

# *Ann Arbor Transportation Authority*

*Financial Statements as of and for the  
Years Ended September 30, 2009 and 2008 and  
Additional Information for the Year Ended  
September 30, 2009, 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, 2009, and  
Independent Auditors' Reports*

# ANN ARBOR TRANSPORTATION AUTHORITY

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	2-5
FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008:	
Balance Sheets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-20
REQUIRED GASB STATEMENT 45 SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Retired Employees Healthcare Plan	21
Notes to Schedule of Funding Progress for Retired Employees Healthcare Plan	22
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	23
ADDITIONAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2009:	
Schedule of Revenues	24
Schedule of Operating Expenses	25
Schedule of Federal and State Interest in Capital Assets	26
Schedule of Expenditures of Federal and State Awards	27-28
Schedule of Operating and Contract Expenses	29
Schedule of Urban Regular Service Revenues	30
Schedule of Urban Regular Service Expenses	31
Schedule of Regular Service Nonfinancial Information (Unaudited)	32
Schedule of Nonurban Regular Service Revenues	33
Schedule of Nonurban Regular Service Expenses	34
Schedule of Regular Service Nonfinancial Information (Unaudited)	35
Schedule of Operating Assistance Calculation	36
Notes to Schedule of Operating Assistance Calculation	37-38

Comments and Recommendations – Statutory Compliance	39
SINGLE AUDIT:	
Supplemental Schedule of Expenditures of Federal Awards	40
INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	41-42
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	43-44
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	45-46
MANAGEMENT’S CORRECTIVE ACTION PLAN	47
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	48

**INDEPENDENT AUDITORS' REPORT**

March 19, 2010

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the accompanying basic financial statements of Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 audits provide 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 Ann Arbor Transportation Authority as of September 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reported dated March 19, 2010 on our consideration of Ann Arbor Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Governmental Accounting Standards Board Statement #45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" Supplementary Information are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 basic financial statements taken as a whole.



# ANN ARBOR TRANSPORTATION AUTHORITY

## MANAGEMENT DISCUSSION AND ANALYSIS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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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, 2009. 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, 2009 and 2008 and does not purport to make any statement regarding the future operations of the organization. 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 revenues, 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 GASB and the State of Michigan Departments of Treasury and Transportation.

The basic financial statements for the year ended September 30, 2008 have been audited and are included herein for comparative purposes.

### **Financial Highlights**

The Authority’s total assets increased from the prior year by \$2.28 million (5.0%), primarily due to a increase in net capital assets from the purchase of seven hybrid diesel-electric buses for \$4.0 million using Federal and State capital grants.

Cash and investments increased by \$1.26 million (10.5%) primarily due to the timing from the collection of grant, property tax and other receivables.

Total net assets increased by \$2.5 million (6.9%), primarily because net assets - invested in capital assets increased from the purchase of seven hybrid diesel-electric buses for \$4.0 million, a fare collection system for \$1.0 million, park and ride lot construction for \$342,500 and other fixed assets for \$900,000, less depreciation of \$3.7 million. Unrestricted net assets increased by \$180,000.

Current liabilities decreased by \$296,000 (3.0%) due to the decrease in unrealized gains on the heating oil futures account.

Total expenses decreased \$969,000 (3.4%) primarily due to “front-loading” of the Health Care Savings Plan in the previous year. Purchased transportation increased by \$356,000 from the increased demand for ARide service and the addition of a second commuter express route.

## Balance Sheets

The balance sheets include all assets and liabilities. It is prepared under the “full accrual” basis of accounting, whereby revenues 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, 2009 and 2008 follows (in thousands):

	<b>2009</b>	<b>2008</b>
Assets:		
Current assets	\$18,229	\$18,265
Capital assets, net	<u>29,931</u>	<u>27,619</u>
<b>Total assets</b>	<b><u>\$48,160</u></b>	<b><u>\$45,884</u></b>
Liabilities:		
Current liabilities	\$ 9,555	\$ 9,851
Noncurrent liabilities	<u>162</u>	<u>83</u>
<b>Total liabilities</b>	<b>9,717</b>	<b>9,934</b>
Net Assets:		
Invested in capital assets	29,931	27,619
Unrestricted	<u>8,512</u>	<u>8,331</u>
<b>Total net assets</b>	<b><u>38,443</u></b>	<b><u>35,950</u></b>
	<b><u>\$48,160</u></b>	<b><u>\$45,884</u></b>

At September 30, 2009, the Authority’s total assets were \$48.16 million, compared to \$45.88 million at September 30 2008. The Authority’s largest capital investments include buses and related equipment, net of depreciation, of \$19.6 million in 2009 and \$16.9 million in 2008 and the land and buildings, net of depreciation, of \$9.5 million in 2008 and \$9.6 million in 2008.

The majority of the Authority’s current liabilities are unearned revenue (\$7.22 million in 2009 and \$7.65 million in 2008), which primarily is 75% (nine of twelve months) of the tax levied on the property in the City of Ann Arbor on July 1, 2009. The original property tax levy, approved by the voters in the City of Ann Arbor, Michigan, was 2.5 mills. However, the property tax levy is subject to the Headlee Amendment to the State of Michigan Constitution and has decreased in recent years to its current 2.056 mills. The majority of the 2009 tax levy has been collected and the unearned revenue represents the portion that will be used to help fund operations from October 1, 2009 to June 30, 2010.

In 2006, the Authority has implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement #45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension”. 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 \$2,025,000 as of September 30, 2009 and 2008.

From 1991 through 2005, the Authority recorded postemployment medical benefits obligation of \$3,769,000 under the provisions of the Financial Accounting Standards Board (FASB) #106, “Employers’

Accounting for Postretirement Benefits Other Than Pensions.” However, under GASB #45, only the amount of the annual required contribution not paid since the adoption of GASB #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 the 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.

At September 30, 2009, the Authority had outstanding commitments relating to the purchase of 4 hybrid diesel electric buses for \$2.5 million and the construction of a park and ride lot of \$1.0million. Funding for the buses and the park and ride lot are through a Federal American Recovery and Reinvestment Act (stimulus) grants.

The total assets of the Authority exceeded its total liabilities by \$38,443,000 (net assets) as of September 30, 2009. Of this amount, \$8,512,000 (unrestricted net assets) may be used to fund future operations and meet future obligations of the Authority.

### Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the Authority’s revenues, expenses and changes in net assets for the year ended September 30, 2009 and 2008 follows (in \$1,000’s):

	<b>2009</b>	<b>2008</b>
Operating revenues	\$ 4,203	\$ 3,768
Operating expenses	<u>(27,606)</u>	<u>(28,575)</u>
Operating loss	(23,403)	(24,837)
Non-operating revenues	<u>19,866</u>	<u>20,197</u>
Change in net assets before capital contributions	(3,537)	(4,640)
Net Capital contributions	<u>6,029</u>	<u>11,137</u>
Change in net assets	2,492	6,467
Net assets, beginning of year	<u>35,951</u>	<u>29,454</u>
<b>Net assets, end of year</b>	<b><u>\$38,443</u></b>	<b><u>\$35,951</u></b>

The Authority’s primary sources of operating revenues are passenger fares collected in the farebox in each bus, sales of 30-day passes and tokens. Other operating revenues are special fares where 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 \$27,606,000 include operations (\$18,681,000), vehicle and facility maintenance (\$3,888,000) and general administration (\$5,037,000). The largest portion of all expenses is for employee wages and fringe benefits of \$13,534,000 or 49.0% of all expenses.

Non-operating revenues 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. Federal revenue increased \$248,000 (11.8%).

Capital contributions represent Federal and State grants for the purchase of new capital assets. In 2009, the Authority purchased seven hybrid diesel-electric buses for \$4.0 million. The purchase of the buses was funded by Federal (\$3.2 million) and State (\$0.8 million) capital grants. 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 2009 and 2008, the Authority used \$1,709,000 and \$1,664,000, 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.

### **Economic Factors and Next Year's Budget (Fiscal Year 2010)**

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 2010, the Board of Directors adopted a balanced budget with a projected surplus of \$37,000.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. This amount had been increasing by 4.0% to 5.0% annually for the past few years. However, recent projections show a decrease of \$490,000 (5.0%) in the July 1, 2010 tax levy because of declining property values and the University of Michigan's purchase the former Pfizer complex. This transaction removed \$238 million from the property tax rolls.

### **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](http://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, 2009 AND 2008

ASSETS	2009	2008
<b>CURRENT ASSETS:</b>		
Cash (Note 2)	\$ 12,394,217	\$ 7,798,920
Investments (Note 2)	866,983	4,205,830
Accounts receivable, less allowance of \$0 in 2009 and 2008	550,491	389,767
Grants receivable (Note 3)	2,415,856	3,044,741
Other receivables (Note 4)	653,760	1,331,664
Inventory	705,610	874,259
Prepaid expenses	641,799	620,228
Total current assets	18,228,716	18,265,409
<b>CAPITAL ASSETS: (Note 5)</b>		
Land and improvements	2,180,821	2,180,821
Park and Ride lot construction	1,494,007	1,494,007
Buildings and improvements	16,738,015	16,417,886
Equipment and other (Note 13)	39,226,326	36,534,928
Construction in progress	355,842	13,362
Total capital assets	59,995,011	56,641,004
Less accumulated depreciation	30,063,813	29,021,651
Net capital assets	29,931,198	27,619,353
<b>TOTAL ASSETS</b>	<b>\$ 48,159,914</b>	<b>\$ 45,884,762</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 689,938	\$ 748,507
Grant refunds payable (Note 3)	156,943	93,957
Accrued payroll	483,125	440,253
Other accrued expenses	1,008,124	917,169
Unearned revenue (Note 6)	7,216,987	7,651,035
Total current liabilities	9,555,117	9,850,921
<b>CONTINGENCIES (Note 8)</b>		
POST-RETIREMENT BENEFIT OBLIGATION (Note 12)	162,136	83,219
Total liabilities	9,717,253	9,934,140
<b>NET ASSETS:</b>		
Invested in capital assets	29,931,198	27,619,353
Unrestricted	8,511,463	8,331,269
Total net assets	38,442,661	35,950,622
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 48,159,914</b>	<b>\$ 45,884,762</b>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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	<b>2009</b>	<b>2008</b>
OPERATING REVENUES (Note 9)	\$ 4,203,275	\$ 3,737,768
OPERATING EXPENSES (Notes 7, 9, 11 and 12):		
Operations	18,681,118	19,164,892
Maintenance	3,887,748	4,399,888
General administration	<u>5,037,140</u>	<u>5,010,459</u>
Total operating expenses	<u>27,606,006</u>	<u>28,575,239</u>
OPERATING LOSS	(23,402,731)	(24,837,471)
NONOPERATING REVENUES:		
Local	10,558,499	11,003,100
State	6,949,225	7,084,501
Federal	<u>2,358,409</u>	<u>2,110,166</u>
Total nonoperating revenues	<u>19,866,133</u>	<u>20,197,767</u>
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(3,536,598)	(4,639,704)
CAPITAL CONTRIBUTIONS	6,215,037	11,058,382
LOSS ON DISPOSITION OF CAPITAL ASSETS	(186,400)	
TRANSFER OF CAPITAL ASSETS (Note 13)	<u>                    </u>	<u>78,722</u>
CHANGE IN NET ASSETS	2,492,039	6,497,400
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>35,950,622</u>	<u>29,453,222</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 38,442,661</u>	<u>\$ 35,950,622</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 8,511,463</u>	<u>\$ 8,331,269</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	\$ 3,117,011	\$ 2,999,559
Payments for salaries and wages and fringe benefits	(13,707,740)	(16,845,941)
Payments to suppliers	(5,170,345)	(4,982,810)
Payments for claims and insurance	(413,127)	(541,785)
Payments for purchased transportation	(3,789,519)	(3,531,038)
Net cash used in operating activities	<u>(19,963,720)</u>	<u>(22,902,015)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenue:		
Local	11,130,892	9,974,949
State	7,295,214	6,977,701
Federal	<u>3,141,075</u>	<u>2,552,431</u>
Net cash provided by noncapital financing activities	<u>21,567,181</u>	<u>19,505,081</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(6,243,666)	(11,141,579)
Capital contributed by state and federal grants	5,778,253	10,067,414
Proceeds from sale of equipment and insurance claims	16,179	52,676
Net cash used in capital and related financing activities	<u>(449,234)</u>	<u>(1,021,489)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(12,951,061)	(14,730,282)
Proceeds from sale and maturities of investment securities	16,289,908	18,409,027
Interest income	<u>102,223</u>	<u>434,988</u>
Net cash (used in) provided by investing activities	<u>3,441,070</u>	<u>4,113,733</u>
NET INCREASE (DECREASE) IN CASH	4,595,297	(304,690)
CASH AT BEGINNING OF YEAR	<u>7,798,920</u>	<u>8,103,610</u>
CASH AT END OF YEAR	<u>\$ 12,394,217</u>	<u>\$ 7,798,920</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## STATEMENTS OF CASH FLOWS (Concluded) YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (23,402,731)	\$ (24,837,471)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,685,833	3,148,836
Changes in assets and liabilities which (used) provided cash:		
Receivables	(160,724)	28,476
Inventory	168,649	(146,891)
Prepaid expenses	(21,571)	207,646
Payables	(58,589)	212,595
Accrued payroll	42,872	69,369
Other accrued expenses	(217,459)	(1,584,575)
Total adjustments	<u>3,439,011</u>	<u>1,935,456</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (19,963,720)</u>	<u>\$ (22,902,015)</u>

See notes to financial statements.

# ANN ARBOR TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED September 30, 2009 and 2008

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### 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 statutes 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*** - 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.

***Investments*** are held primarily in certificates of deposit and in three pooled municipal investment trust funds. These trust funds consist of certificates of deposit, United States Treasury securities, repurchase agreements and commercial paper.

***Revenues, Capital Grant Contributions and Unearned Revenue*** - Revenues are classified as operating and nonoperating revenues and capital contributions. Operating revenues include activities that have the characteristics of exchange transactions, such as passenger fares and special transit fares. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, 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. 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 revenues, expenses and changes in net assets.

The Authority recognizes as revenue only that portion of the City of Ann Arbor's tax levy for transit services which is attributable to the Authority's fiscal year. Accordingly, only one quarter of the tax levy and the inventory replacement tax for the period July 1 to June 30 is included as nonoperating revenues in the accompanying statements of revenues, expenses and net assets. The balance of the tax levy is recorded as unearned revenue. (See Note 6).

***Derivative Financial Instruments*** – The Authority periodically enters into heating oil contracts to manage a portion of the exposure to fluctuating biodiesel 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 hedge contracts for trading or speculative purposes.

The Authority records the fair market value of the fuel hedge 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 Revenues, Expenses and changes in Net Assets in the fuel and lubricants expense line item. The unrealized gains and losses are recorded as unearned revenue in the Balance Sheet. (See Note 6).

***Vacation and Sick Pay*** - The Authority records expense for vacation and sick pay benefits when earned by the employees. The accrual for unused vacation and sick leave is reported as a current liability because there is no limit on how many earned vacation and sick days an employee can use in a year.

***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, which include land, buildings, vehicles and other equipment 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.

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 20 to 30 years for land improvements, of 6 to 30 years for buildings and improvements and of 3 to 12 years for equipment. 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.

***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 revenues 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.

***Subsequent events*** - In preparing these financial statements, management has evaluated, for potential recognition disclosure, significant events or transactions that occurred during the period subsequent to September 30, 2009, the most recent statement of net assets presented herein, through the auditors’ report date, the date these financial statements were available to be issued. There were no such subsequent events.

## 2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2009 and 2008:

Balance Sheet:	2009	2008
Cash	\$ 12,394,217	\$ 7,798,920
Investments	<u>866,983</u>	<u>4,205,830</u>
<b>Total</b>	<b><u>\$ 13,261,200</u></b>	<b><u>\$12,004,750</u></b>

	2009	2008
<b>Deposits and Investments:</b>		
Bank deposits (checking, savings and certificates of deposit)	\$12,387,729	\$11,490,880
Investment in government liquid asset fund accounts	182,015	180,992
Heating Oil Futures Account	684,586	326,008
Cash on hand	<u>6,870</u>	<u>6,870</u>
<b>Total</b>	<b><u>\$13,261,200</u></b>	<b><u>\$ 12,004,750</u></b>

State statutes authorize 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.

**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 repurchases 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 twenty 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, 2009, the Authority had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Rating</u>
Government Liquid Assets Funds	N/A	Various	\$ 154,434	Not rated
JP Morgan Chase Money Market Fund	N/A	2.06%	13,755	Moody's AAA
Comerica Money Market Fund	N/A	2.02%	<u>13,826</u>	Moody's A1P1F1
			<b><u>\$ 182,015</u></b>	

### **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, 2009.

*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, 2009, \$11,818,920 of the Authority's bank balance of \$12,523,858 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:

	<b>2009</b>	<b>2008</b>
Michigan Department of Transportation:		
Rideshare program	\$ 150,266	\$ 205,615
Operating assistance	(77,759)	224,323
Specialized services	-	(6,477)
Buses and related equipment	1,040,919	251,378
Facilities	12,434	29,500
Passenger shelters	12,463	14,207
Job Access/Reverse Commute (State match)	4,965	-
Federal Transit Administration:		
Buses and related equipment	405,406	989,446
Passenger shelters	8,379	54,852
Facilities	49,738	128,973
Park and Ride Lot construction	345,279	
Job Access/Reverse Commute	19,861	
New Freedom	9,783	-
Planning	103,781	169,189
Preventive maintenance	-	700,000
Commuter express	41,854	48,756
Computer hardware and software	131,544	101,022
Capital cost of contracting	-	40,000
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	<u>\$ 2,258,913</u>	<u>\$ 2,950,784</u>
REMAINING UNEARNED BALANCES ON ABOVE GRANTS	<u><u>\$12,678,569</u></u>	<u><u>\$ 12,437,304</u></u>

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

	<b>2009</b>	<b>2008</b>
Grants receivable	\$ 2,415,856	\$ 3,044,741
Grant refunds payable	<u>(156,943)</u>	<u>(93,957)</u>
Net grants receivable	<u><u>\$ 2,258,913</u></u>	<u><u>\$ 2,950,784</u></u>

#### 4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	<b>2009</b>	<b>2008</b>
City of Ann Arbor - tax levy	\$ 518,356	\$ 1,103,847
City of Ann Arbor - inventory replacement tax	74,574	149,148
Interest receivable	0	17,839
Workers' compensation insurance refund	<u>60,830</u>	<u>60,830</u>
 Total	 <u>\$ 653,760</u>	 <u>\$ 1,331,664</u>

#### 5. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2009 is as follows:

	<b>October 1 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>September 30 2009</b>
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821	\$	\$	\$ 2,180,821
Construction in progress	<u>13,362</u>	<u>342,480</u>	<u></u>	<u>355,842</u>
Total capital assets not being depreciated	2,194,183	342,480		2,536,663
Capital assets being depreciated:				
Park and ride lot construction	1,494,007			1,494,007
Buildings	16,417,886	320,129		16,738,015
Vehicles and related equipment	28,139,126	4,256,241	1,452,221	30,943,146
Radio and telephone systems	203,594	81,883	59,940	225,537
Fare collection equipment	1,003,900	1,035,418	1,003,902	1,035,416
Maintenance equipment	509,400		15,414	493,986
Office equipment and furniture	2,310,309	87,595	203,989	2,193,915
Passenger shelters	920,942	29,920	134,190	816,672
Other	187,250		2,199	185,051
Advanced operating system	<u>3,260,407</u>	<u>90,000</u>	<u>17,804</u>	<u>3,332,603</u>
Total capital assets being depreciated	54,446,821	5,901,186	2,889,659	57,458,348
Less accumulated depreciation:				
Park and ride lot construction	672,375	76,350		748,725
Buildings	9,862,985	607,636		10,470,621
Vehicles and related equipment	11,543,220	2,418,524	1,452,221	12,509,523
Radio and telephone systems	185,116	21,862	59,940	147,038
Fare collection equipment	722,348	95,584	764,226	53,706
Maintenance equipment	426,215	29,852	15,414	440,653
Office equipment and furniture	1,651,830	323,773	203,989	1,771,614
Passenger shelters	551,610	70,382	127,878	494,114
Other	186,240	1,009	2,199	185,050
Advanced operating system	<u>3,219,712</u>	<u>40,861</u>	<u>17,804</u>	<u>3,242,769</u>
Total accumulated depreciation	29,021,651	3,685,833	2,643,671	30,063,813
Total capital assets being depreciated, net	<u>25,425,170</u>	<u>2,215,353</u>	<u>245,988</u>	<u>27,394,535</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 27,619,353</u>	<u>\$ 2,557,833</u>	<u>\$ 245,988</u>	<u>\$ 29,931,198</u>

**5. CAPITAL ASSETS (Concluded)**

Capital asset activity during the fiscal year ended September 30, 2008 is as follows:

	<b>Balance October 1 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance September 30 2008</b>
Capital assets not being depreciated:				
Land and improvements	\$ 2,180,821			\$ 2,180,821
Construction in progress	<u>                    </u>	<u>13,362</u>	<u>                    </u>	<u>13,362</u>
	2,180,821	13,362		2,194,183
Capital assets being depreciated:				
Park and ride lot construction	1,494,007			1,494,007
Buildings	16,262,345	155,541		16,417,886
Vehicles and related equipment	21,182,538	10,673,208	3,716,620	28,139,126
Radio and telephone systems	203,594			203,594
Fare collection equipment	1,003,900			1,003,900
Maintenance equipment	505,405	3,995		509,400
Office equipment and furniture	2,173,559	136,750		2,310,309
Passenger shelters	762,217	158,725		920,942
Other	187,250			187,250
Advanced operating system	<u>3,260,407</u>	<u>                    </u>	<u>                    </u>	<u>3,260,407</u>
Total capital assets being depreciated	47,035,222	11,128,219	3,716,620	54,446,821
Less accumulated depreciation:				
Park and ride lot construction	596,025	76,350		672,375
Buildings	9,268,329	594,656		9,862,985
Vehicles and related equipment	13,361,159	1,898,681	3,716,620	11,543,220
Radio and telephone systems	173,221	11,895		185,116
Fare collection equipment	638,598	83,750		722,348
Maintenance equipment	386,610	39,605		426,215
Office equipment and furniture	1,333,282	318,548		1,651,830
Passenger shelters	487,047	64,563		551,610
Other	184,222	2,018		186,240
Advanced operating system	<u>3,160,942</u>	<u>58,770</u>	<u>                    </u>	<u>3,219,712</u>
Total accumulated depreciation	29,589,435	3,148,836	3,716,620	29,021,651
Total capital assets being depreciated, net	17,445,787	7,979,383		25,425,170
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 19,626,608</u>	<u>\$ 7,992,745</u>	<u>\$</u>	<u>\$ 27,619,353</u>

## 6. UNEARNED REVENUE

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

	2009	2008
City of Ann Arbor - tax levy	\$7,318,235	\$7,384,952
City of Ann Arbor - inventory replacement tax	55,932	55,932
Federal Capital	27,731	27,731
State Capital	6,933	6,933
Local share of WALLY intergovernmental revenues	20,000	
Unrealized Gains (Losses) on Fuel Futures Account	<u>(211,844)</u>	<u>175,487</u>
Total	<u>\$7,216,987</u>	<u>\$7,651,035</u>

## 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 ("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 3% of their gross earnings to the plan, which amounted to \$258,000 and \$258,000 for the years ended September 30, 2009 and 2008. The Authority's contribution to the plan is 9% of the employee's gross earnings less forfeitures and amounted to \$774,000 and \$718,000 for the years ended September 30, 2009 and 2008, respectively. Total payroll and covered payroll was approximately \$9,632,000 and \$8,603,000 for 2009 and \$9,819,000 and \$8,606,000 for 2008.

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

## 8. CONTINGENCIES

The Authority is a defendant in several pending personal injury lawsuits. 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 and over-the-road coach operators 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 revenues and operating expenses include approximately \$501,000 and \$417,000 of fares for these services in the years ended September 30, 2009 and 2008, 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. POST EMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS**

**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. 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. 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% 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% 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’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 actuarially determined in accordance with the parameters of GASB Statement 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” 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 thirty years. The Authority’s annual OPEB cost for the current year and the related information for the plan is as follows:

	<b>2009</b>	<b>2008</b>
Contribution rates:		
Authority – Actuarially determined	4.3%	4.3%
Plan members	N/A	N/A
Annual required contribution	\$ 145,395	\$ 147,911
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	<u>145,395</u>	<u>922,100</u>
Contributions made – health care premiums	(66,478)	(64,692)
Contributions made – “front-load” health care savings plan	<u>-</u>	<u>(1,713,963)</u>
Increase (decrease) in net OPEB obligation	78,917	(1,630,744)
Net OPEB obligation – beginning of year	<u>83,219</u>	<u>1,713,963</u>
<b>Net OPEB obligation – end of year</b>	<b><u>\$ 162,136</u></b>	<b><u>\$ 83,219</u></b>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended September 30, 2009 and 2008, for the plan are as follows (this is the third year for OPEB determination):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
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

**Funded Status and Funding Progress.** The funded status of the plan as of September 30, 2008 was as follows:

Actuarial accrued liabilities (a)	\$ 2,025,259
Actuarial value of plan assets (b)	<u>-</u>
<b>Unfunded actuarial accrued liability (funding excess) (a) – (b)</b>	<b><u>\$ 2,025,259</u></b>
Funded ratio (b) / (a)	0%
Covered payroll (c)	\$ 9,819,000
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll [(a) – (b)] / (c)	20.6%

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.** 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 in force at the valuation date and the 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. Significant methods and assumptions were as follows:

Actuarial valuation date	9/30/07
Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll Open
Remaining amortization period	27 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	N/A
Healthcare inflation rate	10% in 2008 Grading to 4% in 2017

## **12. 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) that allows employees to save pre-tax money to pay post employment medical expenses and/or health insurance premiums. Virtually all active employees participate and vested funds accumulate in the plan shall become accessible to the employee upon employee's separation from employment, due to retirement, resignation, termination or any other reason. Employees are vested in employer contributions after ten 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 ten 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.

## **13. TRANSFER OF CAPITAL ASSETS**

During 2009, the Authority recognized a loss on the disposal of the fare collection system of \$186,400.

During 2008, a replacement vehicle was acquired using \$78,700 of the insurance proceeds of \$113,400 from an accident in 2007, which totaled an Authority vehicle. The remaining Federal and State interest of \$34,700 is recorded in unearned revenue, until such disposition as directed by the Federal Transit Administration and the Michigan Department of Transportation.

## **14. COMMITMENTS**

At September 30, 2009, the Authority had outstanding commitments relating to the purchase of four hybrid diesel electric buses for \$2.5 million and the remaining construction of a park and ride lot for \$915,000. Funding for the buses and the park and ride lot are through Federal capital grants.

## **15. INFORMATIONAL SUMMARY OF PROJECTED REVENUES, EXPENDITURES AND METHOD OF FINANCING CAPITAL PROJECTS**

The Authority has prepared and made available for inspection the informational summary of projected revenues, 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).

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# ANN ARBOR TRANSPORTATION AUTHORITY

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

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
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	20.60%

# ANN ARBOR TRANSPORTATION AUTHORITY

## NOTES TO GASB STATEMENT 45 REQUIRED SUPPLEMENTARY INFORMATION YEARS ENDED September 30, 2009 and 2008

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### 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 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 under 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.

From 1991 to 2005, the Authority recorded an actuarial-determined liability for post-retirement health care benefits under the provisions of the Statement of Financial Accounting Standards (FASB) number 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 #45, effective October 1, 2005, eliminated this liability and transferred this amount to unrestricted net assets.

**INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

March 19, 2010

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the basic financial statements of Ann Arbor Transportation Authority, as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated March 19, 2010. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying additional information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information on pages 24 – 31, 33 – 34, and 36 is the responsibility of the management of Ann Arbor Transportation Authority. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements, and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

The schedules of vehicle hours and mileage data on pages 32 and 35 are the responsibility of the Authority's management. Such schedules have not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on them.



# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF REVENUES

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
<b>LOCAL OPERATING REVENUES:</b>		
Passenger fares:		
Urban fixed route	\$ 1,687,957	\$ 1,604,413
Urban demand response	440,071	410,911
Commuter express	60,727	12,640
Nonurban demand response	485,469	416,604
Special Fares:		
Ann Arbor Chamber of Commerce - go!pass sales	318,281	285,650
Ann Arbor Public Schools	28,000	28,000
Eastern Michigan University	119,098	127,835
University of Michigan	937,033	851,715
Washtenaw Community College	126,639	
Total local operating revenue	<u>\$ 4,203,275</u>	<u>\$ 3,737,768</u>
<b>LOCAL NONOPERATING REVENUE:</b>		
Purchase of service agreements:		
City of Ypsilanti	258,549	131,377
City of Ann Arbor - Downtown Development Authority	68,445	80,279
City of Ann Arbor (Local Match for LINK)	6,300	6,300
Pittsfield Township	142,844	149,758
Superior Township	25,958	31,883
Ypsilanti Township	264,453	258,793
Total purchase of service agreements	<u>766,549</u>	<u>658,390</u>
City of Ann Arbor - tax levy	9,532,518	9,708,400
City of Ann Arbor - inventory replacement tax	74,574	74,574
Washtenaw County (WALLY)	25,000	
City of Ann Arbor - Downtown Development Authority (WALLY)	25,000	
Interest income	84,384	413,932
Advertising income	92,597	67,676
Other revenue	1,305	27,452
Gain (loss) on sale of equipment	(43,428)	52,676
Total local nonoperating revenue	<u>10,558,499</u>	<u>11,003,100</u>
Total local operating and nonoperating revenue	<u>14,761,774</u>	<u>14,740,868</u>
<b>STATE OF MICHIGAN NONOPERATING REVENUE:</b>		
Formula operating assistance - urban (Act 51)	6,317,122	6,317,122
Formula operating assistance - nonurban (Act 51)	330,189	322,249
Prior years formula adjustments - urban and nonurban	212,148	357,376
Job Access/Reverse Commute (State Match)	8,407	
Specialized services	81,359	87,754
Total state nonoperating revenue	<u>6,949,225</u>	<u>7,084,501</u>
<b>FEDERAL NONOPERATING REVENUE:</b>		
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Section 5307)	258,621	169,189
Planning (Section 5313) - passed through the State of Michigan		
Federal operating assistance - nonurban (Section 5311) - passed through the State of Michigan	148,330	142,628
Capital cost of contracting (Section 5307)	200,000	200,000
Congestion Mitigation/Air Quality (Section 5307)	231,826	48,756
Job Access/Reverse Commute	33,628	
New Freedom	16,564	
Preventive maintenance (Section 5307)	1,250,000	1,294,538
Travel Demand Management (CMAQ - passed through the State of Michigan)	170,000	205,615
Total federal nonoperating revenue	<u>2,358,409</u>	<u>2,110,166</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u>\$ 19,866,133</u>	<u>\$ 20,197,767</u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES YEAR ENDED SEPTEMBER 30, 2009 WITH COMPARATIVE TOTALS FOR 2008

	Operations	Maintenance	General Administration	2009 Total	2008 Total
<b>LABOR:</b>					
Operators' salaries and wages	\$ 4,781,751			\$ 4,781,751	\$ 4,789,899
Other salaries and wages	647,137	\$ 1,431,154	\$ 1,234,087	3,312,378	3,233,443
<b>FRINGE BENEFITS</b>					
Fringe wages	981,970	305,133	250,667	1,537,770	1,795,497
Social security payroll taxes	486,282	129,988	105,951	722,221	738,865
Medical insurance	947,280	292,064	115,141	1,354,485	1,316,263
Pension	511,877	147,043	115,319	774,239	717,998
Health care savings plan	170,250	50,750	28,375	249,375	1,922,756
Post-retirement medical benefits	98,614	29,080	17,701	145,395	83,219
Other fringe benefits	502,395	108,325	46,130	656,850	660,780
<b>SERVICES:</b>					
Advertising fees			86,741	86,741	46,236
Other services		620,998	717,807	1,338,805	1,250,639
Auditing fees			22,900	22,900	19,600
<b>MATERIALS AND SUPPLIES CONSUMED:</b>					
Fuel and lubricants	1,807,968	5,732		1,813,700	1,841,126
Tires and tubes	81,378	988		82,366	38,492
Materials and supplies	8,036	736,641	360,956	1,105,633	1,256,461
<b>UTILITIES</b>					
			501,826	501,826	452,711
<b>CASUALTY AND LIABILITY COSTS:</b>					
Premiums for public liability and property damage insurance	268,634			268,634	384,013
Other casualty and liability costs			116,100	116,100	162,066
<b>PURCHASED TRANSPORTATION</b>					
	4,715,059			4,715,059	4,358,553
<b>MISCELLANEOUS EXPENSES:</b>					
Travel and meetings			14,099	14,099	32,418
Advertising and promotion media			61,141	61,141	64,676
Association dues & subscriptions			73,215	73,215	69,073
Other			146,393	146,393	147,755
<b>LEASES AND RENTALS</b>					
	25,274		13,823	39,097	43,864
<b>DEPRECIATION</b>					
	<u>2,647,213</u>	<u>29,852</u>	<u>1,008,768</u>	<u>3,685,833</u>	<u>3,148,836</u>
<b>TOTAL OPERATING EXPENSES</b>					
	<u>\$ 18,681,118</u>	<u>\$ 3,887,748</u>	<u>\$ 5,037,140</u>	<u>\$ 27,606,006</u>	<u>\$ 28,575,239</u>

See Independent Auditors' Report on Additional Information.

**ADDITIONAL INFORMATION**  
**SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

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	<b>2009</b>	<b>2008</b>
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	\$ 25,217,272	\$ 16,972,262
Contributions - Federal and State capital grants	6,215,037	11,058,382
Transfer of Federal and State interest in equipment from (to) deferred revenue		78,722
Loss on disposal of assets purchased with Federal and State capital grants	(186,400)	
Depreciation on assets purchased with Federal and State capital grants	<u>(3,450,714)</u>	<u>(2,892,094)</u>
Balance, end of year	<u>\$ 27,795,195</u>	<u>\$ 25,217,272</u>
Detail of Federal and State interest in capital assets at September 30		
Federal government	\$ 44,484,782	\$ 41,215,221
State of Michigan	<u>9,709,341</u>	<u>9,270,987</u>
Total	54,194,123	50,486,208
Less accumulated depreciation on contributed assets	<u>26,398,928</u>	<u>25,268,936</u>
Net Federal and State interest in capital assets	27,795,195	25,217,272
Net local interest in capital assets	<u>2,136,003</u>	<u>2,402,081</u>
Net assets invested in capital assets	<u>\$ 29,931,198</u>	<u>\$ 27,619,353</u>

See Independent Auditors' Report on Additional Information.

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED SEPTEMBER 30, 2009**

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures				Prior Years' Expenditures	Amount Remaining
				Total	Federal	State	Local		
<b><u>U. S. Department of Transportation (Federal):</u></b>									
Direct assistance - Capital Grants:									
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI90-0221	\$1,608,012	\$0	\$0	\$0	\$0	\$0	\$1,608,012
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	TBD	735,000	0	0	0	0	0	735,000
Capital (Section 5307) (FY 2004) (80/20)	20.507	MI90-X428	984,000	(130,766)	(130,766)	0	0	346,074	768,692
Capital (Section 5307) (FY 2005) (100/0)	20.507	MI90-X459	128,000	3,548	3,548	0	0	48,379	76,073
Capital (Section 5307) (FY 2006) (80/20 or 100/0)	20.507	MI90-X490	1,056,000	377,949	377,949	0	0	445,891	232,160
Capital (Section 5307) (FY 2007) (80/20 or 100/0)	20.507	MI90-X519	4,583,324	1,144,418	1,144,418	0	0	2,950,697	488,209
Capital (Section 5307) (FY 2008) (80/20 or 100/0)	20.507	MI90-X550	1,724,000	572,343	572,343	0	0	874,846	276,811
Capital (Section 5307) (FY 2009) (80/20 or 100/0)	20.507	MI90-X593	380,000	61,204	61,204	0	0	0	318,796
Capital (CMAQ - Three Hybrid buses) (100/0)	20.507	MI95-0021	1,187,460	1,187,460	1,187,460	0	0	0	0
Capital (CMAQ - Two Hybrid buses) (80/20)	20.507	MI95-X036	1,035,187	1,035,187	1,035,187	0	0	0	0
Capital (Section 5309 - Two Hybrid buses) (80/20)	20.500	MI04-0044	757,428	757,428	757,428	0	0	0	0
Capital (Section 5307 - ARRA)	20.507	MI96-X009	4,160,000	345,279	345,279	0	0	0	3,814,721
Subtotal - Direct Federal Capital			\$18,338,411	\$5,354,050	\$5,354,050	\$0	\$0	\$4,665,887	\$8,318,474
Direct assistance - Operating grants:									
Unified Planning Program (Section 5303) (80/0)	20.505	9005	49,440	61,800	49,440	0	12,360	0	0
Planning (Section 5307) (FY 2007) (100/0)	20.507	MI90-X519	300,000	51,011	51,011	0	0	248,989	0
Planning (Section 5307) (FY 2008) (100/0)	20.507	MI90-X550	300,000	207,610	207,610	0	0	92,390	0
Planning (Section 5307) (FY 2009) (100/0)	20.507	MI90-X593	695,000	0	0	0	0	0	695,000
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X550	200,000	200,000	200,000	0	0	0	0
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X593	200,000	0	0	0	0	0	200,000
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X550	1,680,000	980,000	980,000	0	0	700,000	0
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X593	1,680,000	270,000	270,000	0	0	0	1,410,000
Commuter Express Service (Section 5307) (100/0)	20.507	MI90-X408	495,000	289,783	231,826	0	57,957	48,756	214,418
Job Access/Reverse Commute (JARC)	20.516	MI37-X032	128,000	33,628	33,628	0	0	0	94,372
Job Access/Reverse Commute (JARC)	20.516	MI37-X039	125,000	0	0	0	0	0	125,000
New Freedom (Mobility Management)	20.521	MI57-X006	67,000	16,564	16,564	0	0	0	50,436
New Freedom (Mobility Management)	20.521	MI57-X012	60,000	0	0	0	0	0	60,000
Subtotal - Direct Federal Operating			5,979,440	2,110,396	2,040,079	0	70,317	1,090,135	2,849,226
Passed Through Michigan Department of Transportation:									
Congestion Mitigation/Air Quality (Rideshare FY 2009)	20.507	2009-0043	170,000	170,000	170,000	0	0	0	0
Congestion Mitigation/Air Quality (Rideshare FY 2010)	20.507	2010-0001	225,000	0	0	0	0	0	225,000
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2007-0162/Z15	148,330	148,330	148,330	0	0	0	0
Subtotal - Federal Passed Through MDOT Operating			543,330	318,330	318,330	0	0	0	225,000

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
YEAR ENDED SEPTEMBER 30, 2009**

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Amount Remaining		
				Total	Federal	State			Local	
<b><u>Michigan Department of Transportation (State):</u></b>										
Direct assistance - Capital grants:										
Capital (Downtown Transit Center)	N/A	2002-0007/Z19	\$ 402,003	\$ -	\$ -	\$ -	\$ -	\$ 402,003		
Capital (Downtown Transit Center)	N/A	TBD	183,750	0	0	0	0	183,750		
Capital (FY 2004)	N/A	2002-0007/Z12	238,592	(32,691)	0	(32,691)	0	194,504		
Capital (FY 2005)	N/A	2002-0007/Z17	0	0	0	0	0	0		
Capital (FY 2006)	N/A	2002-0007/Z21	176,000	94,345	0	94,345	0	33,639		
Capital (FY 2007)	N/A	2007-0162/Z5	911,831	0	0	0	729,365	182,466		
Capital (FY 2008)	N/A	2007-0162/Z12	473,000	54,314	0	54,314	0	200,000		
Capital (FY 2009 - Toll Credits)	N/A	2007-0162/Z17	0	0	0	0	0	0		
Capital (Two Hybrid Buses)	N/A	2007-0162/Z9	189,357	189,357	0	189,357	0	0		
Capital (Three Hybrid Buses)	N/A	2007-0162/Z10	296,865	296,865	0	296,865	0	0		
Capital (Two Hybrid Buses)	N/A	2007-0162/Z19	258,797	258,797	0	258,797	0	0		
Subtotal - Direct State Capital			3,130,195	860,987	0	860,987	0	1,196,362		
Direct assistance - Operating grants:										
Operating assistance - Act 51 Urban	N/A	N/A	6,317,122	6,317,122	0	6,317,122	0	0		
Operating assistance - Act 51 Non-Urban	N/A	N/A	330,189	330,189	0	330,189	0	0		
Prior year formula adjustments	N/A	N/A	212,148	212,148	0	212,148	0	0		
Specialized Services	N/A	2007-0162/Z6	176,840	291,432	0	81,359	210,073	0		
Job Access/Reverse Commute (FY 2008)	N/A	2007-0162/Z11	32,000	8,407	0	8,407	0	23,593		
Job Access/Reverse Commute (FY 2009)	N/A	2007-0162/Z20	31,250	0	0	0	0	31,250		
Subtotal - Direct State Operating			7,099,549	7,159,298	0	6,949,225	210,073	54,843		
Transfer - Capital grants:										
Capital (Insurance proceeds)	20.507	MI90-X380	90,708	0	0	0	62,977	27,731		
Capital (Insurance proceeds)	20.507	2002-0070/Z4	22,677	0	0	0	15,744	6,933		
Subtotal - Transfer			113,385	0	0	0	78,721	34,664		
<b>TOTAL FEDERAL AND STATE EXPENDITURES</b>				<b>\$35,204,310</b>	<b>\$15,803,061</b>	<b>\$7,712,459</b>	<b>\$7,810,212</b>	<b>\$280,390</b>	<b>\$6,907,589</b>	<b>\$12,678,569</b>
STATE PASS-THROUGH:										
Specialized Services (FY 2008)		2007-0162/Z6	\$87,055	\$2,068	\$0	\$2,068	\$0	\$0	\$0	
Specialized Services (FY 2009)		2007-0162/Z14	90,728	78,278	0	78,278	0	0	12,450	
Total -State Pass-Through Special Services			\$177,783	\$80,346	\$0	\$80,346	\$0	\$0	\$12,450	

See Independent Auditors' Report on Additional Information.

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES  
YEAR ENDED SEPTEMBER 30, 2009, WITH COMPARATIVE TOTALS FOR 2008**

	Specialized Services 2007-0162/Z14 FY 2009	Job Access/ Reverse Commute MI37-X032 2007-0162/Z11 FY 2008	New Freedom MI57-0006 2007-0162/Z13 FY 2008	Rideshare Program 2007-0605 FY 2009	Non Urban Operations (Sec. 5311: 2007-0162/Z2) FY 2009	Urban Operations		2009 Total	2008 Total
						Paratransit	Fixed Route		
TOTAL OPERATING EXPENSES:									
Labor				\$ 31,667	\$ 8,257	\$ 137,579	\$ 7,916,626	\$ 8,094,129	\$ 8,023,342
Fringe benefits				12,831	4,769	70,035	5,352,700	5,440,335	7,235,378
Services		\$ 42,036	\$ 20,705	104,035	916	4,067	1,276,687	1,448,446	1,316,475
Materials and supplies				4,975	5,968	41,774	2,948,982	3,001,699	3,136,079
Utilities							501,826	501,826	452,711
Casualty and liability costs					2,283	12,673	369,778	384,734	546,079
Purchased transportation	\$ 291,432			323	898,574	3,292,362	232,368	4,715,059	4,358,553
Other				16,169	6,297	10,172	262,210	294,848	313,922
Leases and rentals							39,097	39,097	43,864
Depreciation						161,512	3,524,321	3,685,833	3,148,836
<b>TOTAL EXPENSES</b>	<b>\$ 291,432</b>	<b>\$ 42,036</b>	<b>\$ 20,705</b>	<b>\$ 170,000</b>	<b>\$ 927,064</b>	<b>\$ 3,730,174</b>	<b>\$ 22,424,595</b>	<b>\$ 27,606,006</b>	<b>\$ 28,575,239</b>

See Independent Auditors' Report on Additional Information.

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES  
YEAR ENDED SEPTEMBER 30, 2009**

<b>Code</b>	<b>Description</b>	<b>Line-Haul</b>	<b>Demand Response</b>	<b>Total Urban</b>
<b>401 :</b>	<b>Farebox Revenue</b>			
40100	Passenger Fares	\$ 1,748,683	\$ 440,071	\$ 2,188,754
40200	Contract Fares	1,529,052		1,529,052
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>			
40615	Advertising	92,597		92,597
<b>407 :</b>	<b>NonTransit Revenue</b>			
40799	Gain (Loss) on Sale of Equipment	(43,428)		(43,428)
40799	Other Revenue	1,305		1,305
<b>408 :</b>	<b>Local Revenue</b>			
40800	Taxes Levied Directly for Transit Agency	8,051,578	1,555,514	9,607,092
<b>409 :</b>	<b>Local Revenue</b>			
40910	Local Operating Assistance	586,832	217,117	803,949
40999	Other Local - Local Match	12,600		12,600
<b>411 :</b>	<b>State Formula and Contracts</b>			
41101	State Operating Assistance	5,301,120	1,016,002	6,317,122
41101	Prior Year Formula Adjustments	212,148		212,148
41101	State Job Access/Reverse Commute match		8,407	8,407
41199	State Specialized Services		81,359	81,359
<b>413 :</b>	<b>Federal Contracts</b>			
41311	Preventive Maintenance	1,250,000		1,250,000
41312	Capital Cost of Contracting		200,000	200,000
41399	Planning (Sec 5307)	258,621		258,621
41399	Unified Planning (Sec 5303)	49,440		49,440
41399	CMAQ - Commuter Express	231,826		231,826
41399	CMAQ - Rideshare	170,000		170,000
41399	New Freedom		16,564	16,564
41399	Job Access/Reverse Commute		33,628	33,628
<b>414 :</b>	<b>Other Revenue</b>			
41400	Interest Revenue	84,384		84,384
	<b>Total</b>	<b>\$ 19,536,758</b>	<b>\$ 3,568,662</b>	<b>\$ 23,105,420</b>

See Independent Auditors' Report on Additional Information.

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES  
YEAR ENDED SEPTEMBER 30, 2009**

Code	Description	Operations		Maintenance		General Administration		Total
		Line-Haul	Demand Response	Line-Haul	Demand Response	Line-Haul	Demand Response	
<b>501:</b>	<b>Labor</b>							
50101	Operators Salaries & Wages	\$ 4,781,751						\$ 4,781,751
50102	Other Salaries & Wages	580,274	\$ 59,064	\$ 1,371,744	\$ 42,160	\$ 1,182,857	\$ 36,355	3,272,454
<b>502:</b>	<b>Fringe Benefits</b>							
50200	Other Fringe Benefits	3,126,576	20,984	900,917	24,291	555,077	20,946	4,648,791
50201	Pensions	509,160	2,522	146,263	724	114,707	568	773,944
<b>503:</b>	<b>Services</b>							
50302	Advertising Fees					84,735	2,006	86,741
50305	Audit Costs					19,923	2,061	21,984
50399	Other Services			545,055		626,974		1,172,029
<b>504:</b>	<b>Materials and Supplies</b>							
50401	Fuel & Lubricants	1,807,968		5,732				1,813,700
50402	Tires & Tubes	81,378		988				82,366
50499	Other Materials & Supplies	7,653	304	701,517	27,832	343,746	13,638	1,094,690
<b>505:</b>	<b>Utilities</b>							
50500	Utilities					501,826		501,826
<b>506:</b>	<b>Insurance</b>							
50603	Liability Insurance	268,634						268,634
50699	Other Insurance					101,144	12,673	113,817
<b>508:</b>	<b>Purchased Transportation</b>							
50800	Purchased Transportation	232,368	3,292,362					3,524,730
<b>509:</b>	<b>Miscellaneous Expenses</b>							
50902	Travel, Meeting & Training					12,920	763	13,683
50903	Association Dues & Subscriptions					73,215		73,215
50999	Other Misc Expenses					176,075	9,409	185,484
<b>512:</b>	<b>Operating Leases &amp; Rentals</b>							
51200	Operating Leases & Rentals	25,274				13,823		39,097
<b>513:</b>	<b>Depreciation</b>							
51300	Depreciation	2,531,213	161,512	28,544		964,564		3,685,833
	<b>Total Urban Expenses</b>	<b>13,952,249</b>	<b>3,536,748</b>	<b>3,700,760</b>	<b>95,007</b>	<b>4,771,586</b>	<b>98,419</b>	<b>26,154,769</b>
<b>550:</b>	<b>Ineligible Expenses</b>							
55007	Ineligible Depreciation	2,450,060	161,512	13,149		825,993		3,450,714
55009	Ineligible Association Dues					5,093		5,093
55010	Ineligible Nontransportation Revenue					1,305		1,305
55011	Ineligible Preventive Maintenance (5307)			1,250,000				1,250,000
<b>570:</b>	<b>Ineligible Expenses</b>							
57099	Ineligible - Planning (Sec 5307)					258,621		258,621
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 Qua	231,826						231,826
<b>580:</b>	<b>Ineligible Expenses</b>							
57007	Ineligible - Health Care Savings Plan	170,250		50,750		28,375		249,375
58007	Ineligible - Post-retirement Benefits	98,614		29,080		17,701		145,395
						<b>Line-Haul</b>	<b>Demand Response</b>	<b>Total</b>
						\$ 22,424,595	\$ 3,730,174	\$ 26,154,769
						(5,492,617)	(361,512)	(5,854,129)
						<b>\$ 16,931,978</b>	<b>\$ 3,368,662</b>	<b>\$ 20,300,640</b>
						Total Expenses		
						Total Ineligible Expenses		
						Total Eligible Expenses		

See Independent Auditors' Report on Additional Information.

## ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - URBAN REGULAR SERVICE NONFINANCIAL INFORMATION (Unaudited)  
YEAR ENDED SEPTEMBER 30, 2009

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### PUBLIC SERVICE - LINE HAUL

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	171,415	9,084	5,087	185,586
611	Vehicle Miles	2,361,679	125,155	70,086	2,556,920

### PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	34,054	3,290	2,356	39,700
611	Vehicle Miles	480,380	46,406	33,239	560,025

See Independent Auditors' Report on Additional Information.

## ANN ARBOR TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES YEAR ENDED SEPTEMBER 30, 2009

Code	Description	Total Nonurban
<b>401 :</b>	<b>Farebox Revenue</b>	
40100	Passenger Fares	\$ 73,140
40200	Contract Fares	
<b>406 :</b>	<b>Auxiliary Transit Revenue</b>	
40615	Advertising	
<b>407 :</b>	<b>NonTransit Revenue</b>	
40799	Gain (Loss) on Sale of Equipment	
40799	Other Revenue	
<b>408 :</b>	<b>Local Revenue</b>	
40800	Taxes Levied Directly for Transit Agency	
<b>409 :</b>	<b>Local Revenue</b>	
40910	Local Operating Assistance	412,329
40999	Other Local	
<b>411 :</b>	<b>State Formula and Contracts</b>	
41101	State Operating Assistance	330,189
411	Prior Year Formula Adjustments	
<b>413 :</b>	<b>Federal Contracts</b>	
41301	Federal Section 5311	148,330
<b>414 :</b>	<b>Other Revenue</b>	
41400	Interest Revenue	
	Other	
	<b>Total</b>	<b>\$ 963,988</b>

See Independent Auditors' Report on Additional Information.

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES  
YEAR ENDED SEPTEMBER 30, 2009**

Code	Description	DEMAND RESPONSE			Total
		Operations	Maintenance	General Administration	
<b>501:</b>	<b>Labor</b>				
50102	Other Salaries & Wages			\$ 8,257	\$ 8,257
<b>502:</b>	<b>Fringe Benefits</b>				
50200	Other Fringe Benefits			4,474	4,474
50201	Pensions			295	295
<b>503:</b>	<b>Services</b>				
50305	Audit Costs			916	916
<b>504:</b>	<b>Materials and Supplies</b>				
50499	Other Materials & Supplies	\$ 33	\$ 4,067	1,868	5,968
<b>506:</b>	<b>Insurance</b>				
50699	Other Insurance			2,283	2,283
<b>508:</b>	<b>Purchased Transportation</b>				
50800	Purchased Transportation	898,574			898,574
<b>509:</b>	<b>Miscellaneous Expenses</b>				
50902	Travel, Meeting & Training			416	416
50999	Other Misc Expenses			5,881	5,881
<b>550:</b>	<b>Ineligible Expenses</b>				
<b>570:</b>	<b>Ineligible Expenses</b>				
				Total Expenses	\$ 927,064
				Total Ineligible Expenses	
				Total Eligible Expenses	\$ 927,064

See Independent Auditors' Report on Additional Information.

**ANN ARBOR TRANSPORTATION AUTHORITY**

**ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE NONFINANCIAL INFORMATION (Unaudited)  
YEAR ENDED SEPTEMBER 30, 2009**

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**PUBLIC SERVICE - DEMAND RESPONSE**

<b>Code</b>	<b>Description</b>	<b>Weekday</b>	<b>Saturday</b>	<b>Sunday</b>	<b>Total</b>
<b>610</b>	<b>Vehicle Hours</b>	34,084			34,084
<b>611</b>	<b>Vehicle Miles</b>	369,136			369,136

See Independent Auditors' Report on Additional Information.

## ANN ARBOR TRANSPORTATION AUTHORITY

### ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION YEAR ENDED SEPTEMBER 30, 2009

	<u>Urban</u>		<u>Nonurban</u>
	<u>Line-Haul</u>	<u>Demand Response</u>	
Total Expenses	\$ 22,424,595	\$ 3,730,174	\$ 927,064
Less Ineligible Expenses:			
Federal Preventive Maintenance	\$ 1,250,000		
Federal Planning	258,621		
Federal Unified Planning	61,800		
Federal Congestion Mitigation/Air Quality	289,783		
Federal Capital Cost of Contracting		\$ 200,000	
Federal and State Depreciation Expense	3,289,202	161,512	
Health Care Savings Plan Contributions	249,375		
Post-Retirement Medical Benefits	145,395		
Other revenue	1,305		
Association Dues (Ineligible Portion)	5,093		
Total Ineligible Expenses	<u>5,550,574</u>	<u>361,512</u>	
<b>Total State Eligible Expenses</b>	<b>16,874,022</b>	<b>3,368,662</b>	<b>927,064</b>

Eligible Expenses for State Reimbursement	\$ 16,874,022	\$ 3,368,662	\$ 927,064
x Reimbursement Percentage	<u>30.1604%</u>	<u>30.1604%</u>	<u>35.6166%</u>
State Operating Assistance	\$ 5,089,272	\$ 1,016,002	<u>\$ 330,189</u>
Adjustment to 1997 Floor (Urban)		<u>211,848</u>	
Total Urban, (1997 Floor)		<u>\$ 6,317,122</u>	

### Total Federal Eligible Expenses

Eligible Expenses for Federal Reimbursement	\$ 927,064
x Reimbursement Percentage	<u>16.0000%</u>
Federal Operating Assistance	<u>\$ 148,330</u>

See Independent Auditors' Report on Additional Information.

# ANN ARBOR TRANSPORTATION AUTHORITY

## ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION YEAR ENDED SEPTEMBER 30, 2009

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### A. ITEMS REIMBURSED BY FEDERAL GRANTS

Items reimbursed directly by Federal operating and capital grants, including Sections 5307 and 5311, 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) #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 \$1,368,059 remaining.

### D. OTHER REVENUES AND ADVERTISING REVENUES

Other income includes a reimbursement of expenses incurred in a previous fiscal year. It also includes other miscellaneous income. These items are subtracted out as ineligible expenses. Advertising revenues are earned from displaying advertising materials on Authority vehicles and are recorded net of expenses associated with equipping the vehicles with advertising media by a third party. Therefore, advertising revenues are 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 and the Michigan Public Transit Association. It was determined that these organizations devote a portion of their efforts, 14.0% and 7.1%, 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".

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING (CONCLUDED) ASSISTANCE CALCULATION YEAR ENDED SEPTEMBER 30, 2009**

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### **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.

See Independent Auditors' Report on Additional Information.

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **COMMENTS AND RECOMMENDATIONS –STATUTORY COMPLIANCE YEAR ENDED SEPTEMBER 30, 2009**

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Our review of procedures for compliance with statutory requirements disclosed no findings.

# ANN ARBOR TRANSPORTATION AUTHORITY

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2009

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Number	Program or Award Amount	Current Year Expenditures
Transit Capital Grant Cluster -				
U.S. Department of Transportation - Federal				
Transit Administration:				
Federal Transit Capital and Operating Assistance Formula				
Grants (Section 5307):				
Capital, Planning and Operating Grant MI90-X428	20.507		\$2,184,000	\$ (130,766)
Capital, Planning and Operating Grant MI90-X459	20.507		2,608,000	3,548
Capital, Planning and Operating Grant MI90-X490	20.507		2,176,000	377,949
Capital, Planning and Operating Grant MI90-X519	20.507		6,915,324	1,195,429
Capital, Planning and Operating Grant MI90-X550	20.507		4,704,000	1,959,953
Capital, Planning and Operating Grant MI90-X593	20.507		2,955,000	331,204
Congestion Mitigation/Air Quality Grant MI90-X408	20.507		2,063,000	231,826
Congestion Mitigation/Air Quality Grant MI95-0021	20.507		1,187,460	1,187,460
Congestion Mitigation/Air Quality Grant MI95-0036	20.507		1,035,187	1,035,187
American Recovery and Reinvestment Act MI96-0009	20.507		4,160,000	345,279
Congestion Mitigation/Air Quality Grants:				
Passed-Through Michigan Department of Transportation	20.507	2009-0043	170,000	<u>170,000</u>
Subtotal - CFDA 20.507				6,707,069
U.S. Department of Transportation - Federal				
Federal Transit Administration (Section 5309) -				
Federal Transit Capital Grant MI03-0221	20.500		1,608,012	
Federal Transit Capital Grant MI04-0044	20.500		757,428	757,428
Federal Transit Administration (Section 5316) -				
Job Access and Reverse Commute MI37-0032	20.516		128,000	33,628
Federal Transit Administration (Section 5317) -				
New Freedom MI57-0006	20.521		67,000	16,564
Public Transportation for Nonurbanized Areas -				
Passed-Through Michigan Department of Transportation				
Operating Assistance (Section 5311):	20.509	2007-0162/Z15		148,330
Federal Transit Technical Studies Grant - Passed-Through				
Southeastern Michigan Council of Governments (SEMCOG) -				
Planning Grant (Section 5303) :	20.505	9005	49,440	<u>49,440</u>
Total Federal Expenditures of Federal Awards				<u>\$ 7,712,459</u>

**INDEPENDENT AUDITORS' 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**

March 19, 2010

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

We have audited the basic financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2009 and 2008, and have issued our report thereon dated March 19, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 noted certain matters that we reported to management of *Ann Arbor Transportation Authority*, in a separate letter dated March 19, 2010.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO A MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

March 19, 2010

To the Members of the Board of Directors of  
Ann Arbor Transportation Authority  
Ann Arbor, Michigan

## **Compliance**

We have audited the compliance of the 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 are applicable to its major federal program for the year ended September 30, 2009. The Authority's major federal program is 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 the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

## Internal Control Over Compliance

The management of the *Ann Arbor Transportation Authority* is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an Authority's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the Authority, and 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.



# ANN ARBOR TRANSPORTATION AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2009

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### PART I – SUMMARY OF AUDITORS’ RESULTS

#### Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant Deficiency (ies) identified  
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? \_\_\_\_\_ yes  X  no

Significant Deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Type of auditors’ report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes  X  no

Identification of major programs:

CFDA Number(s)

20.500 & 20.507

Name of Federal Program or Cluster

Federal Transit Cluster

# ANN ARBOR TRANSPORTATION AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED) YEAR ENDED SEPTEMBER 30, 2009

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### SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes    \_\_\_ no

### PART II – FINANCIAL STATEMENT FINDINGS SECTION

No matters were reportable.

### PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION

No matters were reportable.

# ANN ARBOR TRANSPORTATION AUTHORITY

## OMB CIRCULAR A-133 CORRECTIVE ACTION PLAN YEAR ENDED SEPTEMBER 30, 2009

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There are no reportable instances of noncompliance. Therefore, no corrective action plan is considered necessary.

A handwritten signature in black ink, appearing to read "C. White". The signature is written in a cursive style with a large initial "C" and a distinct "White" at the end.

Christopher White  
Manager of Service Development  
Compliance Officer

March 19, 2010

# **ANN ARBOR TRANSPORTATION AUTHORITY**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED SEPTEMBER 30, 2009**

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No reportable prior audit findings.

March 19, 2010

To the Board of Directors of the  
Ann Arbor Transportation Authority

We have audited the basic financial statements of the *Ann Arbor Transportation Authority* (the “Authority”) for the year ended September 30, 2009, and have issued our report thereon dated March 19, 2010. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated November 17, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Authority’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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.

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Authority’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Authority’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Authority’s compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on December 14, 2009.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the liability for medical and life insurance benefits for eligible retirees are determined actuarially.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transactions occurred during the year:

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the attached management representation letter dated March 19, 2010.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Ann Arbor Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent initial 'L'.

# Ann Arbor Transportation Authority

## Comments and Recommendations

For the Year Ended September 30, 2009

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In planning and performing our audit of the financial statements of the Ann Arbor Transportation Authority as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### **Investments (Repeat comment)**

Included in the Authority's investment policy is a provision that calls for not more than \$4,000,000 to be invested in any one financial institution at any point in time. However, at September 30, 2009 and during the year then ended, the Authority had significantly more than the \$4,000,000 at one financial institution. At September 30, 2009, there was a total of \$12,523,858 invested with one institution.

We understand that in the week subsequent to September 30, 2009, the balance at this one financial institution was reduced in order to comply with the policy. However, we again recommend that the Authority adhere to its own investment policy.

# **Ann Arbor Transportation Authority**

## **Comments and Recommendations (Continued)**

**For the Year Ended September 30, 2009**

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### **Demand Response Service Contracts**

Similar to other Transit systems, AATA provides a significant amount of its services by demand response offerings through contracts with various providers for various services. Contractors invoice AATA each month for vehicle and trip costs less a deduction for fares collected in accordance with each contract. The contractor provides a billing summary by day detailing trip requests, # of passengers, paid miles, fares retained, etc. Each contract allows the AATA to monitor or examine the contractor's records at any time.

Because of the significance of these demand response services and the associated payments paid to the contractors, we recommend that AATA do surprise audits of the contractors and the reports that are submitted to AATA. This could be accomplished once per year for each contractor, and will enhance the internal controls in this area.

### **Payroll Process Controls**

For payroll changes that are processed by the payroll clerk, a maintenance report showing changes in personnel and pay rates should be generated periodically from the payroll system that summarizes all payroll system master file changes. The report should be independently reviewed by someone other than the payroll clerk and initialed and dated in order to improve the internal controls in this area, and to document that this procedure was done by initial and dating for a complete audit trail. It was also noted that the Payroll Clerk and the Controller have access to make changes to the master payroll module. This access should be limited to those who are independent of the payroll processing function.

Also, during our audit procedures we noted that the Authority appears to have controls in place to review the payroll register by someone independent of payroll preparation, however there is no evidence of who the payroll register was review by or when. To help ensure proper segregation of duties the reviewer of the payroll register should document this review with an initial and date of completion.

### **New Vendor Approval**

In our internal control evaluation and testing, we noted that there is no formal approval needed for the addition of new vendors. This increases the risk that payments could be made to unauthorized vendors. We recommend that the Authority adopt a procedural policy requiring approval of a new vendor that is reviewed and approved by a person other than the person in the purchasing/accounts payable function and disbursement process. This review should be evidenced by a signature and date of review.

# **Ann Arbor Transportation Authority**

## **Comments and Recommendations (Continued)**

**For the Year Ended September 30, 2009**

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### **IT Controls**

During our audit, we reviewed with management a list of recommended information technology controls. As applied to financial applications, we noted various opportunities to enhance controls over IT as it relates to formal IT policies and procedures relating to the following:

- We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the Authority institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of AATA, once every six months would be adequate.
- Use of complex passwords that use multiple unique characters. We recommend that the Authority review these suggestions for controls not currently in place in order to enhance the internal control environment.
- The Authority currently does not have a formal disaster recovery plan. We suggest that the Authority implement a disaster recovery plan, because of the significance of electronic systems and processes to Authority operations.

### **Review/Approval Documentation**

During our audit procedures it was noted that while the Authority does have proper segregation of duties in many areas, there was no evidence documenting who prepared certain documents and who reviewed them. An example of this is the "Extra Board" daily assignment sheets, which are apparently reviewed by supervisory personnel, but there are no approval initials and date indicated thereon by a transportation supervisor.

To help ensure proper segregation of duties there should be evidence of a preparer and reviewer of forms which are critical in payroll, cash disbursement, cash receipts, and reconciliation processes.

# **Ann Arbor Transportation Authority**

## **Comments and Recommendations (Concluded)**

**For the Year Ended September 30, 2009**

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### **Farebox revenue processing procedures**

Probing devices determine the amount that should have been collected from line haul passengers. Daily GFI reports are generated which report the total “calculated collections” from the line haul buses, along with a deposit report for coin and currency collected, along with variances.

Even though most days indicate small variations between calculated and deposited, there is no trail indicating follow up and resolution to determine the reason for larger variances. Also, there is no evidence of supervisory or managerial review of these reports by initialing and dating.

### **Parts Inventory Security**

Service and repair work on the buses is performed in the repair bays around the clock. However, we noted that a parts supervisor is not available to issue parts other than the first shift. After the normal working hours, service technicians are able to fill the parts order themselves, and immediately process the issue transaction via a terminal in the repair bay.

In order to enhance the inventory control procedures, we recommend that the Authority consider the cost/benefit analysis of deploying a parts manager in the parts room during the entire time that work is performed on the buses, in order to control the issuance of parts.

### **Employee versus Contractor (Informational point)**

We have seen over the past year an increase in federal IRS audits of governmental and non-profit organizations. These audits have concentrated on employee versus independent contractor issues, as well as identification of insufficient documentation on file for vendor payments in order to demonstrate that a payee is a corporation (and therefore a 1099 need not be filed). Because the federal government is looking for new sources of revenue, it is targeting the governmental and non-profit organization sector and, in many cases, has been assessing significant penalties related to this lack of documentation maintained to support contractor versus employee, etc.

Accordingly, we urge the Authority to review its “1099 documentation processes” to ensure it is adhering to IRS rules in this area.

\* \* \* \* \*



Ann Arbor Transportation Authority  
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March 19, 2010

Rehmann Robson  
675 Robinson Road  
Jackson, MI 49203

We are providing this letter in connection with your audit of the financial statements of Ann Arbor Transportation Authority as of September 30, 2009 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ann Arbor Transportation Authority and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 19, 2010, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
  - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Minutes of the meetings of Ann Arbor Transportation Authority or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
8. We have a process to track the status of audit findings and recommendations.
9. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
10. The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
11. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and affiliated governmental units that are not included in the financial statements as part of the reporting entity.
  - b. Guarantees, whether written or oral, under which the Authority is contingently liable.
  - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
13. There are no—
  - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts

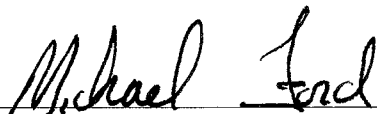
and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
  - d. Reservations or designation of fund equity that were not properly authorized and approved.
- 14. The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
  - 15. The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  - 16. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
  - 17. The financial statements properly classify all funds and activities.
  - 18. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
  - 19. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
  - 20. Provisions for uncollectible receivables have been properly identified and recorded.
  - 21. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
  - 22. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
  - 23. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
  - 24. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
  - 25. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.


26. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
27. With respect to federal award programs:
  - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
  - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
  - c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
  - d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses) reported in the schedule of findings and questioned costs.
  - e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
  - f. We have received no requests from a federal agency to audit one or more specific programs as a major program.
  - g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
  - h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal*

*Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.*

- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- l. We have charged costs to federal awards in accordance with applicable cost principles.
- m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- o. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- p. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
- q. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

  
\_\_\_\_\_  
Signature

Michael Ford  
Chief Executive Officer

  
\_\_\_\_\_  
Signature

Philip Webb  
Controller/Manager of Finance