Ann Arbor Area Transportation Authority

Financial Statements as of and for the Years Ended September 30, 2013 and 2012 and Additional Information for the Year Ended September 30, 2013, Independent Auditor's 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, 2013, and Independent Auditor's Reports

ANN ARBOR AREA TRANSPORTATION AUTHORITY

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Independent Auditor's Report

To the Board of Directors
Ann Arbor Area Transportation Authority

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Ann Arbor Area Transportation Authority (the "Authority") as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Ann Arbor Area Transportation Authority as of September 30, 2013 and 2012 and the changes in its financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Ann Arbor Area Transportation Authority

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ann Arbor Area Transportation Authority's basic financial statements. The supplemental schedule of expenditures of federal awards and additional information schedules, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The supplemental schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The additional information schedules, as identified in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of the Ann Arbor Area Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ann Arbor Area Transportation Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

January 31, 2014

As management of the Ann Arbor Area 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, 2013. 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.

Governance of the Authority

In 2013, the Authority and the City of Ann Arbor approved the City of Ypsilanti's request to become a member of the Authority. Subsequent to September 30, 2013, the Authority and the Cities of Ann Arbor and Ypsilanti approved the request of the Charter Township of Ypsilanti to become a member of the Authority, creating a three-member authority. The Board of Directors has expanded from seven to ten directors, by adding one director each from of the City of Ann Arbor, the City of Ypsilanti and the Charter Township of Ypsilanti.

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, 2013 and 2012 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 statement of net position (formerly called the balance sheet), statement of revenues, expenses and changes in net position (formerly net assets), and the statement of cash flows, prepared in accordance with GASB principles. This report also contains other supplementary information in addition to the basic financial statements, as required by the State of Michigan Departments of Treasury and Transportation. There is also Required Supplemental Information as required by GASB Statement No. 45.

The basic financial statements for the year ended September 30, 2012 have been audited and are included herein for comparative purposes.

Financial Highlights

The Authority's total assets increased from the prior year by $12.0 million (22.1%), primarily due to an increase in net capital assets due to the purchase of eleven hybrid diesel-electric buses for $7.2 million, purchase of five conventional diesel buses for $2.2 million, purchase of twenty-five minivans for VanRide service for $534,000, purchase of five paratransit vehicles for $309,000 and the rebuilding of the Blake Transit Center for $3.7 million, net of depreciation expense of $5.1 million.

Cash and investments increased by $2.9 million (28.7%) primarily due to the timing from the collection of grant, property tax and other receivables along with an increase in accounts payable.

Total net position increased by $10.4 million (20.2%), primarily because net position - invested in capital assets increased $9.9 million from using Federal and state grants for capital purchases. Unrestricted net position increased by $437,000.

Total operating revenues increased $240,000 (4.2%) primarily due to increase in the AirRide shuttle service fares for a full year compared to six months of service in fiscal year 2012.

Total operating expenses increased $3.3 million (10.2%) due to higher depreciation expense from the recent purchases of buses and building expansion, the full year of AirRide shuttle service to Detroit Metro Airport, expanded route #5 services, higher biodiesel fuel costs, higher health care expenses and higher personnel costs to support the additional services and the Urban Core Communities planning.

Statements of Net Position (formerly known as the Balance Sheet)

The statements of net position 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 position at September 30, 2013, 2012 and 2011 follows (in thousands):

	2013	2012	2011
Assets:			
Current assets	$19,172	$17,109	$18,702
Capital assets, net	47,015	37,094	30,086
Total assets	**$66,187**	**$54,203**	**$48,788**
Liabilities:			
Current liabilities	$3,102	$1,619	$1,939
Noncurrent liabilities	1,376	1,233	1,129
Total liabilities	4,478	2,852	3,068
Net Position:			
Invested in capital assets	47,015	37,094	30,086
Unrestricted	14,694	14,257	15,634
Total net position	61,709	51,351	45,720
Total liabilities and net position	**$66,187**	**$54,203**	**$48,788**

At September 30, 2013, the Authority's total assets were $66.2 million, compared to $54.2 million at September 30, 2012.

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

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 $1,683,000 as of September 30, 2013 based on the most recent available valuation, which was prepared as of September 30, 2013.

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 position. In 2008, the Authority implemented a defined contribution health care savings plan using a trust under Internal Revenue Code Section 115. The Authority contributed a one-time contribution to each individual employee account based on months of service, totaling $3.4 million, using $1.7 million from the accrued liability at September 30, 2007 and expensing $1.7 million in 2008.

The total assets of the Authority exceeded its total liabilities by $61.7 million (net position) as of September 30, 2013. Of this amount, $14.7 (unrestricted net position) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2013 Ann Arbor and Ypsilanti property tax levies of $9.8 million have been included in nonoperating revenue for the year ended September 30, 2013 even though three quarters of it will be needed to help fund operations from October 1, 2013 to June 30, 2014.

Statement of Revenues, Expenses, and Changes in Net Position

A summary of the Authority's revenues, expenses and changes in net position for the years ended September 30, 2013, 2012 and 2011 follows (in $1,000s):

	2013	**2012**	**2011**
Operating revenues	$5,933	$5,694	$ 5,021*
Operating expenses	(35,747)	(32,450)	(29,531)
Operating loss	(29,814)	(26,756)	(24,510)
Non-operating revenues	25,149	21,850	20,571
Change in net position before capital contributions	(4,665)	(4,906)	(3,939)
Net Capital contributions	15,023	10,537	1,963
Change in net position	10,358	5,631	(1,976)
Net position, beginning of year	51,351	45,720	47,696
Net position, end of year	**$61,709**	**$51,351**	**$45,720**

*2011 operating and non-operating revenues have been reclassified to conform to the 2013 presentation.

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 MRide program paid by the University of Michigan and the go!pass program paid by the Downtown Development Authority of the City of Ann Arbor.

Total operating expenses of $35,747,000 include operations ($24,811,000), vehicle and facility maintenance ($3,677,000) and general administration ($7,259,000). The largest portion of all expenses is for employee wages and fringe benefits of $17,571,000 or 49.2% 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.

Capital contributions represent Federal and State grants for the purchase of new capital assets. In 2013, the Authority purchased eleven hybrid diesel-electric buses for $7.2 million, purchased five conventional diesel buses for $2.2 million, purchased twenty-five minivans for VanRide service for $534,000, purchased five paratransit vehicles for $309,000 and continued to rebuild the Blake Transit Center for $3.7 million. The purchase of the buses was funded by Federal formula grants (Section 5307) and Federal Clean Fuels grants (Section 5308) administered by the Federal Transportation Administration (FTA). The State of Michigan Department of Transportation (MDOT) provided matching grants for the purchases. A portion of Federal formula dollars (Section 5307) can be used as operating assistance. In 2013 and 2012, the Authority used $3,210,000 and $2,023,000, respectively, for operating assistance, such as operating assistance, 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.

Capital Assets

The Authority continues to invest in vehicles, facilities and equipment. In 2013, the Authority purchased eleven hybrid diesel-electric buses, five diesel buses, five paratransit vehicles and twenty-five minivans for $10.3 million. The Authority's largest capital investments include buses and related equipment, net of depreciation, of $28.0 million in 2013 and $21.8 million in 2012 and the land and buildings, net of depreciation, of $18.1 million in 2013 and $15.3 million in 2012.

Economic Factors and Next Year's Budget (Fiscal Year 2014)

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.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. The July 1, 2013 property tax levy increased 2.75% from the July 1, 2012 levy.

For fiscal year 2014, the Board of Directors adopted a $34.0 million balanced budget.

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 Area Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104. Previous years' financial statements, dating back to 2004, are available on the State of Michigan website at www.michigan.gov/treasury, "Local Government Services", "Local Unit Audit Reports" for the Authority and all other governmental entities in the state of Michigan.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF NET POSITION
SEPTEMBER 30, 2013 AND 2012

ASSETS	2013	2012
CURRENT ASSETS:		
Cash (Note 2)	$ 5,671,720	$ 1,980,645
Investments (Note 2)	7,155,767	7,986,514
Accounts receivable, less allowance of $0 in 2012 and 2011	783,617	743,352
Grants receivable (Note 3)	3,672,508	4,423,273
Other receivables (Note 4)	255,350	272,678
Inventory	775,387	824,145
Prepaid expenses	857,323	878,375
Total current assets	19,171,672	17,108,982
CAPITAL ASSETS: (Note 5)		
Land and improvements	2,270,821	2,270,821
Park and Ride lot construction	5,722,594	5,474,429
Buildings and improvements	20,653,299	20,385,123
Equipment and other	53,328,865	46,525,065
Construction in progress	4,127,969	515,572
Total capital assets	86,103,548	75,171,010
Less accumulated depreciation	39,088,092	38,077,480
Net capital assets	47,015,456	37,093,530
TOTAL ASSETS	$ 66,187,128	$ 54,202,512
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 2,208,670	$ 812,778
Grant refunds payable (Note 3)	105,184	102,407
Accrued payroll	278,553	235,337
Accrued compensated absences, current portion	125,694	113,816
Other accrued expenses	132,779	81,493
Unearned revenue (Note 6)	251,341	273,313
Total current liabilities	3,102,221	1,619,144
CONTINGENCIES (Note 8)		
NON-CURRENT LIABILITIES:		
Accrued compensated absences	1,131,243	1,024,342
Post-retirement benefit obligation (Note 12)	244,586	208,178
Total non-current liabilities	1,375,829	1,232,520
Total liabilities	4,478,050	2,851,664
NET POSITION:		
Net investment in capital assets	47,015,456	37,093,530
Unrestricted	14,693,622	14,257,318
Total net position	61,709,078	51,350,848
TOTAL LIABILITIES AND NET POSITION	$ 66,187,128	$ 54,202,512

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES (Note 9)	$ 5,932,794	$ 5,692,914
OPERATING EXPENSES (Notes 7, 9, 12 and 13):		
Operations	24,811,414	21,635,160
Maintenance	3,676,734	3,537,761
General administration	7,258,563	7,277,201
Total operating expenses	35,746,711	32,450,122
OPERATING LOSS	(29,813,917)	(26,757,208)
NONOPERATING REVENUES:		
Local	11,855,737	10,495,363
State	8,814,129	8,524,417
Federal	4,479,007	2,830,645
Total nonoperating revenues	25,148,873	21,850,425
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	(4,665,044)	(4,906,783)
CAPITAL CONTRIBUTIONS - FEDERAL AND STATE	15,023,274	10,537,420
CHANGE IN NET POSITION	10,358,230	5,630,637
TOTAL NET POSITION, BEGINNING OF YEAR	51,350,848	45,720,211
TOTAL NET POSITION, END OF YEAR	$ 61,709,078	$ 51,350,848
UNRESTRICTED NET POSITION, END OF YEAR	$ 14,693,622	$ 14,257,318

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	$ 4,049,339	$ 4,346,161
Payments for salaries and wages and fringe benefits	(17,330,540)	(16,098,346)
Payments to suppliers	(5,787,202)	(7,360,320)
Payments for claims and insurance	(724,851)	(542,070)
Payments for purchased transportation	(4,140,240)	(3,891,185)
Net cash used in operating activities	(23,933,494)	(23,545,760)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenue:		
Local	11,759,451	10,576,572
State	9,441,449	8,045,973
Federal	3,293,793	2,522,371
Net cash provided by noncapital financing activities	24,494,693	21,144,916
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(14,127,223)	(10,635,873)
Capital contributed by state and federal grants	16,334,710	9,034,295
Proceeds from sales of equipment	50,797	39,723
Net cash provided by (used in) capital and related financing activities	2,258,284	(1,561,855)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(6,887,000)	(7,556,936)
Proceeds from sale and maturities of investment securities	7,717,747	9,220,000
Interest income	40,845	62,166
Net cash provided by investing activities	871,592	1,725,230
NET INCREASE (DECREASE) IN CASH	3,691,075	(2,237,469)
CASH AT BEGINNING OF YEAR	1,980,645	4,218,114
CASH AT END OF YEAR	$ 5,671,720	$ 1,980,645

See notes to financial statements.

ANN ARBOR AREA TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (29,813,917)	$ (26,757,208)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,118,789	3,628,313
Changes in assets and liabilities which (used) provided cash:		
Receivables	(40,265)	(65,126)
Inventory	48,758	(9,517)
Prepaid expenses	21,052	(101,884)
Payables	482,400	(391,427)
Accrued payroll	43,216	32,396
Other accrued expenses	206,473	118,693
Total adjustments	5,880,423	3,211,448
NET CASH USED IN OPERATING ACTIVITIES	$ (23,933,494)	$ (23,545,760)

	2013	2012
NONCASH TRANSACTIONS:		
Subcontracted revenue - urban demand response (Note 9)	$ 619,897	$ 561,577
Subcontracted revenue - interurban airport shuttle (Note 9)	740,799	258,631
Nonurban - other governmental sources	333,429	339,384
Total noncash transactions	$ 1,694,125	$ 1,159,592

See notes to financial statements.

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

The Ann Arbor Area Transportation Authority (the "Authority") is a governmental unit established under Act 55 of 1963 of the State of Michigan to provide a mass transportation system within and beyond the corporate limits of the City of Ann Arbor. In 2013, the City of Ypsilanti became a member of the Authority.

The Authority is not included in the financial reporting entities of the cities of Ann Arbor or Ypsilanti because the Cities do not have the ability to exercise significant oversight over the Authority. The Authority can independently generate revenue, adopt budgets and borrow funds. Eight members of the governing Board of Directors are appointed by the mayor of the City of Ann Arbor and confirmed by the City of Ann Arbor Council. One member of the governing Board of Directors is appointed by the mayor of the City of Ypsilanti and confirmed by the City of Ypsilanti Council.

Subsequent to September 30, 2013, the Authority accepted the Charter Township of Ypsilanti's request to become a member of the Authority. The membership request was also approved by the cities of Ann Arbor and Ypsilanti. One member of the Authority's governing Board of Directors will be appointed by the township supervisor and confirmed by the township's Board of Trustees.

Significant Accounting Policies

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

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

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

Classification of Revenue – Revenues are classified as operating revenues, nonoperating revenues and capital contributions according to the following criteria:

> ***Operating revenues*** – Operating revenues, such as passenger fares and special transit fares, include activities that have the characteristics of exchange transactions, where in which each party receives and gives up essentially equal values.
>
> ***Nonoperating revenues*** – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, in which the Authority receives value without directly giving equal value in return, such as Federal and State operating grants, City of Ann Arbor tax levies, fees paid

by other municipalities under purchase of service agreements, and interest income. On an accrual basis, revenue from these grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

The Authority records the fair market value of the fuel 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 Position in the fuel and lubricants expense line item.

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

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 cash investments with an original maturity of twenty-eight days or more when purchased to be investments, which is consistent with how investments have been classified on the statement of net position.

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

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

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

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

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

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

Net Position is displayed in two components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation.

Unrestricted – This consists of the net position that does 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.

2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2013 and 2012:

Statement of Net Position:	**2013**	**2012**
Cash	$ 5,671,720	$ 1,980,645
Investments	7,155,767	7,986,514
Total	**$12,827,487**	**$ 9,967,159**

Deposits and Investments:	2013	2012
Bank deposits (checking, savings and certificates of deposit)	$12,630,633	$ 9,384,616
Investment in government liquid asset fund accounts	30,644	155,488
Money market fund	107,290	107,412
Heating oil futures account	56,100	316,823
Cash on hand	2,820	2,820
Total	**$12,827,487**	**$ 9,967,159**

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

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

- Certificates of deposit, depository receipts, and repurchase agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the state of Michigan. The total investment (exclusive of checking accounts) in any financial institutions shall not exceed the lesser of 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, 2013, the Authority had the following investments.

Investment	Maturity	Interest Rate	Fair Value	Rating
RBC Wealth Management Money Market Fund	N/A	0.01%	$ 79,634	Moody's Aa3
Government Liquid Assets Funds	N/A	Various	30,644	Not rated
JP Morgan Chase Money Market Fund	N/A	0.02%	13,778	Moody's Aaa-mf
Comerica Money Market Fund	N/A	0.04%	13,878	Not rated
			$ 137,934	

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 deposit 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, 2013.

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, 2013, $5,958,954 of the Authority's bank balance of $13,128,876 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 amount remaining on each current grant is listed on the Additional Information – Schedule of Expenditures of Federal, State and Local Awards (unaudited) on pages 28 and 29. The following grant amounts were outstanding at September 30:

	2013	2012
Michigan Department of Transportation:		
Rideshare program	$ 285,284	$ 455,000
Operating assistance	213,993	751,471
Capital Cost of Contracting	20,000	10,000
Planning	38,752	22,242
Preventive maintenance		172,000
Buses and related equipment	87,850	170,027
Computer hardware and software	8,773	13,442
Passenger shelters	16,323	
Facilities	28,713	310,479
Transit Centers	205,759	8,227
Job Access/Reverse Commute (State match)	83,202	27,555
Federal Transit Administration:		
Buses and related equipment		443,957
Passenger shelters	14,013	8,980
Facilities	78,376	1,342,577
Transit Centers	823,037	169,781
Job Access/Reverse Commute	22,812	62,630
New Freedom	23,620	1,010
Operating assistance	1,474,000	
Planning	133,003	126,866
Preventive maintenance		68,000
Capital Cost of Contracting		40,000
Computer hardware and software	9,814	116,622
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	$ 3,567,324	$ 4,320,866

The grants receivable/grant refunds payable are reported on the statements of net position as follows:

	2013	2012
Grants receivable	$ 3,672,508	$ 4,423,273
Grant refunds payable	(105,184)	(102,407)
Net grants receivable (refunds payable)	$ 3,567,324	$ 4,320,866

4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2013	2012
City of Ann Arbor – property tax levy	$ 195,879	$ 272,496
City of Ypsilanti – property tax levy	59,242	-
Interest receivable	229	182
Total	$ 255,350	$ 272,678

5. CAPITAL ASSETS

Capital asset activity during the fiscal year ended September 30, 2013 is as follows:

	Balance October 1 2012	Additions	Deletions	Balance September 30 2013
Capital assets not being depreciated:				
Land and improvements	$ 2,270,821			$ 2,270,821
Construction in progress	515,572	$ 3,712,232	$ 99,835	4,127,969
Total capital assets not being depreciated	2,786,393	3,712,232	99,835	6,398,790
Capital assets being depreciated:				
Park and ride lot construction	5,474,429	248,165		5,722,594
Buildings	20,385,123	268,176		20,653,299
Vehicles and related equipment	38,161,435	10,453,071	4,048,247	44,566,259
Radio and telephone systems	222,793			222,793
Fare collection equipment	1,035,416			1,035,416
Maintenance equipment	499,025		1,829	497,196
Office equipment and furniture	2,096,134	224,962	15,499	2,305,597
Passenger shelters	1,054,326	233,944	42,602	1,245,668
Other	136,095			136,095
Advanced operating system	3,319,841			3,319,841
Total capital assets being depreciated	72,384,617	11,428,318	4,108,177	79,704,758
Less accumulated depreciation:				
Park and ride lot construction	1,175,799	181,969		1,357,768
Buildings	12,465,750	852,178		13,317,928
Vehicles and related equipment	17,537,577	3,675,279	4,048,247	17,164,609
Radio and telephone systems	147,583	34,156		181,739
Fare collection equipment	375,962	107,418		483,380
Maintenance equipment	479,250	5,486	1,829	482,907
Office equipment and furniture	1,856,692	130,986	15,499	1,972,179
Passenger shelters	664,587	85,460	42,602	707,445
Other	136,094			136,094
Advanced operating system	3,238,186	45,857		3,284,043
Total accumulated depreciation	38,077,480	5,118,789	4,108,177	39,088,092
Total capital assets being depreciated, net	34,307,137	6,309,529		40,616,666
TOTAL CAPITAL ASSETS, NET	$ 37,093,530	$ 10,021,761	$ 99,835	$ 47,015,456

5. CAPITAL ASSETS (Concluded)

Capital asset activity during the fiscal year ended September 30, 2012 is as follows:

	Balance October 1 2011	Additions	Deletions	Balance September 30 2012
Capital assets not being depreciated:				
Land and improvements	$ 2,180,821	$ 90,000		$ 2,270,821
Construction in progress	730,070	111,077	$ 325,575	515,572
Total capital assets not being depreciated	2,910,891	201,077	325,575	2,786,393
Capital assets being depreciated:				
Park and ride lot construction	5,158,935	315,494		5,474,429
Buildings	17,420,856	2,964,267		20,385,123
Vehicles and related equipment	33,220,817	7,197,078	2,256,460	38,161,435
Radio and telephone systems	219,280	3,513		222,793
Fare collection equipment	1,035,416			1,035,416
Maintenance equipment	486,567	13,808	1,350	499,025
Office equipment and furniture	1,988,598	113,231	5,695	2,096,134
Passenger shelters	988,041	99,385	33,100	1,054,326
Other	136,095			136,095
Advanced operating system	3,266,246	53,595		3,319,841
Total capital assets being depreciated	63,920,851	10,760,371	2,296,605	72,384,617
Less accumulated depreciation:				
Park and ride lot construction	1,010,206	165,593		1,175,799
Buildings	11,788,471	677,279		12,465,750
Vehicles and related equipment	17,339,059	2,454,978	2,256,460	17,537,577
Radio and telephone systems	112,302	35,281		147,583
Fare collection equipment	268,542	107,420		375,962
Maintenance equipment	469,509	11,091	1,350	479,250
Office equipment and furniture	1,784,071	78,316	5,695	1,856,692
Passenger shelters	619,451	78,236	33,100	664,587
Other	136,094			136,094
Advanced operating system	3,218,067	20,119		3,238,186
Total accumulated depreciation	36,745,772	3,628,313	2,296,605	38,077,480
Total capital assets being depreciated, net	27,175,079	7,132,058		34,307,137
TOTAL CAPITAL ASSETS, NET	$ 30,085,970	$ 7,333,135	$ 325,575	$ 37,093,530

6. UNEARNED REVENUE

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

	2013	2012
Federal Capital	$ 27,731	$ 27,731
State Capital	6,933	6,933
Local share of WALLY intergovernmental revenues	150,926	157,000
GetDowntown Program	65,751	81,649
Total	$ 251,341	$ 273,313

7. EMPLOYEES' PENSION PLAN

The Authority provides pension benefits for substantially all of its employees through a defined contribution plan called the Ann Arbor Area 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 4% of their gross earnings to the Plan, effective January 1, 2011. Previously, employees contributed 3% of their gross earnings. Employee contributions amounted to $416,500 and $393,000 for the years ended September 30, 2013 and 2012, respectively. Effective January 1, 2011, the Authority's contribution to the Plan is 8% of the employee's gross earnings less forfeitures. Previously, the Authority contributed 9% of the employees' gross earnings. Authority contributions amounted to $833,000 and $786,000 for the years ended September 30, 2013 and 2012, respectively. Total payroll and covered payroll was approximately $12,439,000 and $10,413,000 for 2013 $11,641,000 and $9,821,000 for 2013 and 2012, respectively.

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

8. RISK MANAGEMENT

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

9. SUBCONTRACT SERVICE

The Authority subcontracts with taxi cab and other transportation companies to provide certain services. The Authority pays the companies' fees based on the level of service provided, and the companies collect and retain the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately $1,361,000 and $820,000 of fares for these services in the years ended September 30, 2013 and 2012, respectively. These amounts are disclosed as noncash transactions on the Statements of Cash Flows.

10. COST ALLOCATION PLANS

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

11. INFORMATIONAL SUMMARY OF PROJECTED 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).

12. POST-EMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description. The Authority provides contributory and noncontributory medical benefits and basic life insurance coverage for eligible retirees and their spouses. Effective January 1, 2008, the medical benefits portion of this plan was significantly modified. The benefits for bargaining employees are specified by union contract while the Board of Directors establishes those for non-bargaining employees. This Plan was closed and active bargaining and non-bargaining employees, who were eligible to retire based upon attaining age 62 with at least 15 years of service, were eligible to elect to stay in this plan when they retire. Also, active employees who had over 30 years of service, regardless of their age, were also eligible to elect to stay covered by this plan when they retire. Eligible retirees have the option to select an alternate medical insurance carrier and be reimbursed for such coverage at a rate of up to 130% 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 has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). The Authority's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount determined in accordance with the parameters of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," using the Alternative Measurement Method (AMM) as permitted for employers in plans with fewer than one hundred total plan members.

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

	2013	2012	2011
Annual required contribution (recommended)	$ 80,645	$ 89,545	$ 87,083
Interest on net OPEB obligation	7,454	7,454	7,187
Adjustment to annual required contribution	(8,254)	(8,254)	(7,960)
Total annual OPEB cost	79,845	88,745	86,310

Employer contributions made –			
Payment of current health care premiums	(70,095)	(81,150)	(65,412)
Increase (decrease) in net OPEB obligation	9,750	7,595	20,898
OPEB obligation – beginning of year	208,178	200,583	179,685
Adjustment to beginning balance	26,658	-	-
OPEB obligation – end of year	**$ 244,586**	**$ 208,178**	**$ 200,583**

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

Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
9/30/2008	$147,911	4.4%	$ 83,219
9/30/2009	$145,395	45.7%	$ 162,136
9/30/2010	$ 83,987	80.3%	$ 179,685
9/30/2011	$ 86,310	75.8%	$ 200,583
9/30/2012	$ 88,745	91.4%	$ 208,178
9/30/2013	$ 79,845	87.8%	$ 244,586

Funded Status and Funding Progress. The funded status of the plan as of September 30, 2013, the most recent available actuarial valuation, is as follows:

	2013	2012	2011
Actuarial accrued liabilities (a)	$ 1,682,715	$ 1,656,087	$ 1,656,087
Actuarial value of plan assets (b)	-	-	-
Unfunded actuarial accrued liability (a) – (b)	**$ 1,682,715**	**$ 1,656,087**	**$ 1,656,087**
Funded ratio (b) / (a)	0%	0%	0%
Covered payroll (c)	$ 132,944	$ 218,584	$ 201,147
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) – (b)] / (c)	1,266%	758%	823%

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 schedule of funding progress provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

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

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

Actuarial valuation date	September 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Remaining amortization period	23 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	2.0%
Projected salary increases	2.0%
Healthcare cost trend rate	5.3% in 2013, Grading to 5.9% in 2019
Inflation rate	1.0%
Payroll growth rate	2.0%
Retirement age	62
Marital status	Marital status to continue throughout retirement
Mortality	2002 United States for males and females life tables
Turnover	0%

13. HEALTH CARE SAVINGS PLAN

Effective January 1, 2008, the Authority established a defined contribution Health Care Savings Plan (HCSP) under Internal Revenue Code Section 115. The HCSP is a public employer-sponsored program administered by the Municipal Employees' Retirement System of Michigan (MERS) 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 accumulated in the plan shall become accessible to the employee upon the employee's separation from employment due to retirement, resignation, termination or any other reason. Employees are vested in employer contributions after five 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.

Effective January 1, 2013, the Authority makes pre-tax contributions of $130 each month into each eligible employee's HCSP account. From January 1, 2008 to December 31, 2012, the Authority made pre-tax contributions of $125 per month. The employees shall make a mandatory monthly pre-tax contribution of $10 per pay period. Employees may make voluntary pre-tax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to $281,540 and $250,875 for the years ended September 30, 2013 and 2012, respectively.

14. COMMITMENTS

At September 30, 2013, the Authority had outstanding commitments relating to the continuing construction of the Blake Transit Center for $3.9 million.

At September 30, 2012, the Authority had outstanding commitments relating to the purchase of eleven hybrid diesel electric buses for $7.0 million, the purchase of five conventional diesel buses for $2.2 million, the construction management and construction of rebuilding the Blake Transit Center for $7.7 million.

Funding for these commitments is through Federal and State capital grants.

15. ACCOUNTING AND REPORTING CHANGE

During the year, the Authority adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement impacts the format and reporting of the balance sheet.

16. UPCOMING ACCOUNTING AND REPORTING CHANGE

In March 2012, the GASB issued GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the year ending September 30, 2014.

17. SUBSEQUENT EVENT

Subsequent to September 30, 2013, the Authority accepted the Charter Township of Ypsilanti's request to become a member of the Authority. The membership request was also approved by the cities of Ann Arbor and Ypsilanti. One member of the Authority's governing Board of Directors will be appointed by the township supervisor and confirmed by the Township's Board of Trustees.

Additional Information for the Year Ended

September 30, 2013

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF REVENUES - UNAUDITED
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
LOCAL OPERATING REVENUES:		
Passenger fares:		
Urban fixed route	$ 2,242,036	$ 2,253,084
Urban demand response	619,897	561,577
Commuter express	136,973	117,091
Interurban airport shuttle	740,799	258,631
Mobility Management demand response	32,522	37,756
VanRide fares	6,323	
Nonurban demand response	116,543	84,279
Special Fares:		
City of Ann Arbor DDA - go!pass sales	557,130	508,456
Ann Arbor Public Schools	13,720	1,504
Eastern Michigan University	143,322	250,796
University of Michigan	1,254,445	1,532,424
Washtenaw Community College	69,084	87,316
TOTAL LOCAL OPERATING REVENUE	5,932,794	5,692,914
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
City of Ypsilanti	227,632	321,387
Pittsfield Township	150,959	148,144
Superior Township	33,872	32,661
Ypsilanti Township	306,328	298,508
Total purchase of service agreements	718,791	800,700
City of Ann Arbor - property tax levy	9,499,470	9,019,447
City of Ypsilanti - property tax levy	273,797	
City of Ann Arbor - Downtown Development Authority (GetDowntown)	72,143	18,832
City of Ann Arbor - Downtown Development Authority (route #4 expansion)		14,417
City of Ann Arbor - Downtown Development Authority (Connector Study)	10,671	
City of Ann Arbor (Connector Study)	10,671	
City of Ann Arbor (GetDowntown)	7,900	
University of Michigan (Connector Study)	53,353	
Wally partner contributions (provides planning grant match)	6,074	
Washtenaw County (route #4 expansion)		20,000
Job Access/Reverse Commute pass-through	154,290	65,766
Nonurban - Other governmental sources	333,429	339,384
Interurban airport shuttle - private contractor contribution	243,425	
Interest income	40,892	57,059
Advertising income	349,310	92,316
Other revenue	30,724	27,719
Gain (loss) on sale of equipment	50,797	39,723
Total local nonoperating revenue	11,855,737	10,495,363
Total local operating and nonoperating revenue	17,788,531	16,188,277
STATE OF MICHIGAN NONOPERATING REVENUE:		
Formula operating assistance - urban (Act 51)	7,856,980	7,425,294
Formula operating assistance - nonurban (Act 51)	369,188	311,962
Prior years' formula adjustments - urban and nonurban	(15,145)	202,784
Capital Cost of Contracting	50,000	50,000
Job Access/Reverse Commute (State Match)	85,610	86,321
Planning	62,682	22,242
Preventive maintenance	315,000	336,000
Specialized services	89,814	89,814
Total state nonoperating revenue	8,814,129	8,524,417
FEDERAL NONOPERATING REVENUE:		
Operating Assistance (Section 5307)	1,474,000	
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Sections 5307 and 5336)	702,850	398,350
Federal operating assistance - nonurban (Section 5311) - passed through the State	153,469	159,252
Capital cost of contracting (Section 5307)	200,000	200,000
Job Access/Reverse Commute	83,878	124,264
New Freedom	80,995	19,883
Preventive maintenance (Section 5307)	1,260,000	1,424,456
State planning and research (Section 5304 - passed through the State of Michigan)	19,375	
Travel Demand Management (CMAQ - passed through the State of Michigan)	455,000	455,000
Total federal nonoperating revenue	4,479,007	2,830,645
TOTAL NONOPERATING REVENUES	$ 25,148,873	$ 21,850,425

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Operations	Maintenance	General Administration	2013 Total	2012 Total
LABOR:					
Operators' salaries and wages	$ 5,877,424			$ 5,877,424	$ 5,588,930
Other salaries and wages	854,179	$ 1,675,957	$ 2,160,923	4,691,059	4,279,614
FRINGE BENEFITS					
Fringe wages	1,051,233	317,862	501,619	1,870,714	1,772,397
Social security payroll taxes	568,737	145,606	189,591	903,934	871,178
Medical insurance	1,484,685	480,388	231,464	2,196,537	1,957,884
Pension	520,091	147,076	165,894	833,061	785,717
Health care savings plan	181,130	52,790	47,620	281,540	250,875
Post-retirement medical benefits	95,397	14,952	9,660	120,009	81,784
Other fringe benefits	589,564	124,568	82,907	797,039	639,034
SERVICES:					
Advertising fees			131,583	131,583	200,015
Other services	255,328	504,932	1,049,701	1,809,961	2,161,647
Auditing fees			23,923	23,923	14,900
MATERIALS AND SUPPLIES CONSUMED:					
Fuel and lubricants	2,202,883	6,979		2,209,862	1,949,439
Tires and tubes	13,867			13,867	54,774
Materials and supplies	675,714	192,138	525,542	1,393,394	1,427,190
UTILITIES			404,002	404,002	418,362
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	501,612			501,612	355,346
Other casualty and liability costs			126,068	126,068	130,680
PURCHASED TRANSPORTATION	5,983,430			5,983,430	5,172,812
MISCELLANEOUS EXPENSES:					
Travel and meetings			54,406	54,406	55,421
Advertising and promotion media			152,344	152,344	377,609
Association dues and subscriptions			69,767	69,767	72,240
Other		8,000	138,194	146,194	171,256
LEASES AND RENTALS	7,969		28,223	36,192	32,705
DEPRECIATION	3,948,171	5,486	1,165,132	5,118,789	3,628,313
TOTAL OPERATING EXPENSES	$ 24,811,414	$ 3,676,734	$ 7,258,563	$ 35,746,711	$ 32,450,122

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION
SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS - UNAUDITED
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	$35,321,161	$28,243,531
Contributions - Federal and State capital grants	15,023,274	10,537,420
Adjustment to prior year State capital contributions	(3,185)	
Depreciation on assets purchased with Federal and State capital grants	(4,955,209)	(3,459,790)
Balance, end of year	$45,386,041	$35,321,161
Detail of Federal and State interest in capital assets at September 30		
Federal government	$67,335,118	$58,178,122
State of Michigan	13,255,139	11,378,532
Total	80,590,257	69,556,654
Less accumulated depreciation on contributed assets	35,204,216	34,235,493
Net Federal and State interest in capital assets	45,386,041	35,321,161
Net local interest in capital assets	1,629,415	1,772,369
Net investment in capital assets	$47,015,456	$37,093,530

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures Total	Federal	State	Local	Prior Years' Expenditures	Amount Remaining
U. S. Department of Transportation (Federal):									
Direct assistance - Capital Grants:									
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI03-0221	$1,608,012	$1,313,107	$1,313,107	$0	$0	$294,904	$0
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI04-0037	735,000	718,535	718,535	0	0	16,465	0
Capital (Section 5309) (State of Good Repair) (80/20)	20.500	MI04-0064	1,013,000	567,575	567,575	0	0	0	445,425
Capital (Section 330 FHWA) (Blake Transit Center) (100/0)	20.205	MI70-X003	993,500	0	0	0	0	0	993,500
Capital (Section 5309) (Livability Grant) (80/20)	20.500	MI04-0072	1,812,000	1,757,492	1,757,492	0	0	0	54,508
Capital (Section 5307) (FY 2010) (80/20 or 100/0)	20.507	MI90-X615	640,549	114,838	114,838	0	0	350,957	174,754
Capital (Section 5307) (FY 2011 & 2012) (80/20 or 100/0)	20.507	MI90-X641-01	11,800,000	5,526,329	5,526,329	0	0	5,002,466	1,271,205
Capital (Section 5307) (FY 2010) (80/20)	20.507	MI90-X671	2,532,810	0	0	0	0	0	2,532,810
Capital (Section 5307 - ARRA)	20.507	MI96-X024	2,010,056	23,158	23,158	0	0	1,986,898	0
Surface Transportation Program (CCTC) (80/0)	20.507	MI95-X052-01	906,193	248,165	248,165	0	0	584,650	73,378
Clean Fuels Grant Program (Section 5308) (90/10)	20.519	MI58-0004	2,079,000	2,079,000	2,079,000	0	0	0	0
Subtotal - Direct Federal Capital			$26,130,120	$12,348,199	$12,348,199	$0	$0	$8,236,340	$5,545,580
Direct assistance - Operating grants:									
Unified Planning Program (Section 5303) (80/0)	20.505	13005	49,440	61,800	49,440	0	12,360	0	0
Planning (Section 5307) (FY 2011) (80/20)	20.507	MI90-X641	320,000	124,651	124,651	0	0	195,349	0
Planning (Section 5307) (FY 2012) (80/20)	20.507	MI90-X641-01	320,000	151,370	151,370	0	0	0	168,630
Planning (Section 5307) (FY 2013) (80/20)	20.507	MI90-X671	320,000	0	0	0	0	0	320,000
Planning (Section 5339) Connector Study Alternatives (80/0)	20.522	MI39-0004	1,200,000	533,535	426,829	0	106,706	0	773,171
Capital cost of contracting (Section 5307) (80/20)	20.507	MI90-X641-01	240,000	200,000	200,000	0	0	40,000	0
Capital cost of contracting (Section 5307) (80/20)	20.507	MI90-X671	240,000	0	0	0	0	0	240,000
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X641-01	1,680,000	1,260,000	1,260,000	0	0	0	420,000
Preventive Maintenance (Section 5307) (80/20)	20.507	MI90-X671	1,680,000	0	0	0	0	0	1,680,000
Operating assistance (Section 5307) (50/50)	20.507	MI90-X671	1,474,000	2,948,000	1,474,000	0	1,474,000	0	0
Job Access/Reverse Commute (JARC)	20.516	MI37-X039	125,000	36,237	36,237	0	0	37,988	50,775
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-01	452,367	47,641	47,641	0	0	101,827	302,899
New Freedom (Mobility Management)	20.521	MI57-X012	60,000	25,627	25,627	0	0	14,922	19,451
New Freedom (Mobility Management)	20.521	MI57-X016	151,110	55,368	55,368	0	0	7,061	88,681
Subtotal - Direct Federal Operating			8,311,917	5,444,229	3,851,163	0	1,593,066	397,147	4,063,607
Passed Through Michigan Department of Transportation:									
Congestion Mitigation/Air Quality (Rideshare FY 2013)	20.507	2012-0602	455,000	455,000	455,000	0	0	0	0
Planning (Wally Commuter Rail) (Section 5304)	20.515	2007-0162/Z25	48,000	24,219	19,375	0	4,844	0	28,625
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2012-0033/P2R1	181,299	153,469	153,469	0	0	0	0
Subtotal - Federal Passed Through MDOT Operating			684,299	632,688	627,844	0	4,844	0	28,625
Transfer - Capital grants:									
Capital (Insurance proceeds)	20.507	MI90-X380	90,708	0	0	0	0	62,977	27,731
			90,708	0	0	0	0	62,977	27,731
TOTAL FEDERAL EXPENDITURES			$35,217,044	$18,425,116	$16,827,206	$0	$1,597,910	$8,696,464	$9,665,543

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED (Continued)
YEAR ENDED SEPTEMBER 30, 2013

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures Total	Federal	State	Local	Prior Years' Expenditures	Amount Remaining
Michigan Department of Transportation (State):									
Direct assistance - Capital grants:									
Capital (Downtown Transit Center)	N/A	2002-0007/Z19	$402,003	$328,276	$0	$328,276	$0	$73,727	$0
Capital (Downtown Transit Center)	N/A	2007-0162/Z26	183,750	179,634	0	179,634	0	4,116	0
Capital (State of Good Repair)	N/A	2007-0162/Z30	253,250	141,904	0	141,904	0	0	111,346
Capital (FY 2007)	N/A	2007-0162/Z5	911,831	0	0	0	0	866,508	45,323
Capital (FY 2011 and FY 2012)	N/A	2007-0162/Z32 R1	2,920,600	1,354,886	0	1,354,886	0	1,275,628	290,086
Capital (Clean Fuels Program)	N/A	2012-0033/P5	231,000	231,000	0	231,000	0	0	0
Capital (Livability Grant)	N/A	2012-0033/P4	453,000	439,373	0	439,373	0	0	13,627
Subtotal - Direct State Capital			5,355,434	2,675,073	0	2,675,073	0	2,219,979	460,382
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	7,856,980	7,856,980	0	7,856,980	0	0	0
Operating assistance - Act 51 Non-Urban	N/A	N/A	369,188	369,188	0	369,188	0	0	0
Prior year formula adjustments	N/A	N/A	(15,145)	(15,145)	0	(15,145)	0	0	0
Planning	N/A	2007-0162/Z32 R1	110,589	62,682	0	62,682	0	30,589	17,318
Capital Cost of Contracting	N/A	2007-0162/Z32 R1	100,000	50,000	0	50,000	0	0	50,000
Preventive Maintenance	N/A	2007-0162/Z32 R1	756,000	315,000	0	315,000	0	336,000	105,000
Specialized Services (FY 2013)	N/A	2012-0033/P6	89,814	293,031	0	89,814	203,217	0	0
Job Access/Reverse Commute (FY 2009)	N/A	2007-0162/Z20	31,250	10,407	0	10,407	0	8,149	12,694
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27 R1	452,367	75,203	0	75,203	0	84,803	292,361
Subtotal - Direct State Operating			9,751,043	9,017,346	0	8,814,129	203,217	459,541	477,373
Transfer - Capital grants:									
Capital (Insurance proceeds)	N/A	2002-0007/Z4	22,677	0	0	0	0	15,744	6,933
Subtotal - Transfer			22,677	0	0	0	0	15,744	6,933
TOTAL STATE EXPENDITURES			$15,129,154	$11,692,419	$0	$11,489,202	$203,217	$2,695,264	$944,688
STATE PASS-THROUGH:									
Specialized Services (FY 2013)		2012-0033/P6	$87,026	$65,270	$0	$65,270	$0	$0	$21,756
Specialized Services (FY 2012)		2012-0033/P1	88,673	22,757	0	22,757	0	65,916	0
Total -State Pass-Through Special Services			$175,699	$88,027	$0	$88,027	$0	$65,916	$21,756

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013, WITH COMPARATIVE TOTALS FOR 2012

	Specialized Services 2012-0033/P6 FY 2013	Job Access/ Reverse Commute MI37-X039 MI37-X044 2007-0162/Z20 2007-0162/Z27	New Freedom MI57-0012 MI57-0016	Rideshare Program 2012-0602 FY 2013	Non Urban Operations (Sec. 5311: 2012-0033/P2R1 FY 2013	Urban Operations Demand-Response	Urban Operations Fixed-Route	2013 Total	2012 Total
TOTAL OPERATING EXPENSES:									
Labor		$ 116,480	$ 29,232	$ 193,289	$ 19,721	$ 117,394	$ 10,092,367	$ 10,568,483	$ 9,868,544
Fringe benefits		22,714	5,679	54,062	7,438	75,452	6,837,489	7,002,834	6,358,869
Services				99,675	5,478	16,892	1,843,422	1,965,467	2,376,562
Materials and supplies		249		37,279	3,047	42,188	3,534,360	3,617,123	3,431,403
Utilities						12,082	391,920	404,002	418,362
Casualty and liability costs					4,764	30,817	592,099	627,680	486,026
Purchased transportation	$ 293,031	184,335	46,084	13,117	918,353	3,361,776	1,166,734	5,983,430	5,172,812
Other				57,578	378	2,804	361,951	422,711	676,526
Leases and rentals							36,192	36,192	32,705
Depreciation						35,471	5,083,318	5,118,789	3,628,313
TOTAL EXPENSES	$ 293,031	$ 323,778	$ 80,995	$ 455,000	$ 959,179	$ 3,694,876	$ 29,939,852	$ 35,746,711	$ 32,450,122

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

Code	Description	Fixed-Route	Demand Response	Total Urban
401 :	**Farebox Revenue**			
40100	Passenger Fares	$ 3,126,131	$ 652,419	$ 3,778,550
40200	Contract Fares	2,037,701		2,037,701
406 :	**Auxiliary Transit Revenue**			
40615	Advertising	349,310		349,310
407 :	**NonTransit Revenue**			
40799	Gain (Loss) on Sale of Equipment	50,797		50,797
40799	Other Revenue	30,724		30,724
408 :	**Local Revenue**			
40800	Taxes Levied Directly for Transit Agency	8,912,292	860,975	9,773,267
409 :	**Local Revenue**			
40910	Local Operating Assistance	531,087	187,704	718,791
40999	Other Local - Local Match	417,687	154,290	571,977
411 :	**State Formua and Contracts**			
41101	State Operating Assistance	6,811,997	1,044,983	7,856,980
41101	Prior Year Formula Adjustments	(15,145)		(15,145)
41111	Preventive Maintenance	315,000		315,000
41112	Capital Cost of Contracting		50,000	50,000
41112	Planning	62,682		62,682
41119	State Job Access/Reverse Commute match		85,610	85,610
41199	State Specialized Services		89,814	89,814
413 :	**Federal Contracts**			
41302	Operating Assistance (Sec 5307)	1,312,077	161,923	1,474,000
41311	Preventive Maintenance	1,260,000		1,260,000
41312	Capital Cost of Contracting		200,000	200,000
41312	Planning (Sec 5307)	702,850		702,850
41312	Unified Planning (Sec 5303)	49,440		49,440
41399	CMAQ - Rideshare	455,000		455,000
41399	State Planning & Research - Wally	19,375		19,375
41399	New Freedom		83,878	83,878
41399	Job Access/Reverse Commute		80,995	80,995
414 :	**Other Revenue**			
41400	Interest Revenue	40,892		40,892
	Total	$ 26,469,897	$ 3,652,591	$ 30,122,488

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

		Operations		Maintenance		General Administration		
Code	**Description**	**Fixed-Route**	**Demand Response**	**Fixed-Route**	**Demand Response**	**Fixed-Route**	**Demand Response**	**Total**
501:	**Labor**							
50101	Operators Salaries & Wages	$ 5,877,424						$ 5,877,424
50102	Other Salaries & Wages	767,970	$ 56,376	$ 1,506,809	$ 6,941	$ 1,942,828	$ 54,077	4,335,001
502:	**Fringe Benefits**							
50200	Other Fringe Benefits	3,881,042	31,020	1,110,420	3,819	1,033,860	29,755	6,089,916
50201	Pensions	502,339	5,214	142,056	642	165,108	5,002	820,361
503:	**Services**							
50302	Advertising Fees					100,189	15,550	115,739
50305	Audit Costs					22,581	1,342	23,923
50399	Other Services	243,937		482,405		994,310		1,720,652
504:	**Materials and Supplies**							
50401	Fuel & Lubricants	2,202,883		6,979				2,209,862
50402	Tires & Tubes	13,867						13,867
50499	Other Materials & Supplies	635,579	20,459	180,726	5,817	494,326	15,912	1,352,819
505:	**Utilities**							
50500	Utilities					391,920	12,082	404,002
506:	**Insurance**							
50603	Liability Insurance	501,612						501,612
50699	Other Insurance					90,487	30,817	121,304
508:	**Purchased Transportation**							
50800	Purchased Transportation	1,166,734	3,361,776					4,528,510
509:	**Miscellaneous Expenses**							
50902	Travel, Meeting & Training					53,561		53,561
50903	Association Dues & Subscriptions					69,767		69,767
50999	Other Misc Expenses			6,507	75	232,116	2,729	241,427
512:	**Operating Leases & Rentals**							
51200	Operating Leases & Rentals	7,969				28,223		36,192
513:	**Depreciation**							
51300	Depreciation	3,912,700	35,471	5,486		1,165,132		5,118,789
	Total Urban Expenses	19,714,056	3,510,316	3,441,388	17,294	6,784,408	167,266	33,634,728
550:	**Ineligible Expenses**							
55007	Ineligible Depreciation	3,901,730	35,471	2,787		1,015,221		4,955,209
55009	Ineligible Association Dues					6,271		6,271
55010	Ineligible Nontransportation Revenue					30,724		30,724
55011	Ineligible Preventive Maintenance (5307)			1,575,000				1,575,000
570:	**Ineligible Expenses**							
57099	Ineligible - Planning (Sec 5307)					765,532		765,532
57602	Ineligible - Unified Planning (Sec 5303)					61,800		61,800
57602	Ineligible - Capital Cost of Contracting		250,000					250,000
57604	Ineligible - State Planning and Research (Sec 5304)					24,219		24,219
580:	**Ineligible Expenses**							
58007	Ineligible - Health Care Savings Plan	181,130		52,790		47,620		281,540
58007	Ineligible - Post-retirement Benefit Accrual	95,397		14,952		9,660		120,009
58007	Ineligible - Post-retirement Benefits Paid	(55,720)		(8,733)		(5,642)		(70,095)

	Fixed-Route	**Demand Response**	**Total**
Total Expenses	$ 29,939,852	$ 3,694,876	$ 33,634,728
Total Ineligible Expenses	(7,714,738)	(285,471)	(8,000,209)
Total Eligible Expenses	$ 22,225,114	$ 3,409,405	$ 25,634,519

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - URBAN REGULAR SERVICE NONFINANCIAL INFORMATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

PUBLIC SERVICE - FIXED-ROUTE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	193,855	9,096	5,182	208,133
611	Vehicle Miles	2,899,349	136,042	77,503	3,112,894

PUBLIC SERVICE - DEMAND-RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	33,804	4,644	3,616	42,064
611	Vehicle Miles	498,987	68,557	53,383	620,927

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

Code	Description	Total Nonurban
401 :	**Farebox Revenue**	
40100	Passenger Fares	$ 116,543
40200	Contract Fares	
406 :	**Auxiliary Transit Revenue**	
40615	Advertising	
407 :	**NonTransit Revenue**	
40799	Gain (Loss) on Sale of Equipment	
40799	Other Revenue	
408 :	**Local Revenue**	
40800	Taxes Levied Directly for Transit Agency	
409 :	**Local Revenue**	
40910	Local Operating Assistance	319,979
40999	Other Local	
411 :	**State Formua and Contracts**	
41101	State Operating Assistance	369,188
411	Prior Year Formula Adjustments	
413 :	**Federal Contracts**	
41301	Federal Section 5311	153,469
414 :	**Other Revenue**	
41400	Interest Revenue	
	Other	
	Total	$ 959,179

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

		DEMAND-RESPONSE			
Code	Description	Operations	Maintenance	General Administration	Total
501:	**Labor**				
50102	Other Salaries & Wages			$ 17,057	$ 17,057
502:	**Fringe Benefits**				
50200	Other Fringe Benefits			8,524	8,524
50201	Pensions			1,578	1,578
503:	**Services**				
50305	Other Services	$ 773	1,528	3,177	5,478
504:	**Materials and Supplies**				
50499	Other Materials & Supplies	1,478	$ 420	1,149	3,047
506:	**Insurance**				
50699	Other Insurance			4,764	4,764
508:	**Purchased Transportation**				
50800	Purchased Transportation	918,353			918,353
509:	**Miscellaneous Expenses**				
50999	Other Misc Expenses		10	368	378
550:	**Ineligible Expenses**				
570:	**Ineligible Expenses**				

Total Expenses	$ 959,179
Total Ineligible Expenses	
Total Eligible Expenses	$ 959,179

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE NONFINANCIAL INFORMATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

PUBLIC SERVICE - DEMAND-RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	**Vehicle Hours**	22,212	1,759		23,971
611	**Vehicle Miles**	256,703	27,773		284,476

ANN ARBOR AREA TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

	Urban		
	Line-Haul	Demand Response	Nonurban
Total Expenses	$ 29,939,852	$ 3,694,876	$ 959,179
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	$ 1,260,000		
Federal Planning (Section 5307 and 5336)	702,850		
Federal Unified Planning (Section 5303)	61,800		
Federal Capital Cost of Contracting (Sec 5307)		$ 200,000	
Federal and State Depreciation Expense	4,919,738	35,471	
State Preventive Maintenance	315,000		
State Planning	62,682		
State Planning and Research (Section 5304)	24,219		
State Capital Cost of Contracting		50,000	
Health Care Savings Plan Contributions	281,540		
Post-Retirement Medical Benefits Accrual	120,009		
Post-Retirement Medical Benefits Paid	(70,095)		
Other Revenue	30,725		
Association Dues (Ineligible Portion)	6,271		
Total Ineligible Expenses	7,714,739	285,471	
Total State Eligible Expenses	22,225,113	3,409,405	959,179

Eligible Expenses for State Reimbursement	$ 22,225,113	$ 3,409,405	$ 959,179
x Reimbursement Percentage	30.6500%	30.6500%	38.4900%
State Operating Assistance	$ 6,811,997	$ 1,044,983	$ 369,188
Adjustment to 1997 Floor (Urban), if applicable			
Total Operating Assistance - Urban		$ 7,856,980	

Total Federal Eligible Expenses

Eligible Expenses for Federal Reimbursement	$ 959,179
x Reimbursement Percentage	16.0000%
Federal Operating Assistance (Section 5311)	$ 153,469

ADDITIONAL INFORMATION - NOTES TO SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2013

A. ITEMS REIMBURSED BY FEDERAL GRANTS

Items reimbursed directly by Federal operating and capital grants, including Sections 5303, 5304, 5307 and 5336, 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 whereby 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. 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 $85,611 remaining.

D. OTHER REVENUES AND ADVERTISING REVENUES

Other income 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, 12.8% and 8.0%, respectively, to influencing legislation which is not eligible for reimbursement according to OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments".

F. MILEAGE INFORMATION

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Ann Arbor Area Transportation Authority

We have audited, 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, the financial statements of the business-type activities of the Ann Arbor Area Transportation Authority as of and for the year ended September 30, 2013, and related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Ann Arbor Area Transportation Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2013-001 to be a material weakness.

To Management and the Board of Directors
Ann Arbor Area Transportation Authority

Compliance and Other Matters

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

Ann Arbor Area Transportation Authority's Response to Finding

The Ann Arbor Area Transportation Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Ann Arbor Area Transportation Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Plante & Moran, PLLC

January 31, 2014

plante moran

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Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Directors
Ann Arbor Area Transportation Authority

Report on Compliance for the Major Federal Program

We have audited the Ann Arbor Area Transportation 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 that could have a direct and material effect on its major federal program for the year ended September 30, 2013. The Ann Arbor Area Transportation Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Ann Arbor Area Transportation Authority's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Ann Arbor Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Directors
Ann Arbor Area Transportation Authority

Opinion on the Major Federal Program

In our opinion, the Ann Arbor Area Transportation Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Ann Arbor Area Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Ann Arbor Area Transportation Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

January 31, 2014

Ann Arbor Area Transportation Authority

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Project Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Department of Transportation:				
Federal Transit Cluster - Direct programs:				
Investment Grants - Capital Assistance	20.500	MI-03-0221		$ 1,313,107
Investment Grants - Capital Assistance	20.500	MI-04-0037		718,535
Investment Grants - Capital Assistance	20.500	MI-04-0064		567,575
Liveability Grants - Capital Assistance	20.500	MI-04-0072		1,757,492
Total Federal Transit - Investment Grants				4,356,709
Urbanized Area Formula Grants:				
Capital, Planning and Operating Grant	20.507	MI-90-X615		114,838
Capital, Planning and Operating Grant	20.507	MI-90-X641		7,262,350
Capital, Planning and Operating Grant	20.507	MI-90-X671		1,474,000
American Recovery and Reinvestment Act (ARRA) - Capital Assistance	20.507	MI-96-0024		23,158
Surface Transportation Program	20.507	MI-95-X052		248,165
Total Federal Transit - Formula Grants				9,122,511
Michigan Department of Transportation - Pass-through programs - Congestion Mitigation/Air Quality	20.507		2012-0602	455,000
Total Federal Transit Cluster				13,934,220
Transit Services Program Cluster - Direct programs:				
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0039		36,237
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0044		47,641
Section 5317 New Freedom	20.521	MI-57-0012		25,627
Section 5317 New Freedom	20.521	MI-57-0016		55,368
Total Transit Services Program Cluster				164,873
Clean Fuels Grant Program	20.519	MI-58-0004		2,079,000
FTA Alternatives Analysis Grant	20.522	MI-39-004		426,829
Michigan Department of Transportation - Pass-through programs - State Planning and Research Grant	20.515	MI-80-0004	2007-0162/Z5	19,375
Michigan Department of Transportation - Pass-through program - Operating Assistance - Section 5311	20.509		2012-0033/P7	153,469
Southeast Michigan Council of Governments - Pass-through program - Planning Grant	20.505		13005	49,440
Total federal awards				$ 16,827,206

See Notes to Schedule of Expenditures of Federal Awards.

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Ann Arbor Area Transportation Authority under programs of the federal government for the year ended September 30, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish between type A and type B programs: $504,816

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

Section II - Financial Statement Audit Findings

Reference Number	Finding
2013-001	**Finding Type** - Material weakness

Criteria - Management should ensure that all capital assets subject to depreciation are appropriately depreciated.

Condition - During our audit procedures, we determined that the Authority did not calculate and record depreciation expense on a significant number of assets in the current year.

Context - An adjusting journal entry was necessary to correct both the depreciation expense and associated accumulated depreciation.

Cause - The Authority's process for calculating depreciation expense is through an Access database. Using that database, several steps must be taken to get the proper report that calculates the appropriate depreciation expense for all assets. The error related to the omission of one of the steps in the process. The error was not caught by the Authority as there was not a second review over the fixed asset schedule to ensure completeness.

Effect - Plante & Moran, PLLC proposed and the Authority posted an entry to increase depreciation expense and accumulated depreciation expense in the current year.

Recommendation - We recommend that the Authority review the procedures surrounding the recording of depreciation expense to ensure that all steps of the process are followed. We also recommend that the Authority perform an overview of the depreciation schedules and ensure that all assets in the system are on the depreciation report in order to ensure that nothing was missed during the report creation process and that the schedule is complete.

Views of Responsible Officials and Planned Corrective Actions - The Authority will ensure a process is in place to review capital asset activity and the associated reports for depreciation expense in the future.

Section III - Federal Program Audit Findings

None

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January 31, 2014

To the Board of Directors
Ann Arbor Area Transportation Authority

We have audited the financial statements of the Ann Arbor Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2013 and have issued our report thereon dated January 31, 2014. Professional standards require that we provide you with the following information related to our audit.

Section I - Communications Required Under AU 260

Section II - Legislative and Other Informational Items

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the members of the board of directors of the Authority.

Section II contains updated legislative and informational items that we believe will be of interest to you, along with a few recommendations related to internal controls and procedures noted during our current year audit. These comments are offered in the interest of helping the Authority in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Authority's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the 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*. This report is included in the supplemental schedule of federal awards and we recommend that the matters we have noted there receive your careful consideration.

We would like to take this opportunity to thank the Authority's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism were critical to the completion of the engagement and are much appreciated.

This report is intended solely for the use of the members of the board of directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

To the Board of Directors
Ann Arbor Area Transportation Authority

January 31, 2014

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

David Helisek

David Helisek

Pamela J. Hill

Pamela Hill

To the Board of Directors
Ann Arbor Area Transportation Authority

January 31, 2014

Section I - Communications Required Under AU 260

<u>Our Responsibility Under U.S. Generally Accepted Auditing Standards</u>

As stated in our engagement letter dated October 17, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Authority's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Authority, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated January 31, 2014 regarding our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

<u>Planned Scope and Timing of the Audit</u>

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 26, 2013.

<u>Significant Audit Findings</u>

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.

As described in Note 15, the Authority changed accounting policies related to the adoption of GASB Statement No. 63. The new statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The statement impacts the format and reporting of the balance sheet at the government-wide level and also at the fund level. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

We noted no transactions entered into by the Authority 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 related to the following:

- OPEB (other postemployment benefits) costs, including the actuarial methods and assumptions. These assumptions used are based on plan provisions, healthcare-related trends, and payroll data.
- Allowance for collectibility reserve related to local revenue source receivables. The assumptions are based on communications from the City of Ann Arbor, combined with management's estimates for uncertainties and historical results.

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

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose 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.

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. The attached schedule summarizes uncorrected misstatements of the financial statements which were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 31, 2014.

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 Authority'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 Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated.

To the Board of Directors
Ann Arbor Area Transportation Authority

January 31, 2014

Peer Review Letter

Periodically, we are required to have our system of quality control reviewed by independent peers to ensure we are in compliance with professional standards. The results of these reviews must be communicated to you, as the decision-making body of the Authority. We have included below a copy of our most recent system review report.

P&N Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

System Review Report

To the Partners of Plante & Moran, PLLC
and the AICPA National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Plante & Moran, PLLC (the firm) applicable to non-SEC issuers in effect for the year ended June 30, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards;* audits of employee benefit plans, audits performed under FDICIA and examinations of service organizations (SOC 1 and SOC 2).

In our opinion, the system of quality control for the accounting and auditing practice of Plante & Moran, PLLC, applicable to non-SEC issuers in effect for the year ended June 30, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Plante & Moran, PLLC has received a rating of *pass*.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 15, 2013

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

Client: **Ann Arbor Area Transportation Authority**
Enterprise Fund/Business Type Activity
Y/E: **9/30/2013**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net income statement impact
FACTUAL MISSTATEMENTS:									
A1	To recognize net revenue for the assets transferred from "get downtown" in current year as opposed to unearned revenue			$ (65,752)			$ 65,752		$ 65,752
A2	Estimate for future tax refunds should be recorded as a liability versus a reduction to AR	$ 160,000		160,000					
A3	To reverse depreciation taken, and gain recognized, in order to fully depreciate assets before disposal						(49,717)	$ (49,717)	
JUDGMENTAL ADJUSTMENTS:									
B1									
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
		-	$ -	-	$ -	$ -	-	-	-
	Combined effect	160,000	-	94,248	-	-	16,035	(49,717)	65,752
	Total	$ 160,000	$ -	$ 94,248	$ -	$ -	$ 16,035	$ (49,717)	$ 65,752

Section II - Legislative and Other Informational Items

Information Technology General Controls

As part of our audit procedures, we are required to perform an assessment of the Authority's information technology general controls. During that review, we identified some best practice improvement opportunities which we identified in prior years as well. We bring them to your attention as best practices only.

- The Authority does not have formal policies for adding/modifying/terminating users' rights in the system. We recommend that a formal, written policy be created to ensure appropriate controls are in place and consistency applied as users in the system are changed.

- The Authority does not have processes or controls in place to monitor/review user access within the system. Although this has been done at year end over the past couple of years in conjunction with our IT assessment, we encourage the Authority to adopt a policy that would require review of user access in the system regularly throughout the year to ensure the propriety of user access in the system.

- The Authority's system is set to lock out users after five failed login attempts. A best practice would be to set the limit at three attempts.

Personal Property Tax

The personal property tax was repealed by the passing of several bills during the legislature's lame duck session in December. This repeal is contingent upon a statewide vote in August 2014 to allow for a shifting of the use tax to a reimbursement fund. Key provisions of the act phase out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than $40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax. For the July 2013 and December 2013 levies, it will be business as usual and communities will continue to levy as they normally have. However, for the July 2014 levy, this will change. Communities will not be able to levy businesses with less than $40,000 taxable value in industrial and commercial personal property. If during the statewide vote in August 2014, the proposed personal property tax legislation fails, for future levies the less than $40,000 taxable value will no longer be in effect. If this is the case, the communities will not be able to recover the amounts that were not levied in the July 2014 levy for the taxable values less than $40,000 for industrial and commercial personal property - this will just be lost.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. This means reduced revenue from property tax collections for the Authority from these local governments. This reimbursement would come from the Metropolitan Area Authority, a newly created entity led by five members appointed by the governor. This authority would be responsible for distributing the use tax collections as well as monies generated from expiring tax credits.

In addition, local governments would have the option to assess a special assessment on industrial property (referred to as Essential Services Assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When working through upcoming budgets and longer-term projections, please keep these items in mind. The final act has not yet been published by the State.

The Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts:

http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx

Michigan Qualifying Statement Revisions and Changes to Filing Process

Bulletin 6 was recently issued by the State Department of Treasury and is effective beginning May 1, 2013. The bulletin details out the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The Qualifying Statement is now Form 5047. The new form and link to the online filing are available at www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at its disposal (i.e., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Starting May 1, 2013, there is only one way in which a Qualifying Statement can be submitted, as follows:

1. The form is now a PDF that can be downloaded and saved. The form is fillable allowing preparers to type in responses and save the form with answers intact.

2. The PDF will be uploaded via the Department of Treasury website. The upload page is www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.

3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the words "QStmt" (example: 7830402012QStmt). Please note the system will only accept one Qualifying Statement per fiscal year per municipality.

4. Municipalities will not be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The Bulletin also allows the Qualifying Statement to be filed by an individual other than the Chief Administrative Officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether they are the CAO or the designee at the time the Qualifying Statement is filed.

Amendments to Public Act 152 of 2011 (Health Care Limitations)

On December 11, 2013, legislation was passed (formerly SB 541-545) in an effort to clarify PA 152 of 2011. These amendments are effective immediately. SB 542 has perhaps the most direct financial impact on communities.

SB 542: This bill modified the current law which allows employers to opt between a percentage-based cap or a dollar-limit (hard cap) on employee health insurance premiums. The bill increases the dollar-cap for individual and spouse coverage from the current limit under PA 152 of $11,000 to $13,455. This applies for all medical plan coverage years beginning in calendar year 2013 according to the current language. The $13,455 cap is increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this may result in an unanticipated additional cost of $2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case; they would become part of that calculation.

The legislation also defines "family coverage" as "individual-plus-one-nonspouse-dependent coverage."

Upcoming Accounting Pronouncements

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Authority as of the year ending September 30, 2014.