

# **Suburban Mobility Authority for Regional Transportation**

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**Financial Report  
with Supplemental Information  
June 30, 2011**

# **Suburban Mobility Authority for Regional Transportation**

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## Independent Auditor's Report

To the Board of Directors  
Suburban Mobility Authority  
for Regional Transportation

We have audited the accompanying basic financial statements of the Suburban Mobility Authority for Regional Transportation (the "Authority" or SMART) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Suburban Mobility Authority for Regional Transportation as of June 30, 2011 and 2010 and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

To the Board of Directors  
Suburban Mobility Authority  
for Regional Transportation

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Suburban Mobility Authority for Regional Transportation'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 basic 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 November 23, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

As further disclosed in Note 5 to the financial statements, the Authority is experiencing a significant delay in the collections of certain federal grant monies. This is due to objections filed by certain Authority union groups causing a delay in the release (from the Federal Department of Labor) to the Authority of federal grant monies. These delays are impacting available cash flows for the Authority.

*Plante & Moran, PLLC*

November 23, 2011

## **Management's Discussion and Analysis**

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# **Suburban Mobility Authority for Regional Transportation**

## **Management's Discussion and Analysis**

### **Overview of the Financial Statements and Financial Analysis**

The following discussion and analysis has been prepared by SMART's management and should be read in conjunction with the financial statements and related footnote disclosures. The discussion is intended to present an overview of SMART's financial performance for the years ended June 30, 2011 and 2010 and does not purport to make any statement regarding the future operations of the organization. While SMART 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 financial report consists principally of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows, prepared in accordance with GASB principles.

### **Financial Highlights**

- Fare revenue is up approximately \$1.47 million, or 11 percent, due to the fare increases implemented in the 2010 fiscal year, which were in place for the full 2011 fiscal year (as compared to just five months during 2010) and ridership which was up just slightly compared to the prior year. This was, however, \$1.9 million less than budgeted revenue estimates for the year.
- Operating expenses before depreciation of \$108.8 million increased \$4.9 million over fiscal 2010 due to increased costs for diesel fuel, insurance, and purchase of services agreements with local communities. Other expenses have remained relatively stable as cost-containment initiatives implemented in fiscal year 2010 continued through 2011.
- Current liabilities decreased by \$5.8 million, largely due to a reduction of notes payable on the remaining fleet financing debt.
- Net assets increased by \$6.4 million due to a decrease in current liabilities driven primarily by lower debt obligations as fleet loans are reaching maturity.

# Suburban Mobility Authority for Regional Transportation

## Management's Discussion and Analysis (Continued)

### Statement of Net Assets

A summarization of SMART's assets, liabilities, and net assets at June 30, 2011, 2010, and 2009 follows (in millions):

	2011	2010	2009
<b>Assets</b>			
Current assets	\$ 49.0	\$ 49.0	\$ 44.8
Noncurrent assets	75.7	76.9	79.6
Total assets	<u>\$ 124.7</u>	<u>\$ 125.9</u>	<u>\$ 124.4</u>
<b>Liabilities</b>			
Current liabilities	\$ 31.1	\$ 36.9	\$ 33.0
Noncurrent liabilities	16.6	18.4	27.9
Total liabilities	<u>\$ 47.7</u>	<u>\$ 55.3</u>	<u>\$ 60.9</u>
<b>Net Assets</b>			
Invested in capital assets	\$ 66.0	\$ 58.6	\$ 50.7
Unrestricted	11.0	12.0	12.8
Total net assets	<u>\$ 77.0</u>	<u>\$ 70.6</u>	<u>\$ 63.5</u>

SMART's current assets remained consistent with the prior two years.

SMART's current liabilities decreased by \$5.8 million, primarily due to payments made on installment purchase obligations for the fleet vehicles purchased in fiscal years ended in 2001 through 2003.

Amounts invested in capital assets (net of related debt) increased 12.8 percent from a year ago - increasing from \$58.6 million to \$66.0 million. The current year increase is due primarily to lower debt obligations as fleet loans are reaching maturity.

Unrestricted net assets, which is the part of net asset reserves that can be used to finance day-to-day operations, has decreased by \$1.0 million. This represents a decrease of 8.3 percent. This follows the fiscal year ending in 2010 decrease of \$0.8 million or a decrease of 6.3 percent. The current level of unrestricted net assets for SMART's operations stands at \$11.0 million, or about 10.1 percent of operating expenses before depreciation.

# Suburban Mobility Authority for Regional Transportation

## Management's Discussion and Analysis (Continued)

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

The following table is a summary of SMART's revenue, expenses, and changes in net assets for the years ended June 30, 2011, 2010, and 2009 (in millions):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 15.3	\$ 13.8	\$ 12.6
Operating expenses before depreciation	<u>108.8</u>	<u>103.9</u>	<u>106.3</u>
Operating loss before depreciation	(93.5)	(90.1)	(93.7)
Depreciation expense	<u>12.7</u>	<u>13.0</u>	<u>12.1</u>
Total operating loss	(106.2)	(103.1)	(105.8)
Nonoperating revenue (net of related expenses)	<u>101.3</u>	<u>99.6</u>	<u>96.7</u>
Net loss before capital contributions	(4.9)	(3.5)	(9.1)
Capital contributions	<u>11.3</u>	<u>10.6</u>	<u>6.4</u>
Net gain (loss)	6.4	7.1	(2.7)
Net assets - Beginning of year	<u>70.6</u>	<u>63.5</u>	<u>66.2</u>
Net assets - End of year	<u><b>\$ 77.0</b></u>	<u><b>\$ 70.6</b></u>	<u><b>\$ 63.5</b></u>

SMART's operating revenue increased by approximately \$1.5 million, largely attributable to increased fare revenue, while nonoperating revenue (net of related expenses) increased \$1.7 million due to a planned increase in draws against federal source funding. Total revenue when combined (net of related nonoperating expenses) is up \$3.2 million, or an increase of 2.8 percent, from prior year.

Operating expenses (before depreciation) increased \$4.9 million during the year. Substantially, the increase can be traced to increased costs of diesel fuel, insurance, and purchase of service agreements during the year.

SMART continues to face funding challenges and must closely monitor available resources and expenses in the ensuing years.



# **Suburban Mobility Authority for Regional Transportation**

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## **Management's Discussion and Analysis (Continued)**

### **Using this Annual Report**

This annual financial report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the activities of SMART as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the cost of providing the Authority's services has been fully funded.

### **Contacting SMART's Financial Management**

This financial report is designed to provide our customers, taxpayers, and other interested parties with a general overview of the finances of the Suburban Mobility Authority for Regional Transportation and to demonstrate SMART's accountability for the money it receives. If you have questions about this report or need additional information, contact SMART at the Buhl Building, 535 Griswold Street, Suite 600, Detroit, Michigan 48226.

# Suburban Mobility Authority for Regional Transportation

## Proprietary Funds Statement of Net Assets

	June 30	
	2011	2010
	Enterprise Operating Fund	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 4)	\$ 33,308,065	\$ 38,226,334
Grants receivable (Note 5)	10,492,943	5,785,804
Local contributions receivable (Note 2)	1,020,524	2,228,484
Other receivables	537,087	431,482
Materials and supplies inventories	1,999,771	1,839,875
Prepaid expenses and other assets	1,654,412	550,873
Total current assets	49,012,802	49,062,852
Noncurrent assets:		
Net pension asset (Note 11)	1,189,045	657,541
Nondepreciable capital assets (Note 6)	7,665,190	4,528,703
Depreciable capital assets - Net (Note 6)	66,881,355	71,678,566
Total noncurrent assets	75,735,590	76,864,810
Total assets	124,748,392	125,927,662
<b>Liabilities</b>		
Current liabilities:		
Municipal and community credits payable (Note 2)	5,308,976	4,811,027
Amounts payable under purchase-of-service agreements	1,162,285	580,385
Current portion of accrued self-insurance (Note 10)	7,465,407	6,916,326
Accounts payable and accrued liabilities	7,067,304	10,522,173
Accrued interest payable	119,645	243,442
Current portion of notes payable (Note 9)	6,131,101	9,079,419
Current portion of compensated absences (Note 9)	2,934,949	2,992,186
Accrued compensation	903,546	1,746,450
Total current liabilities	31,093,213	36,891,408
Noncurrent liabilities:		
Accrued self-insurance - Net of current portion (Note 10)	5,751,710	5,564,956
Notes payable - Net of current portion (Note 9)	2,365,429	8,496,530
Compensated absences - Net of current portion (Note 9)	162,059	136,525
OPEB net obligations (Note 12)	8,341,544	4,245,672
Total noncurrent liabilities	16,620,742	18,443,683
Total liabilities	47,713,955	55,335,091
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	66,050,015	58,631,320
Unrestricted	10,984,422	11,961,251
Total net assets	<b>\$ 77,034,437</b>	<b>\$ 70,592,571</b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Suburban Mobility Authority for Regional Transportation

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2011	2010
<u>Enterprise Operating Fund</u>		
<b>Operating Revenue</b>		
Fares	\$ 14,504,641	\$ 13,033,388
Other income	824,031	785,777
Total operating revenue	<u>15,328,672</u>	<u>13,819,165</u>
<b>Operating Expenses</b>		
Salaries and wages	40,766,661	40,744,274
Fringe benefits	30,504,551	30,567,883
Contractual services	3,049,770	3,081,907
Materials and supplies	15,233,536	13,382,918
Utilities	1,840,771	1,880,437
Claims and insurance	6,043,924	4,813,228
Purchased transportation (Note 8)	11,254,225	9,386,206
Miscellaneous expenses	99,506	101,406
Depreciation expense	<u>12,703,139</u>	<u>12,980,575</u>
Total operating expenses	<u>121,496,083</u>	<u>116,938,834</u>
<b>Operating Loss</b>	(106,167,411)	(103,119,669)
<b>Nonoperating Revenue (Expenses)</b>		
Federal operating and preventive maintenance assistance	23,235,854	16,312,166
State operating grants	34,734,988	34,136,343
Local contributions (Note 7)	44,188,008	50,369,199
Interest income	117,710	136,210
Interest expense	(798,716)	(1,265,022)
Loss on retirement of assets	<u>(146,654)</u>	<u>(141,962)</u>
Total nonoperating revenue	<u>101,331,190</u>	<u>99,546,934</u>
<b>Change in Net Assets Before Capital Contributions</b>	(4,836,221)	(3,572,735)
<b>Capital Contributions</b>	<u>11,278,087</u>	<u>10,620,933</u>
<b>Change in Net Assets</b>	6,441,866	7,048,198
<b>Net Assets - Beginning of year</b>	<u>70,592,571</u>	<u>63,544,373</u>
<b>Net Assets - End of year</b>	<u>\$ 77,034,437</u>	<u>\$ 70,592,571</u>

# Suburban Mobility Authority for Regional Transportation

## Proprietary Funds Statement of Cash Flows

	Year Ended June 30	
	2011	2010
	Enterprise Operating Fund	
<b>Cash Flows from Operating Activities</b>		
Receipts from transit operations	\$ 15,222,718	\$ 14,650,570
Payments to employees	(68,581,451)	(70,836,884)
Payments to suppliers	(24,941,887)	(15,098,487)
Payments to claims and insurance	(5,308,089)	(2,720,153)
Payments for purchased transportation	(10,174,376)	(9,794,542)
Net cash used in operating activities	(93,783,085)	(83,799,496)
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal operating and preventive maintenance assistance	18,528,715	25,644,892
State operating grants	34,734,988	34,136,343
Local contributions	45,395,968	50,787,653
Net cash provided by noncapital financing activities	98,659,671	110,568,888
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants received	11,278,087	10,620,933
Purchase of capital assets	(11,189,069)	(10,650,418)
Payment on installment note payable	(9,079,419)	(10,330,187)
Interest paid	(922,513)	(1,405,021)
Net cash used in capital and related financing activities	(9,912,914)	(11,764,693)
<b>Cash Flows from Investing Activities - Interest on investments</b>	118,059	141,783
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(4,918,269)	15,146,482
<b>Cash and Cash Equivalents - Beginning of year</b>	38,226,334	23,079,852
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 33,308,065</b>	<b>\$ 38,226,334</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>	<b>\$ 33,308,065</b>	<b>\$ 38,226,334</b>

# Suburban Mobility Authority for Regional Transportation

## Proprietary Funds Statement of Cash Flows (Continued)

	Year Ended June 30	
	2011	2010
	Enterprise Operating Fund	
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (106,167,411)	\$ (103,119,669)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	12,703,139	12,980,575
Noncash (increase) decrease in net pension asset	(531,504)	265,814
Noncash expense related to net OPEB obligations	4,095,872	110,213
Noncash decrease in self-insurance liability	735,835	2,093,075
Changes in assets and liabilities:		
Materials and supplies inventory	(159,896)	(73,602)
Prepaid expenses	(1,103,539)	339,268
Other receivables	(105,954)	831,405
Municipal and community credits payable	497,949	(51,343)
Payable under purchase service contracts	581,900	(356,993)
Accounts payable and accrued expenses	(3,454,869)	3,082,515
Accrued wages and compensated absences	(874,607)	99,246
Net cash used in operating activities	<u>\$ (93,783,085)</u>	<u>\$ (83,799,496)</u>

# **Suburban Mobility Authority for Regional Transportation**

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**Notes to Financial Statements  
June 30, 2011 and 2010**

## **Note I - Description of Operations and the Entity**

### **Organization**

Suburban Mobility Authority for Regional Transportation (SMART or the "Authority"), an instrumentality of the State of Michigan, is a public benefit agency created pursuant to the provisions of Act No. 204 of the Public Acts of Michigan of 1967, as amended. SMART is charged with the responsibility to plan, acquire, construct, operate, maintain, replace, improve, extend, and contract for public transportation facilities within the counties of Macomb, Monroe, Oakland, and Wayne. SMART is managed by a seven-member board of directors, who represent the counties that comprise SMART's operating region.

Pursuant to the provisions of legislation enacted in 1988 which amended Act No. 204, a corporation known as the Regional Transit Coordinating Council (RTCC) is the designated recipient of operating assistance funds from the State of Michigan and the Federal Transit Administration (FTA). SMART and the Detroit Department of Transportation (DDOT) are subrecipients of such operating assistance funds. The Articles of Incorporation of the RTCC provide that 35 percent of any state or federal transportation operating assistance or formula capital grants or loans is to be distributed to SMART, and the remaining 65 percent is to be distributed to the DDOT. The FTA and the State of Michigan pay such funds directly to SMART and the DDOT at the direction of the RTCC. Capital grants or loans are not allocated on a formula basis by the responsible federal or state agencies, but rather are allocated on a specific project or asset basis. These allocations to SMART and the DDOT are based on the terms of the grant or loan.

### **Reporting Entity**

The financial reporting entity, as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB), is comprised of the primary government and its component units. The primary government includes all departments and operations for which SMART exercises oversight responsibility. Oversight responsibility was evaluated based on consideration of financial interdependency, selection of governing authority, designation of management, the ability to significantly influence management, and accountability for fiscal matters. The reporting entity of SMART consists solely of the primary government. There are no component units.

# **Suburban Mobility Authority for Regional Transportation**

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**Notes to Financial Statements  
June 30, 2011 and 2010**

## **Note 1 - Description of Operations and the Entity (Continued)**

Under the guidelines of GASB Statement No. 14, this is evidenced by the fact that, with respect to any other governmental unit, including the transportation agencies with which SMART has entered into purchase-of-service agreements, or the Act 196 Transportation Authorities in the counties served by SMART, SMART does not select their governing authority, designate their management, exercise significant influence over their daily operations, or maintain their accounting records.

SMART is not included within the reporting entity of the State of Michigan because the State of Michigan has no authority to appoint or remove SMART's management or board of directors and is not accountable for its fiscal matters.

## **Note 2 - Summary of Significant Accounting Policies**

**Basis of Accounting** - The government-wide 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 Suburban Mobility Authority for Regional Transportation 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.

Nonexchange transactions, in which SMART receives value without directly giving equal value in return, include federal operating and preventive maintenance assistance, state operating grants, local contributions from property taxes, and capital contributions. On an accrual basis, revenue from these grants and contributions is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to SMART on a reimbursement basis.

# Suburban Mobility Authority for Regional Transportation

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies (Continued)

In accordance with Governmental Accounting Standards Board (GASB) Statement 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 (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The Authority has elected not to follow private sector guidance.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Materials and Supplies Inventory** - Inventory consists of maintenance parts, repair parts, operating and office supplies, and fuel used in the operation of the transit system. Inventories are recorded at average cost. In accordance with industry practice, all inventories are classified as current assets even though a portion of the inventories is not expected to be utilized within one year.

**Local Contributions Receivable** - Local contributions receivable are shown net of an allowance for estimated uncollectible amounts totaling \$1,600,000 at June 30, 2011 and 2010. No other allowances for anticipated uncollectible amounts are included in the financial statements, as SMART considers all other receivables to be fully collectible.

**Capital Assets** - Capital assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 (\$1,000 for computer equipment) and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Improvements which are expected to extend the useful lives of existing assets are capitalized. Donated fixed assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.



# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies (Continued)

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

	<u>Years</u>
Building	25
Leasehold improvements *	5-25
Fixed-route buses	7-14
Connector transit buses	4-10
Equipment and office furniture	3-10

\* Leasehold improvements are amortized over the shorter of the life of the specific improvement or the term of the related lease.

**Claims Expense** - SMART has a self-insurance program for general and vehicle liability as well as workers' compensation claims. Claims are accrued in the year the expenses are incurred, based upon the estimates of the claim liabilities made by management, SMART legal counsel, and actuaries. Reserves are also provided for estimates of claims incurred during the year but not yet reported. Claims expense is accrued in the period the incidents of loss occur, based upon estimates of the expected liability as determined by management with the assistance of third-party administration, legal counsel, and actuaries. Claims liabilities are estimated by management using the most current available information.

**Municipal and Community Credits Payable** - Annually, SMART receives municipal and community credit monies from the State of Michigan. SMART passes those monies through to various individual communities. Every year, SMART executes contracts with each individual community which allows them to receive municipal and community credit monies. SMART receives the monies upfront from the State and then each community must request reimbursement from SMART related to contractually allowed expenses. The difference between what the State has awarded and sent to SMART and what the communities have requested reimbursement for by June 30 of each respective fiscal year end, is recorded as a municipal and community credit payable.

# Suburban Mobility Authority for Regional Transportation

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies (Continued)

**Compensated Absences (Vacation and Sick)** - SMART employees earn vacation and sick leave, which is generally fully vested when earned. Unused vacation time may be carried over to the following year with certain limitations. For union employees, the vacation carryover is limited to one year, and for non-union employees, it can be carried over for two years. Upon termination of employment, employees are paid for unused accumulated vacation. For union employees, sick leave may be accumulated and paid upon retirement and, for certain employees, upon voluntary termination of employment. For union employees, certain accumulated sick leave may also be converted into additional vacation time. Accumulated unpaid vacation and sick leave are recorded as compensated absence liabilities.

**Pension and Other Postemployment Benefit Costs** - The Authority offers both pension and retiree healthcare benefits to retirees. The Authority receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. The Authority reports the full accrual cost equal to the current year required contribution, adjusted for interest and an "adjustment to the ARC" on the beginning of year under/over-paid amount, if any.

**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 and special fare assistance awards made on the basis of entitlement periods are recorded as grant receivables and revenue over the entitlement periods. Federal and state capital acquisition grants fund the purchase of capital items, including buses, bus terminals, and related transportation equipment used by SMART and other transit agencies within the southeastern Michigan region. 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 of, the Authority is required to notify the granting federal agency. A proportional amount of the proceeds or fair market value, if any, of such property may be used to acquire like-kind replacement vehicles or can be remitted to the granting federal agency at its discretion.

# Suburban Mobility Authority for Regional Transportation

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies (Continued)

**Passenger Fares** - Passenger fares are recorded as revenue at the time services are performed.

**Net Assets** - Equity is presented in three components as follows:

- **Invested in Capital, Net of Related Debt** - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources when they are needed. The Authority does not have restricted net assets at June 30, 2011 or 2010.
- **Unrestricted** - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Classification of Revenue** - SMART has classified its revenue as either operating or nonoperating revenue according to the following criteria:

- **Operating Revenue** - Operating revenue includes activities that have the characteristics of exchange transactions such as revenue from transit operations.
- **Nonoperating Revenue** - Nonoperating revenue includes activities that have the characteristics of non-exchange transactions that are defined as non-operating revenue by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, such as federal and state contributions and investment income.

**Cost Allocation Plan** - The Authority did not have any cost allocation plans in the current year.

**Methodology of Non-financial Data to Allocate Costs** - As SMART is a stand-alone entity with only one enterprise fund, allocation of costs using non-financial data is not used by the Authority.

# **Suburban Mobility Authority for Regional Transportation**

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## **Notes to Financial Statements June 30, 2011 and 2010**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant estimates affecting the financial statements relate to the obligation for other postemployment benefits, the net pension asset, estimated liabilities related to self-insurance, the allowance for collectibility of local contribution receivables, and the reserve for Act 51 revenue.

### **Note 3 - State of Michigan Operating Assistance Funds**

Under Act 51 of the Public Acts of 1951, as amended, the State of Michigan makes distributions of funds that have been appropriated for mass transit operating assistance. As indicated in Note 1, the RTCC is the designated recipient of such funds and SMART is a subrecipient of the RTCC. SMART has recorded operating grant revenue under Act 51 based on a formula that takes into account the eligible costs incurred by SMART, estimates of eligible costs incurred by DDOT, locally generated revenue of SMART and DDOT, the percentage of the RTCC's funding that is allocable to SMART, and preliminary information made available by the Michigan Department of Transportation (MDOT) as to the amount of funds expected to be available to the RTCC.

The latest "final" determination of State of Michigan operating assistance allocable to SMART in accordance with the Act 51 funding formula was for the State of Michigan's fiscal year ended September 30, 2009. The resulting reduction in revenue has been finalized with the State and is scheduled to be paid in the first quarter of 2012. Furthermore, SMART awaits the "final" determination for the years ended September 30, 2010 and 2011. SMART has recorded an estimated aggregate liability as of June 30, 2011 based on management's anticipation of the results of the State's final determination of the Act 51 funding formula for the open years.

Act 51 requires SMART to provide a portion of the State of Michigan operating assistance as funding to municipalities within its transportation district. Amounts not used by the municipalities within two years must be expended by SMART for operating purposes within the county in which the city, village, or township resides. SMART was required to provide approximately \$3,059,000 pursuant to this provision in both fiscal years 2011 and 2010. Refer to Notes 1 and 2 for additional information regarding the State of Michigan Operating Assistance Funds.

# **Suburban Mobility Authority for Regional Transportation**

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**Notes to Financial Statements  
June 30, 2011 and 2010**

## **Note 4 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943 has authorized investments in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the highest classifications established by not less than two standards rating services, which matures not more than 260 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan; and investment pools organized under the local government Investment Pool Acts, 1982 PA 367 and 1985 PA 121.

The Authority's cash and investments are subject to two types of risk, which are examined in more detail below:

### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. SMART does not have a deposit policy for custodial credit risk. At year end, the Authority had no bank deposits that were uninsured and uncollateralized.

# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 4 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations; however, SMART's investment policy further limits its investment choices to the highest-rated commercial paper at the time of purchase as established by not less than two nationally recognized rating agencies. As of year end, the Authority held investments in a governmental pooled investment fund and a money market account. The pooled investment fund is in compliance with PA 367 of 1982 and PA 20 of 1943, as amended. Although the fund is not rated, all assets which make up the fund were rated A1/PI/F1 at the time of purchase. Credit quality ratings of these investments held at year end are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Rating Agency</u>
Comerica - J Fund	\$ 1,414,434	Not rated	N/A
Money market	31,735,665	Not rated	N/A

### Note 5 - Grants Receivable

At June 30, 2011 and 2010, grants receivable are comprised of the following:

	<u>2011</u>	<u>2010</u>
Accounts receivable - Billed:		
Federal Operating Grant (CMAQ)	\$ -	\$ 3,167,897
Federal government grants	6,510,279	519,623
State of Michigan grants	2,943,615	1,370,826
Total billed	9,453,894	5,058,346
Accounts receivable - Unbilled:		
Federal government grants	778,656	654,547
State of Michigan grants	246,490	72,911
Local grants	13,903	-
Total unbilled	1,039,049	727,458
Total	\$ 10,492,943	\$ 5,785,804

# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 5 - Grants Receivable (Continued)

Included in the above billed grant receivable amount is approximately \$5 million related to the Authority's Section 5307 federal grants. Authority management believes that collection on all these outstanding receivables is probable; however, the timing of the expected cash collections has been altered. The collection timing is delayed due to objections filed by certain Authority union groups causing a delay in the release (from the Federal Department of Labor) to the Authority of these federal grant monies. Accordingly, the timing of collection for these grant receivable monies will be over a longer period than the normal collection cycle.

The collection of fiscal year 2011-2012 Section 5307 grant revenue monies (which are expected to range from approximately \$18-\$19 million) is also delayed due to the objections filed by certain Authority union groups as discussed in the above paragraph. These monies are a significant revenue source for the Authority and any delays in collections will further impact available cash flows needed to fund the day-to-day operations of the organization.

### Note 6 - Capital Assets

Capital asset activity during the fiscal year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 4,250,570	\$ -	\$ -	\$ 4,250,570
Construction in progress	278,133	3,137,206	(719)	3,414,620
Subtotal capital assets not being depreciated	4,528,703	3,137,206	(719)	7,665,190
Capital assets being depreciated:				
Fixed-route buses and equipment	95,440,268	5,022,227	(1,296,900)	99,165,595
Connector buses and related equipment	34,314,759	1,086,649	(2,163,768)	33,237,640
Buildings	43,537,803	339,514	-	43,877,317
Office furniture and equipment	1,868,504	37,266	-	1,905,770
Other equipment	48,839,538	1,447,855	-	50,287,393
Leasehold improvements	6,195,001	230,852	-	6,425,853
Subtotal capital assets being depreciated	230,195,873	8,164,363	(3,460,668)	234,899,568
Less accumulated depreciation:				
Fixed-route buses and equipment	55,301,425	6,885,307	(1,038,537)	61,148,195
Connector buses and related equipment	26,759,190	2,445,099	(2,163,696)	27,040,593
Buildings	31,199,660	846,901	-	32,046,561
Office furniture and equipment	1,803,889	15,506	-	1,819,395
Other equipment	39,652,823	2,075,478	-	41,728,301
Leasehold improvements	3,800,320	434,848	-	4,235,168
Subtotal accumulated depreciation	158,517,307	12,703,139	(3,202,233)	168,018,213
Net capital assets being depreciated	71,678,566	(4,538,776)	(258,435)	66,881,355
Net capital assets	\$ 76,207,269	\$ (1,401,570)	\$ (259,154)	\$ 74,546,545

# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 6 - Capital Assets (Continued)

The eligible depreciation of \$6,094,130 (\$12,703,139 total depreciation reported less ineligible depreciation of \$6,609,009) includes only depreciation of assets purchased with Authority funds whereby the useful life of the asset purchased has been approved by the BPT.

Capital asset activity during the fiscal year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 4,250,570	\$ -	\$ -	\$ 4,250,570
Construction in progress	<u>362,657</u>	<u>169,364</u>	<u>(253,888)</u>	<u>278,133</u>
Subtotal capital assets not being depreciated	4,613,227	169,364	(253,888)	4,528,703
Capital assets being depreciated:				
Fixed-route buses and equipment	91,730,310	4,028,728	(318,770)	95,440,268
Connector buses and related equipment	33,348,259	1,021,969	(55,469)	34,314,759
Buildings	43,152,435	385,368	-	43,537,803
Office furniture and equipment	1,868,504	-	-	1,868,504
Other equipment	44,042,705	4,796,833	-	48,839,538
Leasehold improvements	<u>5,689,856</u>	<u>505,145</u>	<u>-</u>	<u>6,195,001</u>
Subtotal capital assets being depreciated	219,832,069	10,738,043	(374,239)	230,195,873
Less accumulated depreciation:				
Fixed-route buses and equipment	48,934,816	6,540,317	(173,708)	55,301,425
Connector buses and related equipment	23,398,099	3,416,560	(55,469)	26,759,190
Buildings	30,322,324	877,336	-	31,199,660
Office furniture and equipment	1,787,117	16,772	-	1,803,889
Other equipment	37,946,567	1,706,256	-	39,652,823
Leasehold improvements	<u>3,376,986</u>	<u>423,334</u>	<u>-</u>	<u>3,800,320</u>
Subtotal accumulated depreciation	<u>145,765,909</u>	<u>12,980,575</u>	<u>(229,177)</u>	<u>158,517,307</u>
Net capital assets being depreciated	<u>74,066,160</u>	<u>(2,242,532)</u>	<u>(145,062)</u>	<u>71,678,566</u>
Net capital assets	<u>\$ 78,679,387</u>	<u>\$ (2,073,168)</u>	<u>\$ (398,950)</u>	<u>\$ 76,207,269</u>



# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 6 - Capital Assets (Continued)

**Capital Purchase Commitments** - The Authority has active purchase contract commitments at year end related to the multiple capital purchases. At year end, the Authority's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Vehicle purchases	\$ 67,390	\$ 7,147,480
Building improvements/renovations	905,139	1,453,744
Radio upgrade	<u>42,819</u>	<u>167,603</u>
Total	<u>\$ 1,015,348</u>	<u>\$ 8,768,827</u>

### Note 7 - Property Taxes

In 2006, voters in Macomb County and in those communities participating in Act 196 Transportation Authorities in Oakland County and Wayne County approved a .59 property tax millage dedicated to public transportation. The Macomb and Wayne County millages were approved for four years and the Oakland County millage was approved for two years. The millage was re-approved in fiscal year ended June 30, 2011 in these same jurisdictions. Tax revenue received by Macomb County, the Wayne County Act 196 Authority and the Oakland County Act 196 Authority, which was contributed to SMART for the years ended June 30, 2011 and 2010, totaled \$44,188,008 and \$50,369,199, respectively.

### Note 8 - Purchase of Service Agreements

SMART has entered into purchase-of-service agreements with various transportation agencies, including community transit operators, all of which are separate transit systems operating in SMART's region. The agreements generally require that operating losses (as defined in the respective agreements) of these transportation agencies be subsidized up to specified maximum amounts.

# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 8 - Purchase of Service Agreements (Continued)

Expenses under the purchase-of-service agreements for the years ended June 30 are comprised of the following:

	2011	2010
Municipal credits	\$ 3,058,956	\$ 3,058,956
Community credits	3,540,069	3,540,069
Community transit bus service	2,447,034	1,793,701
Specialized services	787,819	787,817
JARC and New Freedom	1,235,426	12,216
Royal Oak Township	42,339	52,967
Community-based services - Bloomfield Township	142,582	140,480
Total	<u>\$ 11,254,225</u>	<u>\$ 9,386,206</u>

### Note 9 - Long-term Debt

SMART has entered into various installment purchase obligations to finance the acquisition of transit coaches and replacement engines. Long-term obligation activity for the year ended June 30, 2011 is summarized as follows:

	Interest Rates*	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note 1: 2000 Installment Purchase							
100 Transit Coach Buses:							
Amount of issue: \$27,300,000							
Maturing through September 2010							
	4.44%	\$1,698,113	\$ 1,698,113	\$ -	\$ 1,698,113	\$ -	\$ -
Note 2: 2001 Installment Purchase							
100 Transit Coach Buses:							
Amount of issue: \$17,643,511							
Maturing through September 2011							
	4.50%	\$1,568,661- \$3,034,525	4,603,187	-	3,034,525	1,568,662	1,568,661
Note 3: 2002 Installment Purchase							
87 Transit Coach Buses:							
Amount of issue: \$15,469,092							
Maturing through September 2012							
	4.64%	\$1,374,395- \$2,656,008	6,567,332	-	2,536,929	4,030,403	2,656,008
Note 4: 2007 Installment Purchase							
Engine Replacement Plan:							
Amount of issue: \$10,171,326							
Maturing through September 2012							
	5.27%	\$991,034- \$1,906,432	4,707,317	-	1,809,852	2,897,465	1,906,432
Total installment purchase obligations			17,575,949	-	9,079,419	8,496,530	6,131,101
Compensated absences			3,128,711	2,995,091	3,026,794	3,097,008	2,934,949
Total long-term debt			<u>\$ 20,704,660</u>	<u>\$ 2,995,091</u>	<u>\$ 12,106,213</u>	<u>\$ 11,593,538</u>	<u>\$ 9,066,050</u>

\* Represents interest rates pursuant to the restructuring of Notes 1, 2, and 3

# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 9 - Long-term Debt (Continued)

Activity for the year ended June 30, 2010 was as follows:

	Interest Rates*	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note 1: 2000 Installment Purchase 100 Transit Coach Buses: Amount of issue: \$27,300,000 Maturing through September 2010	4.44%	\$1,698,113	\$ 4,984,499	\$ -	\$ 3,286,386	\$ 1,698,113	\$ 1,698,113
Note 2: 2001 Installment Purchase 100 Transit Coach Buses: Amount of issue: \$17,643,511 Maturing through September 2011	4.50%	\$1,568,661- 3,034,525	7,505,634	-	2,902,447	4,603,187	3,034,525
Note 3: 2002 Installment Purchase 87 Transit Coach Buses: Amount of issue: \$15,469,092 Maturing through September 2012	4.64%	\$1,374,395- \$2,656,008	8,990,521	-	2,423,189	6,567,332	2,536,929
Note 4: 2007 Installment Purchase Engine Replacement Plan: Amount of issue: \$10,171,326 Maturing through September 2012	5.27%	\$991,034- \$1,906,432	6,425,482	-	1,718,165	4,707,317	1,809,852
Total installment purchase obligations			27,906,136	-	10,330,187	17,575,949	9,079,419
Compensated absences			3,112,743	3,409,398	3,393,430	3,128,711	2,992,186
Total long-term debt			\$ 31,018,879	\$ 3,409,398	\$ 13,723,617	\$ 20,704,660	\$ 12,071,605

\* Represents interest rates pursuant to the restructuring of Notes 1, 2, and 3

Annual debt service requirements to maturity for the above note obligations are as follows:

Year	Principal	Interest	Total
2012	\$ 6,131,101	\$ 319,682	\$ 6,450,783
2013	2,365,429	57,985	2,423,414
Total	\$ 8,496,530	\$ 377,667	\$ 8,874,197

# Suburban Mobility Authority for Regional Transportation

## Notes to Financial Statements June 30, 2011 and 2010

### Note 10 - Risk Management

SMART is exposed to various business loss risks including property loss, torts, errors and omissions, and employee injuries (workers' compensation).

In fiscal 2011 and 2010, SMART was a qualifying self-insurer for vehicle and general liability loss with a self-retention per occurrence amount of \$1 million and excess insurance totaling \$10 million per occurrence. SMART is self-insured for workers' compensation claims up to \$500,000 per specific claim and is insured up to \$5 million for aggregate losses in excess of the \$500,000 individual claim. Vehicle, general liability, and workers' compensation claim liabilities are actuarially determined based on known information. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Recorded liabilities include an estimated amount for claims that have been incurred but not reported. Management represents, based on existing known information and prior experience, that the estimated reserve for claims is adequate to satisfy all claims filed, or expected to be filed, for incidents that occurred through June 30, 2011.

Settled claims have not exceeded commercial coverage in any of the preceding five years.

SMART carries third-party commercial insurance for other areas of liability risk including health benefits.

Changes in the balances of self-insured liabilities during fiscal 2011 and 2010 were as follows:

	2011	2010	2009
Claims liability - July 1	\$ 12,481,282	\$ 10,388,207	\$ 14,602,749
Current year claims incurred	8,306,684	5,683,051	1,507,246
Claim payments and adjustments for IBNR	<u>(7,570,849)</u>	<u>(3,589,976)</u>	<u>(5,721,788)</u>
Claims liability - June 30	<u>\$ 13,217,117</u>	<u>\$ 12,481,282</u>	<u>\$ 10,388,207</u>