taxes Levied Directly for Transit Agency	7,593,238	1,185,578	8,778,816
409 :	Local Revenue			
40910	Local Operating Assistance	509,240	206,695	715,935
40999	Other Local - Local Match	105,229	136,036	241,265
411 :	State Formua and Contracts			
41101	State Operating Assistance	5,662,584	1,007,000	6,669,584
41101	Prior Year Formula Adjustments	5,273	-	5,273
41101	State Job Access/Reverse Commute match	-	17,321	17,321
41101	Planning	8,347	-	8,347
41199	State Specialized Services	-	89,814	89,814
413 :	Federal Contracts			
41311	Preventive Maintenance	1,615,000	-	1,615,000
41312	Capital Cost of Contracting	-	200,000	200,000
41399	Planning (Sec 5307)	641,957	-	641,957
41399	Unified Planning (Sec 5303)	49,440	-	49,440
41399	CMAQ - Commuter Express	52,230	-	52,230
41399	CMAQ - Rideshare	400,072	-	400,072
41399	New Freedom	-	58,315	58,315
41399	Job Access/Reverse Commute	-	16,622	16,622
414 :	Other Revenue			
41400	Interest Revenue	72,636	-	72,636
	Total	$ 21,236,939	$ 3,421,730	$ 24,658,669

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES
YEAR ENDED SEPTEMBER 30, 2011

		Operations		Maintenance		General Administration		
Code	Description	Line-Haul (Fixed Route)	Demand Response	Line-Haul (Fixed Route)	Demand Response	Line-Haul (Fixed Route)	Demand Response	Total
501:	Labor							
50101	Operators Salaries & Wages	$5,148,782						$ 5,148,782
50102	Other Salaries & Wages	649,122	$ 54,197	$ 1,506,029	$ 31,126	$ 1,448,297	$ 44,051	3,732,822
502:	Fringe Benefits							
50200	Other Fringe Benefits	3,487,032	32,360	981,608	20,643	682,501	26,302	5,230,446
50201	Pensions	469,372	4,336	137,671	2,490	122,903	3,524	740,296
503:	Services							
50302	Advertising Fees	-	-	-	-	121,318	4,108	125,426
50305	Audit Costs	-	-	-	-	13,117	2,283	15,400
50399	Other Services	117		438,499		1,317,528	-	1,756,144
504:	Materials and Supplies							
50401	Fuel & Lubricants	1,560,547	-	6,231	-	-	-	1,566,778
50402	Tires & Tubes	131,341	-		-	-	-	131,341
50499	Other Materials & Supplies	489,138	24,372	183,795	9,158	483,676	26,385	1,216,524
505:	Utilities							
50500	Utilities	-	-	-	-	454,309	20,632	474,941
506:	Insurance							
50603	Liability Insurance	376,235	-	-	-	-	-	376,235
50699	Other Insurance	-	-	-	-	88,315	40,862	129,177
508:	Purchased Transportation							
50800	Purchased Transportation	-	3,049,414	-	-	-	-	3,049,414
509:	Miscellaneous Expenses							
50902	Travel, Meeting & Training	-	-	-	-	43,640	1,949	45,589
50903	Association Dues & Subscriptions	-	-	-	-	70,702		70,702
50999	Other Misc Expenses	-	-	2,016	58	110,987	7,736	120,797
512:	Operating Leases & Rentals							
51200	Operating Leases & Rentals	7,211	-	-	-	15,530	-	22,741
513:	Depreciation							
51300	Depreciation	2,748,695	15,744	19,336	-	956,941	-	3,740,716
	Total Urban Expenses	15,067,592	3,180,423	3,275,185	63,475	5,929,764	177,832	27,694,271
550:	Ineligible Expenses							
55007	Ineligible Depreciation	2,728,635	15,744	3,090	-	784,660	-	3,532,129
55009	Ineligible Association Dues	-	-	-	-	4,761	-	4,761
55010	Ineligible Nontransportation Revenue	-	-	-	-	4,574	-	4,574
55011	Ineligible Preventive Maintenance (5307)	-	-	1,615,000	-		-	1,615,000
570:	Ineligible Expenses							
57099	Ineligible - Planning (Sec 5307)	-	-	-	-	641,957	-	641,957
57602	Ineligible - Unified Planning (Sec 5303)	-	-	-	-	61,800	-	61,800
57602	Ineligible - Capital Cost of Contracting	-	200,000	-	-	-	-	200,000
57604	Ineligible - Congestion Mitigation/Air Quality	65,288	-	-	-	-	-	65,288
580:	Ineligible Expenses							
57007	Ineligible - Health Care Savings Plan	162,750	-	50,625	-	35,125	-	248,500
58007	Ineligible - Post-retirement Benefits	59,936	-	16,489	-	9,885	-	86,310

	Line-Haul	Demand Response	Total
Total Expenses	$ 24,272,541	$ 3,421,730	$ 27,694,271
Total Ineligible Expenses	(6,244,575)	(215,744)	(6,460,319)
Total Eligible Expenses	$ 18,027,966	$ 3,205,986	$ 21,233,952

ADDITIONAL INFORMATION - URBAN REGULAR SERVICE NONFINANCIAL INFORMATION (Unaudited)
YEAR ENDED SEPTEMBER 30, 2011

PUBLIC SERVICE - LINE HAUL (FIXED ROUTE)

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	172,765	8,567	5,179	186,511
611	Vehicle Miles	2,406,585	119,337	72,143	2,598,065

PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	33,738	3,231	2,411	39,380
611	Vehicle Miles	534,122	51,154	38,162	623,438

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUE
YEAR ENDED SEPTEMBER 30, 2011

Code	Description	Total Nonurban
401 :	Farebox Revenue	
40100	Passenger Fares	$ 71,495
40200	Contract Fares	-
406 :	Auxiliary Transit Revenue	
40615	Advertising	-
407 :	NonTransit Revenue	
40799	Gain (Loss) on Sale of Equipment	-
40799	Other Revenue	-
408 :	Local Revenue	
40800	Taxes Levied Directly for Transit Agency	-
409 :	Local Revenue	
40910	Local Operating Assistance	359,439
40999	Other Local	-
411 :	State Formua and Contracts	
41101	State Operating Assistance	336,001
411	Prior Year Formula Adjustments	
413 :	Federal Contracts	
41301	Federal Section 5311	167,458
414 :	Other Revenue	
41400	Interest Revenue	-
	Other	-
	Total	$ 934,393

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES
YEAR ENDED SEPTEMBER 30, 2011

		DEMAND RESPONSE			
Code	**Description**	**Operations**	**Maintenance**	**General Administration**	**Total**
501:	Labor				
50102	Other Salaries & Wages	$ -	$ -	$ 12,987	$ 12,987
502:	Fringe Benefits				
50200	Other Fringe Benefits	-	-	8,427	8,427
50201	Pensions	-	-	886	886
503:	Services				
50305	Other Services	-	1,293	4,557	5,850
504:	Materials and Supplies				
50499	Other Materials & Supplies	1,196	450	1,295	2,941
506:	Insurance				
50699	Other Insurance	-	-	3,831	3,831
508:	Purchased Transportation				
50800	Purchased Transportation	868,652	-	-	868,652
509:	Miscellaneous Expenses				
50999	Other Misc Expenses	-	12	1,590	1,602
550:	Ineligible Expenses	-	-	-	-
570:	Ineligible Expenses	-	-	-	-

Total Expenses	$ 905,176
Total Ineligible Expenses	-
Total Eligible Expenses	$ 905,176

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE NONFINANCIAL INFORMATION (Unaudited) YEAR ENDED SEPTEMBER 30, 2011

PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	33,678	386		34,064
611	Vehicle Miles	380,686	1,717		382,403

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION
YEAR ENDED SEPTEMBER 30, 2011

A. ITEMS REIMBURSED BY FEDERAL GRANTS

Items reimbursed directly by federal operating and capital grants, including Sections 5304 and 5307, are deducted from total expenses in arriving at the net eligible expense total.

B. FEDERAL AND STATE DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization incurred on assets funded with state and federal grants is an ineligible expense pursuant to State of Michigan regulations. The depreciation expense included to be reimbursed with State Formula Assistance Funds only includes assets purchased with local funds where the useful life of the asset has been approved by the Michigan Department of Transportation, Bureau of Passenger Transportation.

C. HEALTH CARE SAVINGS PLAN CONTRIBUTIONS AND POST-RETIREMENT MEDICAL BENEFITS PLAN EXPENSE

The ineligible amounts represent the health care savings plan contributions that were paid during the year and the amount expensed under the defined benefit post-retirement medical benefits plan. The Authority recorded expenses in previous years for the postretirement medical benefits under SFAS Financial Accounting Standards Board (FASB) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* totaling $3,768,804 from 1991 to 2005 and received state funding for them. The Authority will carry forward the remainder of these expenses as ineligible expenses to future years until the total reaches $3,768,804. There is currently $699,810 remaining.

D. OTHER REVENUE AND ADVERTISING REVENUE

Other income includes other miscellaneous income. These items are subtracted out as ineligible expenses. Advertising revenue is earned from displaying advertising materials on Authority vehicles and is recorded net of expenses associated with equipping the vehicles with advertising media by a third party. Therefore, advertising revenue is not subtracted as ineligible expenses.

E. ASSOCIATION DUES

The amounts disallowed represent a percentage of the annual dues paid to the American Public Transit Association, the Michigan Public Transit Association and the Community Transportation Association of America. It was determined that these organizations devote a portion of their efforts, 12.0 percent, 7.8 percent and 4.1 percent, respectively, to influencing legislation which is not eligible for reimbursement according to OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments.*

F. MILEAGE INFORMATION

The methodology used for compiling mileage and other nonfinancial information used to allocate costs has been reviewed and found to be an adequate and reliable method.

Ann Arbor Transportation Authority

Federal Awards
Supplemental Information
September 30, 2011

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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*

Independent Auditor's Report

To the Board of Directors
Ann Arbor Transportation Authority

We have audited the basic financial statements of Ann Arbor Transportation Authority (the "Authority") as of and for the year ended September 30, 2011 and have issued our report thereon dated February 22, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2011-01 to be a material weakness.

To the Board of Directors
Ann Arbor Transportation Authority

Compliance and Other Matters

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

We also noted certain matters that we have reported to management of Ann Arbor Transportation Authority in a separate letter dated February 22, 2012.

Ann Arbor Transportation Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Ann Arbor Transportation Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the Authority, entity management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

February 22, 2012

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Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

To the Board of Directors
Ann Arbor Transportation Authority

Compliance

We have audited the compliance of Ann Arbor Transportation Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The major federal programs of Ann Arbor Transportation Authority are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ann Arbor Transportation Authority's management. Our responsibility is to express an opinion on Ann Arbor Transportation Authority's compliance based on our audit.

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 Ann Arbor Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ann Arbor Transportation Authority's compliance with those requirements.

In our opinion, Ann Arbor Transportation Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2011-02.

To the Board of Directors
Ann Arbor Transportation Authority

Internal Control Over Compliance

The management of Ann Arbor Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2011-02 to be a material weakness.

Ann Arbor Transportation Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Ann Arbor Transportation Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the Authority, entity management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

February 22, 2012

Ann Arbor Transportation Authority

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Project Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Transportation:				
Federal Transit Cluster - Direct programs:				
Investment Grants - Capital Assistance	20.500	MI-03-0221		$ 204,579
Urbanized Area Formula Grants:				
Capital Assistance	20.507	MI-90-X490		20,010
Capital Assistance	20.507	MI-90-X519		120,331
Capital Assistance	20.507	MI-90-X550		41,975
Capital Assistance	20.507	MI-90-X593		293,703
Capital Assistance	20.507	MI-90-X615		2,240,821
Capital Assistance	20.507	MI-90-X641		33,386
Capital Assistance	20.507	MI-90-X408		52,230
American Recovery and Reinvestment Act (ARRA) Capital Assistance	20.507	MI-96-0009		197,839
American Recovery and Reinvestment Act (ARRA) Capital Assistance	20.507	MI-96-0024		544,195
Surface Transportation Program	20.507	MI-95-X052		531,662
Total Federal Transit - Formula Grants				4,076,152
Michigan Department of Transportation - Pass-through programs - Congestion Mitigation/Air Quality	20.507		2010-0168	400,072
Total Federal Transit Cluster				4,680,803
Transit Services Program Cluster - Direct programs:				
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0032		42,764
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0039		8,363
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0044		7,188
Section 5317 New Freedom	20.521	MI-57-0006		14,522
Section 5317 New Freedom	20.521	MI-57-0012		2,100
Total Transit Services Program Cluster				74,937
Michigan Department of Transportation - Pass-through program - Operating Assistance - Section 5311	20.509		2007-0162/Z29	167,458
Southeast Michigan Council of Governments - Pass-through program - Planning Grant	20.505		11005	49,440
Total federal awards				**$ 4,972,638**

See Note to Schedule of Expenditures of Federal Awards.

Note to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Ann Arbor Transportation Authority (the "Authority") under programs of the federal government for the year ended September 30, 2011. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of the Authority. Pass-through entity identifying numbers are presented where available.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? __X__ Yes ______ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ______ Yes __X__ None reported

Noncompliance material to financial statements noted? ______ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? __X__ Yes ______ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ______ Yes __X__ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? __X__ Yes ______ No

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ______ Yes __X__ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
2011-01	**Finding Type** - Material weakness

Criteria - Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, would indicate that the property tax revenue received from the City of Ann Arbor should be recorded when received by the Authority as it is at that point that all of the eligibility requirements have been met.

Condition - In prior years, the Authority had taken the position that it would defer 75 percent of the property tax revenue received in July as it was to be used for next fiscal year's expenditures.

Context - According to GASB 33, the Authority should not have recorded deferred revenue for the amount of property taxes collected during the year and planned to be used for the subsequent year's expenditures.

Cause - Therefore, deferred revenue was overstated and net assets were understated at September 30, 2011.

Effect - The Authority proposed and posted a prior period adjustment to reduce the deferred revenue and increase net assets by $7,374,167 as of October 1, 2009.

Recommendation - We recommend that the Authority continue to review the property tax calculation and record the revenue in the period it is received and available.

Views of Responsible Officials and Planned Corrective Actions - The Authority agrees with the above recommendation and will record the revenue in the period in which it is received on a go-forward basis.

Section III - Federal Program Audit Findings

Reference Number	Finding
2011-02	**Program Name** - Federal Transit Cluster, CFDA # 20.500 - Federal Transit - Investment Grants, and #20.507 - Federal Transit - Formula Grants (Urbanized Area Formula Programs), includes American Recovery and Reinvestment Act funding **Pass-through Entity** - None **Finding Type** - Material weakness and material noncompliance with laws and regulations **Criteria** - The Davis-Bacon Act requires that contractors and subcontractors submit weekly certified payroll reports to the grantee for monitoring of prevailing wage rates. **Condition** - Weekly certified payroll reports are not being submitted to the Authority or its representatives for monitoring of Davis-Bacon Act requirements. **Questioned Costs** - Unknown **Context** - Although the Authority does require that all contractors and subcontractors comply with the provisions of the Davis-Bacon Act, they base the requirement off of projects in excess of $2,000 rather than contracts in excess of $2,000 as required by Davis-Bacon. Davis-Bacon verbage specifically outlines that the $2,000 threshold is based on contract value and the Authority has several contracts which are made up of multiple small projects and are excluded from the Davis-Bacon Act under the Authority's interpretation of the provision. **Cause and Effect** - The lack of a process to verify contractor wage rates are in compliance with Davis-Bacon prevailing wage rates could result in questioned costs. **Recommendation** - We recommend that the Authority review its process for monitoring Davis-Bacon to a contract basis rather than a project basis to ensure it is in compliance with the provisions of Davis-Bacon. **Views of Responsible Officials and Planned Corrective Actions** - The Authority will amend its practices to apply Davis-Bacon requirements based on contract basis rather than project basis for future contruction-type activities.

Prior Year Finding Number	Federal Program
2010-1	Federal Transit Cluster, CFDA # 20.500 - Federal Transit - Investment Grants and #20.507 - Federal Transit - Formula Grants (Urbanized Area Formula Programs), includes American Recovery and Reinvestment Act funding
	Original Finding Description - During the year, the Authority received and reviewed certified payrolls in compliance with Davis-Bacon requirements but did not review interview wage sheets comparing actual wage rates paid by the contractors to the prevailing wage rate.
	Status - In the current year, a similar finding related to certified payrolls exists; see Finding 2011-1.