Ann Arbor Transportation Authority

Financial Statements as of and for the Years Ended September 30, 2012 and 2011 and Additional Information for the Year Ended September 30, 2012, Independent Auditors' Reports Required by the Office of Management and Budget Circular A-133 and Supplemental Schedule of Expenditures of Federal Awards for the Year Ended September 30, 2012, and Independent Auditors' Reports

ANN ARBOR TRANSPORTATION AUTHORITY

TABLE OF CONTENTS

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Independent Auditor's Report

To the Board of Directors
Ann Arbor Transportation Authority

We have audited the accompanying basic financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the years ended September 30, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ann Arbor Transportation Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ann Arbor Transportation Authority as of September 30, 2012 and 2011 and the respective changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified 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 required supplemental information 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ann Arbor Transportation Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013 on our consideration of the Ann Arbor 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* and should be read in conjunction with this report in considering the results of our audits.

Plante & Moran, PLLC

March 7, 2013

MANAGEMENT DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

As management of the Ann Arbor Transportation Authority (the "Authority") in Ann Arbor, Michigan, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2012. We encourage readers to consider the information in conjunction with the financial statements, related note disclosures and the required supplementary and additional information as listed in the table of contents.

Overview of the Financial Statements and Financial Analysis

The discussion is intended to present an overview of the Authority's financial performance for the years ended September 30, 2012 and 2011 and does not purport to make any statement regarding the future operations of the organization. While the Authority is an instrumentality of the State of Michigan, it is not a component of the State as defined by the Governmental Accounting Standards Board (GASB).

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

The basic financial statements for the year ended September 30, 2011 have been audited and are included herein for comparative purposes.

Financial Highlights

The Authority's total assets increased from the prior year by $5.4 million (11.1%), primarily due to a increase in net capital assets due to the purchase of ten hybrid diesel-electric buses for $6.4 million, the expansion of the bus storage garage for $2.05 million, net of depreciation expense of $3.6 million.

Cash and investments decreased by $3.9 million (28.1%) primarily due to the timing from the collection of grant, property tax and other receivables.

Total net assets increased by $5.6 million (12.3%), primarily because net assets - invested in capital assets increased from using Federal and state grants for capital purchases. Unrestricted net assets decreased by $1.4 million.

Total operating revenues increased $671,000 (13.4%) primarily due to increased ridership and the implementation of the AirRide Service in April 2012.

Total operating expenses increased $2.9 million (9.9%) due to the implementation of AirRide shuttle service to Detroit Metro Airport, expanded route #4 services, higher biodiesel fuel costs, and higher personnel costs to support the additional services and the Transit Master Plan.

Balance Sheets

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

A summary of the Authority's assets, liabilities and net assets at September 30, 2012, 2011 and 2010 follows (in thousands):

	2012	**2011**	**2010**
Assets:			
Current assets	$17,109	$18,702	$20,034
Capital assets, net	37,094	30,086	31,798
Total assets	**$54,203**	**$48,788**	**$51,832**
Liabilities:			
Current liabilities	$1,619	$1,939	$3,078*
Noncurrent liabilities	1,233	1,129	1,058
Total liabilities	2,852	3,068	4,136
Net Assets:			
Invested in capital assets	37,094	30,086	31,798
Unrestricted	14,257	15,634	15,898
Total net assets	51,351	45,720	47,696
Total liabilities and net assets	**$54,203**	**$48,788**	**$51,832**

*2010 current and noncurrent liabilities have been reclassified to conform to the 2012 and 2011 presentation.

At September 30, 2012, the Authority's total assets were $54.2 million, compared to $48.8 million at September 30, 2011.

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 $1,656,000 as of September 30, 2012 based on the most recent available valuation, which was prepared as of September 30, 2010.

From 1991 through 2005, the Authority recorded postemployment medical benefits obligation of $3,769,000 under the provisions of the Financial Accounting Standards Board (FASB) #106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." However, under GASB #45, only the amount of the annual required contribution not paid since the adoption of GASB #45 is recorded as a liability ($1,714,000 as of September 30, 2007). Therefore, the previously recorded liability of $3,769,000 as of September 30, 2005 was eliminated and reclassified into unrestricted net assets. In 2008, the Authority implemented a defined contribution health care savings plan under the Internal Revenue Code

Section 115. The Authority contributed a one-time contribution to each individual employee account based on months of service, totaling $3.4 million, using $1.7 million from the accrued liability at September 30, 2007 and expensing $1.7 million in 2008.

The total assets of the Authority exceeded its total liabilities by $51.4 million (net assets) as of September 30, 2012. Of this amount, $14.3 (unrestricted net assets) may be used to fund future operations and meet future obligations of the Authority. The July 1, 2012 property tax levy of $9.0 million has been included in nonoperating revenue for the year ended September 30, 2012 even though the majority of it will be needed to help fund operations from October 1, 2012 to June 30, 2013.

Statement of Revenues, Expenses, and Changes in Net Assets

A summary of the Authority's revenues, expenses and changes in net assets for the year ended September 30, 2012, 2011 and 2010 follows (in $1,000s):

	2012	**2011**	**2010**
Operating revenues	$5,693	$ 5,022*	$ 4,232*
Operating expenses	(32,450)	(29,531)	(28,673)
Operating loss	(26,757)	(24,509)	(24,441)
Non-operating revenues	21,850	20,571*	20,619*
Change in net assets before capital contributions	(4,907)	(3,938)	(3,822)
Net Capital contributions	10,537	1,963	5,701
Change in net assets	5,631	(1,976)	1,879
Net assets, beginning of year, as restated	45,720	47,696	45,817
Net assets, end of year	**$51,350**	**$45,720**	**$47,696**

*2011 and 2010 operating and non-operating revenues have been reclassified to conform to the 2012 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 $32,450,000 include operations ($21,635,000), vehicle and facility maintenance ($3,538,000) and general administration ($7,277,000). The largest portion of all expenses is for employee wages and fringe benefits of $16,227,000 or 50.2% 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 2012, the Authority purchased ten hybrid diesel-electric buses for $6.4 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 purchase. The Authority also expanded the bus storage garage by 20,000 square feet for a total of $2.1 million, using Federal formula grants, Federal ARRA grants and matching MDOT grants. A portion of Federal formula dollars can be used as operating assistance. In 2012 and 2011, the Authority used $2,023,000 and $2,457,000, respectively for operating assistance, such as preventive maintenance, planning and capital cost of contracting.

Notes to the Financial Statements

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

Restatement of Prior Period Unrestricted Net Assets

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

Capital Assets

The Authority continues to invest in vehicles, facilities and equipment. In 2012, the Authority purchased ten hybrid diesel-electric buses for $6.4 million. The Authority's largest capital investments include buses and related equipment, net of depreciation, of $21.8 million in 2012 and $16.8 million in 2011 and the land and buildings, net of depreciation, of $15.3 million in 2012 and $12.7 million in 2011.

Economic Factors and Next Year's Budget (Fiscal Year 2013)

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

For fiscal year 2013, the Board of Directors adopted an operating budget, which included drawing upon reserves of $300,000.

The Authority also receives significant funding through the property tax levy on the citizens of the City of Ann Arbor. The July 1, 2012 property tax levy increased 1.0% from the July 1, 2011 levy.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the transit provider's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller/Manager of Finance, Ann Arbor Transportation Authority, 2700 South Industrial Highway, Ann Arbor, Michigan 48104. Previous years' financial statements, 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 TRANSPORTATION AUTHORITY

BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash (Note 2)	$ 1,980,645	$ 4,218,114
Investments (Note 2)	7,986,514	9,649,578
Accounts receivable, less allowance of $0 in 2012 and 2011	743,352	678,226
Grants receivable (Note 3)	4,423,273	2,098,409
Other receivables (Note 4)	272,678	466,633
Inventory	824,145	814,628
Prepaid expenses	878,375	776,491
Total current assets	17,108,982	18,702,079
CAPITAL ASSETS: (Note 5)		
Land and improvements	2,270,821	2,180,821
Park and Ride lot construction	5,474,429	5,158,935
Buildings and improvements	20,385,123	17,420,856
Equipment and other	46,525,065	41,341,060
Construction in progress	515,572	730,070
Total capital assets	75,171,010	66,831,742
Less accumulated depreciation	38,077,480	36,745,772
Net capital assets	37,093,530	30,085,970
TOTAL ASSETS	$ 54,202,512	$ 48,788,049

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Accounts payable	$ 812,778	$ 1,204,205
Grant refunds payable (Note 3)	102,407	67,386
Accrued payroll	235,337	202,941
Accrued compensated absences, current portion	113,816	103,092
Other accrued expenses	81,493	77,631
Unearned revenue (Note 6)	273,313	284,170
Total current liabilities	1,619,144	1,939,425
CONTINGENCIES (Note 8)		
NON-CURRENT LIABILITIES:		
Accrued compensated absences	1,024,342	927,830
Post-Retirement Benefit Obligation (Note 12)	208,178	200,583
Total non-current liabilities	1,232,520	1,128,413
Total liabilities	2,851,664	3,067,838
NET ASSETS:		
Invested in capital assets	37,093,530	30,085,970
Unrestricted (Note 17)	14,257,318	15,634,241
Total net assets	51,350,848	45,720,211
TOTAL LIABILITIES AND NET ASSETS	$ 54,202,512	$ 48,788,049

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES (Note 9)	$ 5,692,914	$ 5,022,107
OPERATING EXPENSES (Notes 7, 9, 12 and 13):		
Operations	21,635,160	19,645,735
Maintenance	3,537,761	3,340,415
General administration	7,277,201	6,545,315
Total operating expenses	32,450,122	29,531,465
OPERATING LOSS	(26,757,208)	(24,509,358)
NONOPERATING REVENUES:		
Local	10,495,363	10,243,521
State	8,524,417	7,126,340
Federal	2,830,645	3,201,094
Total nonoperating revenues	21,850,425	20,570,955
CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(4,906,783)	(3,938,403)
CAPITAL CONTRIBUTIONS - FEDERAL AND STATE	10,537,420	1,829,862
CAPITAL CONTRIBUTIONS - LOCAL MATCH (Note 14)		132,916
CHANGE IN NET ASSETS	5,630,637	(1,975,625)
TOTAL NET ASSETS, BEGINNING OF YEAR, as restated (Note 17)	45,720,211	47,695,836
TOTAL NET ASSETS, END OF YEAR	$ 51,350,848	$ 45,720,211
UNRESTRICTED NET ASSETS, END OF YEAR	$ 14,257,318	$ 15,634,241

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from transit operations	$ 4,346,161	$ 4,032,027
Payments for salaries and wages and fringe benefits	(16,098,346)	(15,297,444)
Payments to suppliers	(7,360,320)	(6,678,413)
Payments for claims and insurance	(542,070)	(515,250)
Payments for purchased transportation	(3,891,185)	(3,305,095)
Net cash used in operating activities	(23,545,760)	(21,764,175)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Nonoperating revenue:		
Local	10,576,572	10,451,841
State	8,045,973	6,759,169
Federal	2,522,371	3,202,948
Net cash provided by noncapital financing activities	21,144,916	20,413,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(10,635,873)	(1,895,479)
Capital contributed by state and federal grants	9,034,295	2,183,182
Proceeds from sales of equipment	39,723	
Net cash provided by capital and related financing activities	(1,561,855)	287,703
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(7,556,936)	(9,868,366)
Proceeds from sale and maturities of investment securities	9,220,000	12,984,458
Interest income	62,166	95,506
Net cash provided by (used in) investing activities	1,725,230	3,211,598
NET INCREASE (DECREASE) IN CASH	(2,237,469)	2,149,084
CASH AT BEGINNING OF YEAR	4,218,114	2,069,030
CASH AT END OF YEAR	$ 1,980,645	$ 4,218,114

See notes to financial statements.

ANN ARBOR TRANSPORTATION AUTHORITY

STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (26,757,208)	$ (24,509,358)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,628,313	3,740,716
Changes in assets and liabilities which (used) provided cash:		
Receivables	(65,126)	304,645
Inventory	(9,517)	(13,586)
Prepaid expenses	(101,884)	5,793
Payables	(391,427)	(451,176)
Accrued payroll	32,396	(346,854)
Other accrued expenses	118,693	53,247
Deferred revenue	-	(188,160)
Total adjustments	3,211,448	3,104,625
NET CASH USED IN OPERATING ACTIVITIES	$ (23,545,760)	$ (21,404,733)

	2012	2011
NONCASH TRANSACTIONS:		
Subcontracted revenue - urban demand response (Note 9)	561,577	504,346
Subcontracted revenue - interurban airport shuttle (Note 9)	258,631	-
Nonurban - other governmental sources	339,384	359,442
Total noncash transactions	$ 1,159,592	$ 863,788

See notes to financial statements.

1. NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

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

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

Significant Accounting Policies

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

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

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

Investments 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 assets. On an accrual basis, revenue from these contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

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

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

The Authority records the fair market value of the fuel hedge contracts in Investments. The resulting realized gains and losses are recorded as an offset to the expense (gain) or an additional expense (loss) in the Statement of Revenues, Expenses and changes in Net Assets in the fuel and lubricants expense line item. (See Note 6).

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

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 Authority. Capital grants for the acquisition of capital assets are recorded as grants receivable in the statement of net assets and capital contributions in the statement of revenue, expenses, and changes in net assets when the related qualified expenditures are incurred.

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

Net Assets are displayed in two components as follows:

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

Unrestricted – This consists of net assets that do not meet the definition of "invested in capital assets."

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

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

2. CASH AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of September 30, 2012 and 2011:

Balance Sheet:	**2012**	**2011**
Cash	$ 1,980,645	$ 4,218,114
Investments	7,986,514	9,649,578
Total	**$ 9,967,159**	**$13,867,692**

Deposits and Investments:	2012	2011
Bank deposits (checking, savings and certificates of deposit)	$ 9,384,616	$13,073,164
Investment in government liquid asset fund accounts	155,488	155,203
Money market fund	107,412	507,373
Heating oil futures account	316,823	125,082
Cash on hand	2,820	6,870
Total	**$ 9,967,159**	**$ 13,867,692**

Public Act 20 of 1943, as amended, authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. 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 repurchases agreements (covered by direct obligations of the United States Treasury) with any financial institution that maintains a principal office or branch office located in the State of Michigan. The total investment (exclusive of checking accounts) in any financial institutions shall not exceed the lesser of twenty percent of that financial institution's capital and surplus or $4,000,000.
- Bonds and other direct obligations of the United States or any agency thereof with a maturity of three years or less.
- Top rated commercial paper of corporations, acquired through the bidding process or through the secondary market with a maturity not more than 270 days after the date of purchase. Not more than $500,000 may be invested in a single corporation.
- Governmental mutual funds which invest only in authorized investments for local units of government under state law and which offer daily liquidity.

The Authority chooses to disclose its investments by specifically identifying each. As of September 30, 2012, the Authority had the following investments.

Investment	Maturity	Interest Rate	Fair Value	Rating
RBC Wealth Management Money Market Fund	N/A	0.01%	$ 79,766	Moody's Aaa-mf
Government Liquid Assets Funds	N/A	Various	155,488	Not rated
JP Morgan Chase Money Market Fund	N/A	0.02%	13,775	Moody's Aaa-mf
Comerica Money Market Fund	N/A	0.07%	13,871	Not rated
			$ 262,900	

Investment and deposit risk

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

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at September 30, 2012.

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, 2012, $2,879,482 of the Authority's bank balance of $10,479,864 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 page 30. The following grant amounts were outstanding at September 30:

	2012	2011
Michigan Department of Transportation:		
Rideshare program	$ 455,000	$ 400,072
Operating assistance	751,471	84,914
Capital cost of contracting	10,000	
Planning	22,242	8,347
Preventive maintenance	172,000	
Buses and related equipment	170,027	273,000
Computer hardware and software	13,442	
Facilities	310,479	39,850
Transit Centers	8,227	183,532
Job Access/Reverse Commute (State match)	27,555	11,491
Federal Transit Administration:		
Buses and related equipment	443,957	-
Passenger shelters	8,980	-
Facilities	1,342,577	84,430
Transit Centers	169,781	471,126
Job Access/Reverse Commute	62,630	6,576
New Freedom	1,010	-
Planning	126,866	258,656
Preventive maintenance	68,000	180,000
Capital cost of contracting	40,000	
Computer hardware and software	116,622	29,029
NET GRANTS RECEIVABLE (REFUNDS PAYABLE)	$ 4,320,866	$ 2,031,023

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

	2012	2011
Grants receivable	$ 4,423,273	$ 2,098,409
Grant refunds payable	(102,407)	(67,386)
Net grants receivable	$ 4,320,866	$ 2,031,023

4. OTHER RECEIVABLES

Other receivables consist of the following amounts:

	2012	2011
City of Ann Arbor - tax levy	$ 272,496	$ 450,487
Interest receivable	182	16,146
Total	$ 272,678	$ 466,633

5. CAPITAL ASSETS

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

5. CAPITAL ASSETS (Concluded)

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

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

6. UNEARNED REVENUE

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

	2012	2011
Federal Capital	27,731	27,731
State Capital	6,933	6,933
Local share of WALLY intergovernmental revenues	157,000	157,000
Get Downtown Program	81,649	81,649
Unrealized Gains (Losses) on Fuel Futures Account	0	10,857
Total	$ 273,313	$ 284,170

7. EMPLOYEES PENSION PLAN

The Authority provides pension benefits for substantially all of its employees through a defined contribution plan called the Ann Arbor Transportation Authority Employees' Pension Plan ("Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of employment. The Authority's contributions for each employee and interest allocated to the employee's account are fully vested after five years of employment. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current year contribution requirement. Employees contribute 4% of their gross earnings to the plan, effective January 1, 2011. Previously, employees contributed 3% of their gross earnings. Employee contributions amounted to $393,000 and $365,000 for the years ended September 30, 2012 and 2011. 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 $786,000 and $750,000 for the years ended September 30, 2012 and 2011, respectively. Total payroll and covered payroll was approximately $11,641,000 and $9,821,000 for 2012 and $10,687,000 and $9,762,000 for 2011.

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 collects and retain the passenger fares as an advance against the monthly billings. Operating revenues and operating expenses include approximately $820,000 and $504,000 of fares for these services in the years ended September 30, 2012 and 2011, 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:

	2012	2011	2010
Annual required contribution (recommended)	$ 89,545	$ 87,083	$ 85,391
Interest on net OPEB obligation	7,454	7,187	6,525
Adjustment to annual required contribution	(8,254)	(7,960)	(7,227)
Total annual OPEB cost	88,745	86,310	84,689

	2012	2011	2010
Employer contributions made –			
Payment of current health care premiums	(81,150)	(65,412)	(67,140)
Increase (decrease) in net OPEB obligation	7,595	20,898	17,549
OPEB obligation – beginning of year	200,583	179,685	162,136
OPEB obligation – end of year	**$ 208,178**	**$ 200,583**	**$ 179,685**

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

Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
9/30/2006	$886,635	4.3%	$ 848,931
9/30/2007	$922,100	6.2%	$1,713,963
9/30/2008	$147,911	4.4%	$ 83,219
9/30/2009	$145,395	45.7%	$ 162,136
9/30/2010	$ 83,987	80.3%	$ 179,685
9/30/2011	$ 86,310	75.8%	$ 200,583
9/30/2012	$ 88,745	91.4%	$ 208,178

Funded Status and Funding Progress. The funded status of the plan as of September 30, 2010, the most recent available actuarial valuation:

	2012	2011	2010
Actuarial accrued liabilities (a)	$ 1,656,087	$ 1,656,087	$ 1,656,087
Actuarial value of plan assets (b)	-	-	-
Unfunded actuarial accrued liability (a) – (b)	**$ 1,656,087**	**$ 1,656,087**	**$ 1,656,087**
Funded ratio (b) / (a)	0%	0%	0%
Covered payroll (c)	$ 218,584	$ 201,147	$ 195,288
Unfunded actuarial accrued liability (funding excess) as a Percentage of covered payroll ([(a) – (b)] / (c)	758%	823%	848%

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 retiree's spouses. The following simplifying assumptions were made pursuant to the Alternative Measurement Method:

Actuarial valuation date	9/30/2010
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Remaining amortization period	24 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.0%
Healthcare cost trend rate	9.0% in 2012, Grading to 6.0% in 2018
Inflation rate	2.8%
Payroll growth rate	2.8%
Retirement age	68
Marital status	Marital status to continue throughout retirement
Mortality	2004 U.S. Male and Female life tables
Turnover	0%

13. HEALTH CARE SAVINGS PLAN

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

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

Beginning January 1, 2008, the Authority makes pre-tax contributions of $125 each month into each eligible employee's HCSP account. The employees shall make a mandatory monthly pre-tax contribution of at least $2, but not more than $100 per pay period. Employees may make voluntary pre-tax contributions to the HCSP to the extent allowable by the HCSP or by law. Employer contributions amounted to $250,875 and $248,500 for the years ended September 30 2012 and 2011, respectively.

14. CAPITAL CONTTRIBUTIONS – LOCAL MATCH

During 2011, the Authority recognized contributed capital – local match from the University of Michigan Central Campus Transit Center project in the amount of $132,916. There were no such capital contributions during 2012.

15. COMMITMENTS

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.

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

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

16. UPCOMING ACCOUNTING PRONOUCEMENTS

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

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

17. RESTATEMENT OF PRIOR YEAR NET ASSETS

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

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

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

Additional Information for the Year Ended

September 30, 2012

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF REVENUES - UNAUDITED
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
LOCAL OPERATING REVENUES:		
Passenger fares:		
Urban fixed route	$ 2,253,084	$ 2,067,955
Urban demand response	561,577	504,346
Commuter express	117,091	89,671
Interurban airport shuttle	258,631	
Mobility Management demand response	37,756	
Nonurban demand response	84,279	71,495
Special Fares:		
City of Ann Arbor DDA - go!pass sales	508,456	443,875
Ann Arbor Public Schools	1,504	
Eastern Michigan University	250,796	172,213
University of Michigan	1,532,424	1,587,559
Washtenaw Community College	87,316	84,993
Total local operating revenue	$ 5,692,914	$ 5,022,107
LOCAL NONOPERATING REVENUE:		
Purchase of service agreements:		
City of Ypsilanti	321,387	239,098
Pittsfield Township	148,144	148,017
Superior Township	32,661	31,430
Ypsilanti Township	298,508	297,390
Total purchase of service agreements	800,700	715,935
City of Ann Arbor - property tax levy (Note 17)	9,019,447	8,778,816
City of Ann Arbor - Downtown Development Authority (GetDowntown)	18,832	35,023
City of Ann Arbor - Downtown Development Authority (route #4 expansion)	14,417	
City of Ann Arbor - Downtown Development Authority (Connector Study)		17,552
City of Ann Arbor (Connector Study)		17,552
University of Michigan (Connector Study)		35,102
Washtenaw County (route #4 expansion)	20,000	
Job Access/Reverse Commute pass-through	65,766	136,036
Nonurban - Other governmental sources	339,384	359,442
Interest income	57,059	72,636
Advertising income	92,316	70,853
Other revenue	27,719	4,574
Gain (loss) on sale of equipment	39,723	
Total local nonoperating revenue	10,495,363	10,243,521
Total local operating and nonoperating revenue	16,188,277	15,265,628
STATE OF MICHIGAN NONOPERATING REVENUE:		
Formula operating assistance - urban (Act 51)	7,425,294	6,669,584
Formula operating assistance - nonurban (Act 51)	311,962	336,001
Prior years formula adjustments - urban and nonurban	202,784	5,273
Capital Cost of Contracting	50,000	
Job Access/Reverse Commute (State Match)	86,321	17,321
Planning	22,242	8,347
Preventive maintenance	336,000	
Specialized services	89,814	89,814
Total state nonoperating revenue	8,524,417	7,126,340
FEDERAL NONOPERATING REVENUE:		
Unified planning program passed through SEMCOG (Section 5303)	49,440	49,440
Planning (Section 5307)	398,350	641,957
Federal operating assistance - nonurban (Section 5311) - passed through the State	159,252	167,458
Capital cost of contracting (Section 5307)	200,000	200,000
Congestion Mitigation/Air Quality (Section 5307)		52,230
Job Access/Reverse Commute	124,264	58,315
New Freedom	19,883	16,622
Preventive maintenance (Section 5307)	1,424,456	1,615,000
Travel Demand Management (CMAQ - passed through the State of Michigan)	455,000	400,072
Total federal nonoperating revenue	2,830,645	3,201,094
TOTAL NONOPERATING REVENUES	$ 21,850,425	$ 20,570,955

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Operations	Maintenance	General Administration	2012 Total	2011 Total
LABOR:					
Operators' salaries and wages	$ 5,588,930			$ 5,588,930	$ 5,148,782
Other salaries and wages	804,661	$ 1,591,714	$ 1,883,239	4,279,614	3,854,354
FRINGE BENEFITS					
Fringe wages	1,036,395	319,362	416,640	1,772,397	1,683,369
Social security payroll taxes	567,782	141,872	161,524	871,178	801,372
Medical insurance	1,342,573	425,140	190,171	1,957,884	1,741,795
Pension	491,867	137,790	156,060	785,717	749,866
Health care savings plan	163,375	48,000	39,500	250,875	248,500
Post-retirement medical benefits	56,112	16,212	9,460	81,784	86,310
Other fringe benefits	462,076	107,576	69,382	639,034	711,647
SERVICES:					
Advertising fees			200,015	200,015	150,904
Other services	257,822	477,610	1,426,215	2,161,647	1,990,512
Auditing fees			14,900	14,900	15,400
MATERIALS AND SUPPLIES CONSUMED:					
Fuel and lubricants	1,941,613	7,826		1,949,439	1,566,778
Tires and tubes	54,774			54,774	131,341
Materials and supplies	635,160	244,788	547,242	1,427,190	1,265,331
UTILITIES			418,362	418,362	474,941
CASUALTY AND LIABILITY COSTS:					
Premiums for public liability and property damage insurance	355,346			355,346	376,235
Other casualty and liability costs			130,680	130,680	133,008
PURCHASED TRANSPORTATION	5,172,812			5,172,812	4,240,378
MISCELLANEOUS EXPENSES:					
Travel and meetings			55,421	55,421	45,589
Advertising and promotion media			377,609	377,609	189,107
Association dues & subscriptions			72,240	72,240	71,827
Other		8,780	162,476	171,256	90,662
LEASES AND RENTALS	7,829		24,876	32,705	22,741
DEPRECIATION	2,696,033	11,091	921,189	3,628,313	3,740,716
TOTAL OPERATING EXPENSES	$ 21,635,160	$ 3,537,761	$ 7,277,201	$ 32,450,122	$ 29,531,465

ADDITIONAL INFORMATION
SCHEDULE OF FEDERAL AND STATE INTEREST IN CAPITAL ASSETS - UNAUDITED
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
FEDERAL AND STATE INTEREST IN CAPITAL ASSETS:		
Balance, beginning of year	$ 28,243,531	$ 29,945,797
Contributions - Federal and State capital grants	10,537,420	1,829,863
Transfer of Federal and State interest in equipment from (to) deferred revenue		
Loss on disposal of assets purchased with Federal and State capital grants		
Depreciation on assets purchased with Federal and State capital grants	(3,459,790)	(3,532,129)
Balance, end of year	$ 35,321,161	$ 28,243,531
Detail of Federal and State interest in capital assets at September 30		
Federal government	$ 58,178,122	$ 51,238,643
State of Michigan	11,378,532	10,026,541
Total	69,556,654	61,265,184
Less accumulated depreciation on contributed assets	34,235,493	33,021,653
Net Federal and State interest in capital assets	35,321,161	28,243,531
Net local interest in capital assets	1,772,369	1,842,439
Net assets invested in capital assets	$ 37,093,530	$ 30,085,970

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures Total	Federal	State	Local	Prior Years' Expenditures	Amount Remaining
U. S. Department of Transportation (Federal):									
Direct assistance - Capital Grants:									
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI90-0221	$1,608,012	$16,445	$16,445	$0	$0	$278,459	$1,313,108
Capital (Section 5309) (Downtown Transit Center) (80/20)	20.500	MI04-0037	735,000	16,465	16,465	0	0	0	718,535
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) (State of Good Repair) (80/20)	20.500	MI04-0064	1,013,000	0	0	0	0	0	1,013,000
Capital (Section 5309) (Livability Grant) (80/20)	20.500	MI04-0072	1,812,000	0	0	0	0	0	1,812,000
Capital (Section 5307) (FY 2007) (80/20 or 100/0)	20.507	MI90-X519	4,583,324	197,129	197,129	0	0	4,450,195	0
Capital (Section 5307) (FY 2008) (80/20 or 100/0)	20.507	MI90-X550	1,724,000	36,483	36,483	0	0	1,607,061	80,456
Capital (Section 5307) (FY 2009) (80/20 or 100/0)	20.507	MI90-X593	380,000	79,603	79,603	0	0	300,397	0
Capital (Section 5307) (FY 2010) (80/20 or 100/0)	20.507	MI90-X615	640,549	293,044	293,044	0	0	57,913	289,592
Capital (Section 5307) (FY 2011 & 2012) (80/20 or 100/0)	20.507	MI90-X641-01	11,800,000	5,002,466	5,002,466	0	0	0	6,797,534
Clean Fuels Grant Program (Section 5308) (80/20)	20.519	MI58-0002	1,697,350	1,697,350	1,697,350	0	0	0	0
Clean Fuels Grant Program (Section 5308) (80/20)	20.519	MI58-0004	2,079,000	0	0	0	0	0	2,079,000
Surface Transportation Program (CCTC) (80/20)	20.507	MI95-X052-01	780,644	52,988	52,988	0	0	531,662	321,543
Capital (Section 5307 - ARRA)	20.507	MI96-X024	2,290,056	1,387,972	1,387,972	0	0	598,926	303,158
Subtotal - Direct Federal Capital			$32,136,435	$8,779,945	$8,779,945	$0	$0	$7,824,613	$15,721,426
Direct assistance - Operating grants:									
Unified Planning Program (Section 5303) (80/0)	20.505	12005	49,440	61,800	49,440	0	12,360	0	0
Planning (Section 5307) (FY 2009) (100/0)	20.507	MI90-X593	695,000	9,257	9,257	0	0	685,743	0
Planning (Section 5307) (FY 2010) (100/0)	20.507	MI90-X615	675,000	227,130	227,130	0	0	447,870	0
Planning (Section 5307) (FY 2011) (80/20)	20.507	MI90-X641	320,000	161,963	161,963	0	0	33,386	124,651
Planning (Section 5307) (FY 2012) (80/20)	20.507	MI90-X641-01	320,000	0	0	0	0	0	320,000
Planning (Section 5339) Connector Study Alternatives (80/0)	20.522	MI39-0004	1,200,000	0	0	0	0	0	1,200,000
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X641	160,000	160,000	160,000	0	0	0	0
Capital cost of contracting (Section 5307) (100/0)	20.507	MI90-X641-01	240,000	40,000	40,000	0	0	0	200,000
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X550	1,680,000	80,456	80,456	0	0	1,599,544	0
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X641	1,344,000	1,344,000	1,344,000	0	0	0	0
Preventive Maintenance (Section 5307) (100/0)	20.507	MI90-X641-01	1,680,000	0	0	0	0	0	1,680,000
Job Access/Reverse Commute (JARC)	20.516	MI37-X039	125,000	29,625	29,625	0	0	8,363	87,012
Job Access/Reverse Commute (JARC)	20.516	MI37-X044-01	452,367	94,639	94,639	0	0	7,188	350,540
New Freedom (Mobility Management)	20.521	MI57-X012	60,000	14,922	14,922	0	0	0	45,078
New Freedom (Mobility Management)	20.521	MI57-X016	151,110	4,961	4,961	0	0	2,100	144,049
Subtotal - Direct Federal Operating			9,151,917	2,228,753	2,216,393	0	12,360	2,784,194	4,151,330
Passed Through Michigan Department of Transportation:									
Congestion Mitigation/Air Quality (Rideshare FY 2012)	20.507	2012-0182	455,000	455,000	455,000	0	0	0	0
Congestion Mitigation/Air Quality (Rideshare FY 2013)	20.507	2012-0602	455,000	0	0	0	0	0	455,000
Planning (Wally Commuter Rail) (Section 5304)	20.515	2007-0162/Z25	48,000	0	0	0	0	0	48,000
Nonurban Areas, Passed through MDOT (Section 5311)	20.509	2012-0033/P2	159,252	159,252	159,252	0	0	0	0
Subtotal - Federal Passed Through MDOT Operating			1,117,252	614,252	614,252	0	0	0	503,000

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

Federal and State Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant or Authorization Number	Program or Award Amount	Current Year's Expenditures				Prior Years' Expenditures	Amount Remaining
				Total	Federal	State	Local		
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			$42,496,312	$11,622,950	$11,610,590	$0	$12,360	$10,671,784	$20,403,487

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL, STATE AND LOCAL AWARDS - UNAUDITED (Continued)
YEAR ENDED SEPTEMBER 30, 2012

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	4,112	0	4,112	0	69,615	328,276
Capital (Downtown Transit Center)	N/A	2007-0162/Z26	183,750	4,116	0	4,116	0	0	179,634
Capital (State of Good Repair)	N/A	2007-0162/Z30	253,250	0	0	0	0	0	253,250
Capital (FY 2007)	N/A	2007-0162/Z5	911,831	49,282	0	49,282	0	817,226	45,323
Capital (FY 2011 and FY 2012)	N/A	2007-0162/Z32 R1	2,920,600	1,275,628	0	1,275,628	0	0	1,644,972
Capital (Clean Fuels Program)	N/A	2007-0162/Z31	424,338	424,338	0	424,338	0	0	0
Capital (Clean Fuels Program)	N/A	2012-0033/P5	231,000	0	0	0	0	0	231,000
Capital (Livability Grant)	N/A	2012-0033/P4	453,000	0	0	0	0	0	453,000
Subtotal - Direct State Capital			5,779,772	1,757,476	0	1,757,476	0	886,841	3,135,455
Direct assistance - Operating grants:									
Operating assistance - Act 51 Urban	N/A	N/A	7,425,294	7,425,294	0	7,425,294	0	0	0
Operating assistance - Act 51 Non-Urban	N/A	N/A	311,962	311,962	0	311,962	0	0	0
Prior year formula adjustments	N/A	N/A	202,784	202,784	0	202,784	0	0	0
Planning	N/A	2007-0162/Z32 R1	110,589	22,242	0	22,242	0	8,347	80,000
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	336,000	0	336,000	0	0	420,000
Specialized Services (FY 2012)	N/A	2012-0033/P1	176,840	293,031	0	89,814	203,217	0	0
Job Access/Reverse Commute (FY 2009)	N/A	2007-0162/Z20	31,250	7,368	0	7,368	0	781	23,101
Job Access/Reverse Commute (FY 2010)	N/A	2007-0162/Z27 R1	452,367	78,953	0	78,953	0	5,850	367,564
Subtotal - Direct State Operating			9,567,086	8,727,634	0	8,524,417	203,217	14,978	940,665
Transfer - Capital grants:									
Capital (Insurance proceeds)	N/A	2002-0070/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			$15,369,535	$10,485,110	$0	$10,281,893	$203,217	$917,563	$4,083,053
STATE PASS-THROUGH:									
Specialized Services (FY 2012)		2012-0033/P1	87,026	65,916	0	65,916	0	0	0
Total -State Pass-Through Special Services			$87,026	$65,916	$0	$65,916	$0	$0	$0

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING AND CONTRACT EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012, WITH COMPARATIVE TOTALS FOR 2011

	Specialized Services 2012-0033/P1 FY 2012	Job Access/ Reverse Commute MI37-X039 MI37-X044 2007-0162/Z20 2007-0162/Z27	New Freedom MI57-0012 MI57-0016	Rideshare Program 2010-0168 FY 2012	Non Urban Operations (Sec. 5311: 2012-0033/P2 FY 2012	Urban Operations Paratransit	Urban Operations Fixed Route	2012 Total	2011 Total
TOTAL OPERATING EXPENSES:									
Labor				$ 154,974	$ 13,247	$ 164,889	$ 9,535,434	$ 9,868,544	$ 9,003,136
Fringe benefits				91,059	9,686	110,176	6,147,948	6,358,869	6,022,859
Services		$ 121,412	$ 14,922	94,269	4,263	186,678	1,955,018	2,376,562	2,156,816
Materials and supplies				33,923	3,214	76,583	3,317,683	3,431,403	2,963,450
Utilities						19,774	398,588	418,362	474,941
Casualty and liability costs					3,656	40,826	441,544	486,026	509,243
Purchased transportation	$ 293,031	154,939	4,961	409	824,298	3,338,248	556,926	5,172,812	4,240,378
Other				80,366	2,458	40,219	553,483	676,526	397,185
Leases and rentals							32,705	32,705	22,741
Depreciation						15,744	3,612,569	3,628,313	3,740,716
TOTAL EXPENSES	$ 293,031	$ 276,351	$ 19,883	$ 455,000	$ 860,822	$ 3,993,137	$ 26,551,898	$ 32,450,122	$ 29,531,465

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF URBAN REGULAR SERVICE REVENUES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

Code	Description	Line-Haul	Demand Response	Total Urban
401 :	**Farebox Revenue**			
40100	Passenger Fares	$ 2,628,806	$ 599,333	$ 3,228,139
40200	Contract Fares	2,380,496		2,380,496
406 :	**Auxiliary Transit Revenue**			
40615	Advertising	92,316		92,316
407 :	**NonTransit Revenue**			
40799	Gain (Loss) on Sale of Equipment	39,723		39,723
40799	Other Revenue	27,719		27,719
408 :	**Local Revenue**			
40800	Taxes Levied Directly for Transit Agency	7,855,693	1,163,754	9,019,447
409 :	**Local Revenue**			
40910	Local Operating Assistance	630,213	170,487	800,700
40999	Other Local - Local Match	87,304	65,766	153,070
411 :	**State Formua and Contracts**			
41101	State Operating Assistance	6,267,523	1,157,771	7,425,294
41101	Prior Year Formula Adjustments	202,784		202,784
41101	State Job Access/Reverse Commute match		86,321	86,321
41101	Planning	22,242		22,242
41101	Preventive Maintenance	336,000		336,000
41101	Capital Cost of Contracting		50,000	50,000
41199	State Specialized Services		89,814	89,814
413 :	**Federal Contracts**			
41311	Preventive Maintenance	1,424,456		1,424,456
41312	Capital Cost of Contracting		200,000	200,000
41399	Planning (Sec 5307)	398,350		398,350
41399	Unified Planning (Sec 5303)	49,440		49,440
41399	CMAQ - Rideshare	455,000		455,000
41399	New Freedom		124,264	124,264
41399	Job Access/Reverse Commute		19,883	19,883
414 :	**Other Revenue**			
41400	Interest Revenue	57,059		57,059
	Total	$ 22,955,124	$ 3,727,393	$ 26,682,517

ANN ARBOR TRANSPORTATION AUTHORITY

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

		Operations		Maintenance		General Administration		
Code	Description	Line-Haul	Demand Response	Line-Haul	Demand Response	Line-Haul	Demand Response	Total
501:	**Labor**							
50101	Operators Salaries & Wages	$ 5,588,930						$ 5,588,930
50102	Other Salaries & Wages	774,385	$ 66,003	$ 1,531,825	$ 26,327	$ 1,640,294	$ 72,559	4,111,393
502:	**Fringe Benefits**							
50200	Other Fringe Benefits	3,389,444	37,965	987,985	15,144	1,012,667	41,737	5,484,942
50201	Pensions	482,214	6,136	135,086	2,448	140,552	6,746	773,182
503:	**Services**							
50302	Advertising Fees					158,568	25,603	184,171
50305	Audit Costs					12,257	2,643	14,900
50399	Other Services	212,803	18,896	394,212	35,005	1,177,178	104,531	1,942,625
504:	**Materials and Supplies**							
50401	Fuel & Lubricants	1,941,613		7,826				1,949,439
50402	Tires & Tubes	54,774						54,774
50499	Other Materials & Supplies	575,631	926	317,493	51,445	420,346	24,212	1,390,053
505:	**Utilities**							
50500	Utilities					398,588	19,774	418,362
506:	**Insurance**							
50603	Liability Insurance	355,346						355,346
50699	Other Insurance					86,198	40,826	127,024
508:	**Purchased Transportation**							
50800	Purchased Transportation	556,926	3,338,248					3,895,174
509:	**Miscelleneous Expenses**							
50902	Travel, Meeting & Training					52,764	1,812	54,576
50903	Association Dues & Subscriptions					72,240		72,240
50999	Other Misc Expenses			6,825	643	421,654	37,764	466,886
512:	**Operating Leases & Rentals**							
51200	Operating Leases & Rentals	7,829				24,876		32,705
513:	**Depreciation**							
51300	Depreciation	2,684,334	15,744	11,043		917,192		3,628,313
	Total Urban Expenses	16,624,229	3,483,918	3,392,295	131,012	6,535,374	378,207	30,545,035
550:	**Ineligible Expenses**							
55007	Ineligible Depreciation	2,558,925	15,744	10,530		874,591		3,459,790
55009	Ineligible Association Dues					5,938		5,938
55010	Ineligible Nontransportation Revenue					27,719		27,719
55011	Ineligible Preventive Maintenance (5307)			1,760,456				1,760,456
570:	**Ineligible Expenses**							
57099	Ineligible - Planning (Sec 5307)					420,592		420,592
57602	Ineligible - Unified Planning (Sec 5303)					61,800		61,800
57602	Ineligible - Capital Cost of Contracting		250,000					250,000
57604	Ineligible - Congestion Mitigation/Air Quali							
580:	**Ineligible Expenses**							
57007	Ineligible - Health Care Savings Plan	163,375		48,000		39,500		250,875
58007	Ineligible - Post-retirement Benefits	56,112		16,212		9,460		81,784

	Line-Haul	Demand Response	Total
Total Expenses	$ 26,551,898	$ 3,993,137	$ 30,545,035
Total Ineligible Expenses	(6,053,210)	(265,744)	(6,318,954)
Total Eligible Expenses	$ 20,498,688	$ 3,727,393	$ 24,226,081

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - URBAN REGULAR SERVICE NONFINANCIAL INFORMATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

PUBLIC SERVICE - LINE HAUL

Code	Description	Weekday	Saturday	Sunday	Total
610	**Vehicle Hours**	185,160	9,271	4,783	199,214
611	**Vehicle Miles**	2,677,758	134,076	69,171	2,881,005

PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	**Vehicle Hours**	32,361	4,243	3,052	39,656
611	**Vehicle Miles**	481,635	63,142	45,427	590,204

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE REVENUES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

Code	Description	Total Nonurban
401 :	**Farebox Revenue**	
40100	Passenger Fares	$ 84,279
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	305,329
40999	Other Local	
411 :	**State Formua and Contracts**	
41101	State Operating Assistance	311,962
411	Prior Year Formula Adjustments	
413 :	**Federal Contracts**	
41301	Federal Section 5311	159,252
414 :	**Other Revenue**	
41400	Interest Revenue	
	Other	
	Total	$ 860,822

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE EXPENSES - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

Code	Description	DEMAND RESPONSE Operations	Maintenance	General Administration	Total
501:	**Labor**				
50102	Other Salaries & Wages			$ 13,247	$ 13,247
502:	**Fringe Benefits**				
50200	Other Fringe Benefits			8,273	8,273
50201	Pensions			1,413	1,413
503:	**Services**				
50305	Other Services	$ 449	831	2,983	4,263
504:	**Materials and Supplies**				
50499	Other Materials & Supplies	1,430	$ 768	1,016	3,214
506:	**Insurance**				
50699	Other Insurance			3,656	3,656
508:	**Purchased Transportation**				
50800	Purchased Transportation	824,298			824,298
509:	**Miscelleneous Expneses**				
50999	Other Misc Expenses		39	2,419	2,458
550:	**Ineligible Expenses**				
570:	**Ineligible Expenses**				

Total Expenses	$ 860,822
Total Ineligible Expenses	
Total Eligible Expenses	$ 860,822

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF NONURBAN REGULAR SERVICE NONFINANCIAL INFORMATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

PUBLIC SERVICE - DEMAND RESPONSE

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	29,886	1,737		31,623
611	Vehicle Miles	321,690	12,708		334,398

ANN ARBOR TRANSPORTATION AUTHORITY

ADDITIONAL INFORMATION - SCHEDULE OF OPERATING ASSISTANCE CALCULATION - UNAUDITED
YEAR ENDED SEPTEMBER 30, 2012

	Urban		
	Line-Haul	Demand Response	Nonurban
Total Expenses	$ 26,551,898	$ 3,993,137	$ 860,822
Less Ineligible Expenses:			
Federal Preventive Maintenance (Sec. 5307)	$ 1,424,456		
Federal Planning (Section 5307)	398,350		
Federal Unified Planning (Section 5303)	61,800		
Federal Congestion Mitigation/Air Quality			
Federal Capital Cost of Contracting (Sec 5307)		$ 200,000	
Federal and State Depreciation Expense	3,444,046	15,744	
State Preventive Maintenance	336,000		
State Planning	22,242		
State Capital Cost of Contracting	50,000		
Health Care Savings Plan Contributions	250,875		
Post-Retirement Medical Benefits	81,784		
Other revenue	27,719		
Association Dues (Ineligible Portion)	5,938		
Total Ineligible Expenses	6,103,210	215,744	
Total State Eligible Expenses	20,448,688	3,777,393	860,822
Eligible Expenses for State Reimbursement	$ 20,448,688	$ 3,777,393	$ 860,822
x Reimbursement Percentage	30.6500%	30.6500%	36.2400%
State Operating Assistance	$ 6,267,523	$ 1,157,771	$ 311,962
Adjustment to 1997 Floor (Urban), if applicable			
Total Operating Assistance - Urban		$ 7,425,294	

Total Federal Eligible Expenses

Eligible Expenses for Federal Reimbursement	$ 860,822
x Reimbursement Percentage	18.5000%
Federal Operating Assistance (Section 5311)	$ 159,252

A. ITEMS REIMBURSED BY FEDERAL GRANTS

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

B. FEDERAL AND STATE DEPRECIATION AND AMORTIZATION EXPENSE

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

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

The ineligible amounts represent the health care savings plan contributions that were paid during the year and the amount expensed under the defined benefit post-retirement medical benefits plan. The Authority recorded expenses in previous years for the postretirement medical benefits under SFAS Financial Accounting Standards Board (FASB) #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 $367,151 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, the Michigan Public Transit Association and the Community Transportation Association of America. It was determined that these organizations devote a portion of their efforts, 12.6%, 11.9% and 11.1%, respectively, to influencing legislation which is not eligible for reimbursement according to OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments".

F. MILEAGE INFORMATION

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

See Independent Auditors' Report on Additional Information.

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

Independent Auditor's Report

To the Board of Directors
Ann Arbor Transportation Authority

We have audited the financial statements of Ann Arbor Transportation Authority (the "Authority") as of and for the year ended September 30, 2012 and have issued our report thereon dated March 7, 2013. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Ann Arbor Transportation Authority

Compliance and Other Matters

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

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

Plante & Moran, PLLC

March 7, 2013

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

Independent Auditor's Report

To the Board of Directors
Ann Arbor Transportation Authority

Compliance

We have audited the compliance of Ann Arbor Transportation Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The major federal programs of Ann Arbor Transportation Authority are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ann Arbor Transportation Authority's management. Our responsibility is to express an opinion on Ann Arbor Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ann Arbor Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ann Arbor Transportation Authority's compliance with those requirements.

In our opinion, Ann Arbor Transportation Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

To the Board of Directors
Ann Arbor Transportation Authority

Internal Control Over Compliance

The management of Ann Arbor Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ann Arbor Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Plante & Moran, PLLC

March 7, 2013

Ann Arbor Transportation Authority

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

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		$ 16,445
Investment Grants - Capital Assistance	20.500	MI-04-0037		16,465
Total Federal Transit - Investment Grants				32,910
Urbanized Area Formula Grants:				
Capital Assistance	20.507	MI-90-X519		197,129
Capital Assistance	20.507	MI-90-X550		116,939
Capital Assistance	20.507	MI-90-X593		88,860
Capital Assistance	20.507	MI-90-X615		520,174
Capital Assistance	20.507	MI-90-X641		6,708,429
American Recovery and Reinvestment Act (ARRA) - Capital Assistance	20.507	MI-96-0009		1,387,972
Surface Transportation Program	20.507	MI-95-X052		52,988
Total Federal Transit - Formula Grants				9,072,491
Michigan Department of Transportation - Pass-through programs - Congestion Mitigation/Air Quality	20.507	2011-0182		455,000
Total Federal Transit Cluster				9,560,401
Transit Services Program Cluster - Direct programs:				
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0039		29,625
Section 5316 Job Access and Reverse Commute	20.516	MI-37-0044		94,639
Section 5317 New Freedom	20.521	MI-57-0012		14,922
Section 5317 New Freedom	20.521	MI-57-0016		4,961
Total Transit Services Program Cluster				144,147
Clean Fuels Grant Program	20.519	MI-58-0002		1,697,350
Michigan Department of Transportation - Pass-through program - Operating Assistance - Section 5311	20.509		2012-0033/P2	159,252
Southeast Michigan Council of Governments - Pass-through program - Planning Grant	20.505		12005	49,440
Total federal awards				**$ 11,610,590**

See Note 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 Ann Arbor Transportation Authority under programs of the federal government for the year ended September 30, 2012. 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 Ann Arbor Transportation Authority, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of Ann Arbor Transportation Authority. Pass-through entity identifying numbers are presented where available.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	______ Yes	X 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: Unqualified

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
20.519	Clean Fuels Grant Program

Dollar threshold used to distinguish between type A and type B programs: $348,318

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

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2012

Prior Year Finding Number	Federal Program	Original Finding Description	Status	Planned Corrective Action
2011-02	20.500 .	The Authority was basing the Davis Bacon requirements off of projects in excess of $2,000; however, the federal guidance outlines that the $2,000 threshold should be based on contract value. The Authority has several contracts which are made up of multiple small projects which were excluded from the Davis Bacon Act as a result of the Authority's interpretation of the provision. To Conclude, weekly certified payroll reports were not being submitted to the Authority or its representatives for monitoring of the Davis Bacon Act requirements for all contracts over $2,000.	Corrected in FY11/12	N/A