SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2008 and 2007

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SMART
For Our Community

Suburban Mobility Authority for Regional Transportation

Buhl Building • 535 Griswold Street, Suite 600 • Detroit, MI 48226 • (313) 223-2100

December 4, 2008

Curt Dumas, Board Chairman
And Board Members of the Suburban
Mobility Authority for Regional Transportation
And Residents of Wayne, Oakland and Macomb Counties, Michigan:

It is a pleasure to submit to you the annual financial statement of the Suburban Mobility Authority for Regional Transportation ("SMART or "Authority") for the year ended June 30, 2008.

SMART's independent audit was conducted by Rehmann Robson who has issued an unqualified audit report on these financial statements.

This report contains Independent Auditors' Report, Management's Discussion and Analysis, the Basic Financial Statements, Statement of Cash Flow and Notes to the Financial Statement.

As stated in the Auditors' Report, the financial statements referred to above, present fairly, in all material respects, the financial position of SMART as of June 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

CURRENT YEAR REVIEW

Ridership

Ridership on all SMART services continued to grow from 2007 to 2008, a 9% increase for a total of 12.2 million passengers carried this year.

State Funding

State Act 51 funding has been steadily decreasing over the past nine years. For example, in 1998, SMART received 50% of our eligible expenses for a total of $36.3 million. In 2008, SMART only received 30.6%, for a total of $32.3 million.

In addition, prior to 2006, the State matched Federal grants (typically 80% Federal matched by 20% State). Starting in 2005 the State uses toll credits for the match of Federal funds. Toll credits are State toll (bridge) revenues that are collected and used as match to receive Federal grants in Michigan. SMART does not receive any of these revenues. The loss of revenue to SMART is $3.8 million in 2008.

Federal Funding

Administered by the Federal Transit Administration, (FTA) Section 5309 Capital Bus Program funds provide assistance for the establishment of new transit projects, improvement and maintenance of existing transit systems, buses and other bus-related capital projects. In the past, SMART has received Section 5309 funding for preventive maintenance, facility renovations, vehicle replacement, and other capital projects. In FY 07, Section 5309 changed from Congress allocating the funding, to the FTA allocating the funding. SMART's FY07 and FY08 Section 5309 requests included repowering 284 engines on all fixed-route buses, replacing paratransit vehicles, upgrading SMART's automatic vehicle locator system and replacing support vehicles. FTA's decision was to give all the Section 5309 funding to only 5 transit agencies in the country that have major congestion issues. Unfortunately, SMART was not among the selected recipients.

Local Funding

Tax revenues received by Macomb County, the Wayne County Act 196 Authority, and the Oakland County Act 196 Authority that contributed to SMART in 2008 were $52.9 million. This is an increase of $2.1 million or 4%. Historically each year's millage revenues have increased 4% to 6%. However, due to the recent downward trend of housing values and foreclosures, in FY 09, the projected revenue will remain the same as FY08. The projection for FY10 is a decrease of 4.5%, which will result in a $2 million decrease in millage revenue.

Service

Due to the high volume of passengers, SMART is experiencing "standing room only" on high volume runs. SMART continually reviews the performance of its fixed route service to reduce or eliminate inefficient service and increase trips on those routes that demand more service. The number of customers using SMART service increased by 9% yet the hours have actually decreased by 3% annually. In essence SMART is carrying more riders with fewer hours operated.

Community Transit Program

The number of buses operated through SMART's community based program continues to thrive. A total of 190 buses are operating in this program with over 670,000 riders carried during FY08.

Gas Prices

Gas prices continued to increase. Every $ .01 increase in fuel increases the Authority fuel cost by $33,000. While ridership was showing impressive increases before the spike in gas prices, the number of customers choosing SMART bus service grew even further as fuel costs increased. Many of the customers using transit were first time users of the system.

Unrestricted Retained Earnings (Net Assets)

The FY 08 budget projected the retained earnings to be $22.6 million at June 30, 2008. The actual retained earnings are $21.7 million. This reduction is a result of higher diesel fuel prices.

FUTURE

In order to balance the FY09 budget, a 6% service decrease went into effect in April 2008. The FY09 budget is being reviewed on a continual basis with the budget task force committee. The committee reviews all aspects of the SMART organization, and only reduces service as a last resort.

Hayes Jones

Hayes Jones
General Manager

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INDEPENDENT AUDITORS' REPORT

December 22, 2008

The Board of Directors
Suburban Mobility Authority for Regional Transportation
Detroit, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund and the remaining fund information of the ***Suburban Mobility Authority for Regional Transportation*** (the "Authority"), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***Suburban Mobility Authority for Regional Transportation's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the remaining fund information of the ***Suburban Mobility Authority for Regional Transportation***, as of June 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles general accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also separately issued our report dated December 22, 2008, on our consideration of the ***Suburban Mobility Authority for Regional Transportation's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 through 8 and the Schedules of Funding Progress on Page 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***Suburban Mobility Authority for Regional Transportation's*** basic financial statements. The transmittal letter is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such 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.

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

Management's Discussion and Analysis

June 30, 2008 and 2007

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, 2008 and 2007 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 report consists of the statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows, prepared in accordance with GASB principles.

Financial Highlights – FY2008

SMART's current assets increased by $2.4 million (excluding depreciation on assets purchased with capital grants).

Noncurrent assets increased from the prior year by $2.7 million due primarily to the engine re-powering program ($9 million) and Lake Erie construction offset by depreciation charges on buses and other equipment.

Total liabilities increased by $4.5 million due primarily to the payments against the debt incurred for the re-powering program of fixed route buses that started in 2008 and the net obligation for Other Postemployment Benefits (OPEB).

Net assets increased from $65.5 million at June 30, 2007 to $66.1 million at June 30, 2008.

Operating revenues increased by $0.5 million as the result of an increase in fixed route and connector ridership of approximately 8.8%.

Nonoperating revenues increased by $3.2 million due to a 4% increase ($2.1 million) in local (millage) contributions, and an increase in Federal CMAQ funding ($1.2 million).

Capital contributions increased by $1.7 million as a result of purchasing 29 vans for community partners and Lake Erie construction projects.

Total operating expenses before depreciation expense increased by $6.6 million. The largest increase ($2.7 million) is due to the higher cost per gallon of diesel fuel and fringe benefits ($3.3 million) due to the OPEB net obligation.

Financial Highlights – FY 2007

SMART's current assets decreased by $.7 million (excluding depreciation on assets purchased with capital grants).

Noncurrent assets decreased from the prior year by $8.6 million due primarily to depreciation charges on buses and other equipment ($13.4 million) offset by the addition of $4.8 million in building, vehicles and related equipment.

Total liabilities decreased by $10.1 million due primarily to the annual payments against the debt incurred for the purchase of 287 fixed route buses in FY2001, 2002, and 2003.

Net assets increased from $64.5 million at June 30, 2006 to $65.5 million at June 30, 2007.

Operating revenues increased by $0.3 million as the result of an increase in fixed route and connector ridership of approximately 1.6%. This is in spite of the loss of Livonia millage revenue and service reductions.

Nonoperating revenues increased by $.8 million due to a reduction of interest expenses (netted with nonoperating revenue) resulting from the refinancing of the long term debt.

Capital contributions decreased by $6.4 million as a result of no major capital asset purchases. In fiscal year 2006, there were $9.3 million in purchases of connector buses and related equipment.

Total operating expenses before depreciation expense increased by $3.1 million.

Balance Sheets

The balance sheet includes all assets and liabilities. It is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Assets and liabilities are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summarization of SMART's assets, liabilities, and net assets at June 30, 2008, 2007, and 2006 follows:

	2008	2007	2006
Current Assets	$ 53.5	$ 51.1	$ 52.0
Non-Current Assets	85.1	82.4	90.8
Total Assets	$ 138.6	$ 133.5	$ 142.8
Liabilities:			
Current Liabilities	$ 42.7	$ 38.3	$ 41.8
Non-Current Liabilities	29.8	29.7	36.5
Total Liabilities	$ 72.5	$ 68.0	$ 78.3
Net Assets:			
Invested in Capital Assets	$ 46.3	$ 43.9	$ 45.5
Unrestricted	19.8	21.6	19.0
Total net assets	**$ 66.1**	**$ 65.5**	**$ 64.5**

At June 30, 2008, total SMART assets were $138.6 million, compared to $133.5 million in fiscal year 2007 and $142.8 million in fiscal year 2006. SMART's largest asset is its investment in fixed route and connector buses and related equipment, at $46.6 million, compared to $57.8 million in 2007 and $67.4 million in 2006. The balance of SMART's capital assets consists primarily of buildings and other equipment. Grants receivable increased to $21.0 million in FY 2008 from $18.0 million in FY 2007 due to the timing of grant collections related to the transportation funding reauthorization efforts of the U.S. Congress. $17.8 million of the $21.0 million in grants receivable was collected in the first three months of FY 2009 and $15.4 million of the $18.0 million in grants receivable was collected in the first three months of FY 2008. The local contribution receivable decreased to $1.5 million in FY 2008 from $5.0 million in FY 2007 due to a timely receipt of the millage collections in FY 2008.

SMART's liabilities total $72.5 million at June 30, 2008, compared to $68.0 million in 2007 and $78.3 million in 2006. Long-term debt of $37.8 million consists of payments due under a lease/purchase agreement with Gillig Corp. for 287 fixed route buses. Accrued self-insurance increased from $14.4 million to $14.6 million. Other Postemployment net benefit obligations increased from $0 to $1.8 million.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of SMART, as well as the nonoperating revenues and expenses. Operating revenues consist primarily of farebox revenue from fixed route and connector services.

SMART is also dependent on state, federal, and local operating assistance, as well as income from investment activities, which are prescribed by GASB as nonoperating revenues. Operating expenses, as well as capital contributions, need to be included.

A summary of SMART's revenues, expenses, and changes in net assets for the years ended June 30, 2008, 2007, and 2006 is as follows:

	2008	2007	2006
Operating revenue	$ 11.9	$ 11.4	$ 11.1
Operating expenses before depreciation	110.5	103.9	100.9
Operating loss before depreciation	(98.6)	(92.5)	(89.8)
Depreciation expense	12.7	13.4	13.5
Total operating loss	(111.3)	(105.9)	(103.3)
Nonoperating revenues	105.5	102.2	101.5
Net loss before capital contributions	(5.8)	(3.7)	(1.8)
Capital contributions	6.4	4.7	11.1
Net gain (loss)	0.6	1.0	9.3
Net assets, beginning of the year	65.5	64.5	55.2
Net assets, end of the year	**$ 66.1**	**$ 65.5**	**$ 64.5**

Revenue

SMART's primary sources of revenue are federal, state, and local operating assistance, which are classified as nonoperating revenue. In August 2006, voters in Macomb County and in those communities participating in Act 196 Transportation Authorities in Oakland County and Wayne County approved a four-year, .59-mill property tax dedicated to public transportation.

Expense

Total operating expenses increased $5.8 million due to increased diesel fuel cost ($2.7 million) and the additional cost of maintaining the fixed route bus engines prior to the re-powering program and Other postemployment net obligations $1.8 million.

Capital Contribution

Capital contributions consist primarily of federal and state grants for the purchase of replacement and new capital assets. Most of the funds are provided through a federal formula administered by the Federal Transportation Administration. Discretionary funds were also made available in previous years. At SMART's discretion, a portion of the federal formula dollars can be used as an offset to preventive maintenance expense.

Capital Assets

Investment in capital assets as of June 30, 2008 and 2007 amounted to $84.1 and $81.6 respectively. This investment in capital assets includes fixed route buses and equipment, connector buses and equipment, buildings, leasehold improvements, office furniture and other equipment.

Major capital events for the fiscal year 2008 include over $9.0 million in the re-powering engine program for fixed route buses. Major capital events for the fiscal year 2007 include over $2.1 million in leasehold improvements.

Additional information on capital assets can be found in the notes to financial statements section of this report.

Debt Administration

Long-term notes payable at the end of fiscal years 2008 and 2007 amounted to $37.8 million and $37.6 million, respectively. The 2008 payable includes $9.0 million borrowed for the re-powering engine project, which has a total cost of $16.2 million. SMART made principal payments in the amounts of $8.9 million in fiscal year 2008 and $7.1 million in fiscal year 2007.

Additional information on notes payable can be found in the notes to financial statements section of this report.

Economic Factors

SMART 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 appropriations 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.

Prior to 2007, SMART has received funding from the Federal Transit Administration, (FTA) Section 5309 Capital Bus Program which provided assistance for the establishment of new transit projects, improvement and maintenance of existing transit systems, buses and other bus-related capital projects. The 5309 funding was also available for preventive maintenance, facility renovations, vehicle replacement, and other capital projects. In FY 2007 and 2008, FTA excluded preventive maintenance as an eligible cost. SMART's Section 5309 requests include repowering 284 engines on the fixed-route buses, replacing paratransit vehicles, upgrading the automatic vehicle locator system and replacing support vehicles.

Contacting the 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.

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BASIC FINANCIAL STATEMENTS

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

BALANCE SHEETS

June 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash and cash equivalents	$ 26,299,358	$ 23,395,098
Operating assistance due from State of Michigan	21,400	67,771
Accrued interest receivable	18,515	105,409
Grants receivable	21,002,217	18,003,468
Local contributions receivable	1,531,768	4,994,882
Other receivables	1,386,238	676,511
Materials and supplies inventory	1,993,995	1,835,316
Prepaid expenses	1,269,058	2,039,198
Total current assets	53,522,549	51,117,653
Net pension asset	996,772	800,344
Capital assets, net	84,130,417	81,608,905
Total noncurrent assets	85,127,189	82,409,249
Total assets	**$ 138,649,738**	**$ 133,526,902**
LIABILITIES AND NET ASSETS		
Current liabilities:		
Municipal and community credits payable	$ 5,608,546	$ 6,137,103
Amounts payable under purchase-of-service agreements	718,331	458,587
Accrued self-insurance	14,602,749	14,383,922
Accounts payable and accrued expenses	6,559,015	4,360,372
Accrued interest payable	664,700	563,111
Current portion of notes payable	9,866,976	7,944,568
Accrued compensation	4,686,855	4,451,407
Total current liabilities	42,707,172	38,299,070
Notes payable, net of current portion	27,906,136	29,716,507
OPEB net obligation	1,867,955	-
Total liabilities	**72,481,263**	**68,015,577**
Net assets		
Invested in capital assets, net of related debt	46,357,305	43,947,830
Unrestricted	19,811,170	21,563,495
Total net assets	**66,168,475**	**65,511,325**
Total liabilities and net assets	**$ 138,649,738**	**$ 133,526,902**

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2008 and 2007

	2008	2007
Operating revenues		
Revenues from transit operation	$ 11,893,583	$ 11,419,396
Operating expenses before depreciation expense		
Salaries and wages	43,015,297	41,659,629
Fringe benefits	28,054,688	24,758,482
Contractual services	5,467,827	5,511,021
Materials and supplies	18,047,565	14,423,243
Utilities	2,524,458	2,464,052
Claims and insurance	3,346,399	5,435,414
Purchased transportation	9,735,592	9,342,206
Miscellaneous expenses	356,429	397,664
Total operating expenses before depreciation expense	110,548,255	103,991,711
Depreciation expense	12,651,478	13,407,520
Total operating expenses	**123,199,733**	**117,399,231**
Total operating loss	**(111,306,150)**	**(105,979,835)**
Nonoperating revenues (expenses)		
Federal operating and preventive maintenance assistance	19,609,098	17,797,091
State operating grants	33,616,964	33,600,676
Local contributions	52,949,999	50,873,086
Interest income	1,403,671	1,276,614
Interest expense	(1,876,803)	(1,472,849)
Gain (loss) on retirement of assets	(199,673)	79,064
Other income	16,416	138,245
Total nonoperating revenues, net	**105,519,672**	**102,291,927**
Change in net assets before capital contributions	(5,786,478)	(3,687,908)
Capital contributions	6,443,628	4,727,228
Change in net assets	657,150	1,039,320
Net assets, beginning of the year	65,511,325	64,472,005
Net assets, end of the year	**$ 66,168,475**	**$ 65,511,325**

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

BALANCE SHEETS PROPRIETARY FUNDS

June 30, 2008 and 2007

	2008		2007	
ASSETS	**Enterprise Fund Operating**	**Internal Service Retiree Health Care**	**Enterprise Fund Operating**	**Internal Service Retiree Health Care**
Current assets				
Cash and cash equivalents	$ 26,299,358	$ -	$ 23,395,098	$ -
Operating assistance due from State	21,400	-	67,771	-
Accrued interest receivable	18,515	-	105,409	-
Grants receivable	21,002,217	-	18,003,468	-
Local contributions receivable	1,531,768	-	4,994,882	-
Due from other funds	-	3,000,000	-	3,000,000
Other receivables	1,386,238	-	676,511	-
Materials and supplies inventory	1,993,995	-	1,835,316	-
Prepaid expenses	1,269,058	-	2,039,198	-
Total current assets	53,522,549	3,000,000	51,117,653	3,000,000
Net pension asset	996,772	-	800,344	-
Capital assets, net	84,130,417	-	81,608,905	-
Total noncurrent assets	85,127,189	-	82,409,249	-
Total assets	**$ 138,649,738**	**$ 3,000,000**	**$ 133,526,902**	**$ 3,000,000**
LIABILITIES AND NET ASSETS				
Current liabilities				
Municipal and community credits payable	$ 5,608,546	$ -	$ 6,137,103	$ -
Payable under purchase service contracts	718,331	-	458,587	-
Accrued self-insurance	14,602,749	-	14,383,922	-
Payable to State of Michigan	-	-	-	-
Accounts payable and accrued expenses	6,559,015	-	4,360,372	-
Due to other funds	3,000,000	-	3,000,000	-
Accrued interest payable	664,700	-	563,111	-
Current portion of notes payable	9,866,976	-	7,944,568	-
Accrued compensation	4,686,855	-	4,451,407	-
Total current liabilities	45,707,172	-	41,299,070	-
Notes payable, net of current portion	27,906,136	-	29,716,507	-
OPEB net obligation	1,867,955	-	-	-
Total liabilities	**75,481,263**	**-**	**71,015,577**	**-**
Net assets				
Invested in capital assets, net of related debt	46,357,305	-	43,947,830	-
Unrestricted	16,811,170	3,000,000	18,563,495	3,000,000
Total net assets	**63,168,475**	**3,000,000**	**62,511,325**	**3,000,000**
Total liabilities and net assets	**$ 138,649,738**	**$ 3,000,000**	**$ 133,526,902**	**$ 3,000,000**
Total net assets - enterprise operating fund	$ 63,168,475		$ 62,511,325	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	3,000,000		3,000,000	
Net assets - business-type activities	**$ 66,168,475**		**$ 65,511,325**	

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
Operating revenues				
Revenues from transit operation	$ 11,893,583	$ -	$ 11,419,396	$ -
Charges for services	-	3,000,000	-	3,000,000
Total operating revenues	**11,893,583**	**3,000,000**	**11,419,396**	**3,000,000**
Operating expenses before depreciation expense				
Salaries and wages	43,015,297	-	41,659,629	-
Fringe benefits	28,054,688	3,000,000	24,702,482	3,056,000
Contractual services	5,467,827	-	5,511,021	-
Materials and supplies	18,047,565	-	14,423,243	-
Utilities	2,524,458	-	2,464,052	-
Claims and insurance	3,346,399	-	5,435,414	-
Purchased transportation	9,735,592	-	9,342,206	-
Miscellaneous expenses	356,429	-	397,664	-
Total operating expenses before depreciation expense	110,548,255	3,000,000	103,935,711	3,056,000
Depreciation expense	12,651,478	-	13,407,520	-
Total operating expenses	**123,199,733**	**3,000,000**	**117,343,231**	**3,056,000**
Total operating loss	**(111,306,150)**	**-**	**(105,923,835)**	**(56,000)**
Nonoperating revenues (expenses)				
Federal operating and preventive maintenance assistance	19,609,098	-	17,797,091	-
State operating grants	33,616,964	-	33,600,676	-
Local contributions	52,949,999	-	50,873,086	-
Interest income	1,403,671	-	1,276,614	-
Interest expense	(1,876,803)	-	(1,472,849)	-
(Loss)/gain on retirement of assets	(199,673)	-	79,064	-
Other income	16,416	-	138,245	-
Total nonoperating revenues, net	**105,519,672**	**-**	**102,291,927**	**-**
Change in net assets before capital contributions	(5,786,478)	-	(3,631,908)	(56,000)
Capital contributions	6,443,628	-	4,727,228	-
Change in net assets	657,150	-	1,095,320	(56,000)
Net assets, beginning of the year	62,511,325	3,000,000	61,416,005	3,056,000
Net assets, end of the year	**$ 63,168,475**	**$ 3,000,000**	**$ 62,511,325**	**$ 3,000,000**
Change in net assets - enterprise operating fund	$ 657,150		$ 1,095,320	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	-		(56,000)	
Change in net assets of business-type activities	**$ 657,150**		**$ 1,039,320**	

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
Cash flows from operating activities				
Receipts from transit operations	$ 11,893,583	$ -	$ 11,419,396	$ -
Receipts from interfund services provided	-	3,000,000	-	3,056,000
Payments for salaries and wages and fringe benefits	(65,832,323)	-	(63,649,371)	-
Payments to suppliers	(23,916,862)	(3,000,000)	(23,782,375)	(3,056,000)
Payments for claims and insurance	(3,127,572)	-	(7,021,899)	-
Payments for purchased transportation	(10,004,405)	-	(10,371,880)	-
Payments for interfund services used	(3,000,000)	-	(3,056,000)	-
Net cash used in operating activities	**(93,987,579)**	**-**	**(96,462,129)**	**-**
Cash flows from noncapital financing activities				
Federal operating and preventive maintenance assistance	16,610,349	-	19,450,351	-
State operating grants	33,663,335	-	33,770,194	-
Local contributions	55,719,802	-	53,900,587	-
Net cash provided by noncapital financing activities	**105,993,486**	**-**	**107,121,132**	**-**
Cash flows from capital and related financing activities				
Capital grants received	6,443,628	-	4,727,228	-
Purchase of capital assets	(15,172,990)	-	(4,792,161)	-
Proceeds from disposals of capital assets	(199,673)	-	79,064	-
Proceeds from note payable	9,000,000	-	-	-
Payment on installment note payable	(8,887,963)	-	(7,122,065)	-
Interest paid	(1,775,214)	-	(1,798,197)	-
Net cash used in capital and related financing activities	**(10,592,212)**	**-**	**(8,906,131)**	**-**
Cash flows from investing activities				
Interest received	1,490,565	-	1,243,851	-
Net increase (decrease) in cash and cash equivalents	2,904,260	-	2,996,723	-
Cash and cash equivalents, beginning of year	23,395,098	-	20,398,375	-
Cash and cash equivalents, end of year	**$ 26,299,358**	**$ -**	**$ 23,395,098**	**$ -**
Noncash activities				
Loss on retirement of assets	$ -	$ -	$ -	$ -

Continued….

The accompanying notes are an integral part of these financial statements.

SUBURBAN MOBILITY AUTHORITY FOR REGIONAL TRANSPORTATION

STATEMENTS OF CASH FLOWS - Concluded

For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Enterprise Fund Operating	Internal Service Retiree Health Care	Enterprise Fund Operating	Internal Service Retiree Health Care
Reconciliation of operating loss to net cash used in operating activities:				
Operating income (loss)	$(111,306,150)	$ -	$(105,923,835)	$ (56,000)
Adjustments to reconcile to net cash provided by (used in) operating activities:				
Depreciation expense	12,651,479	-	13,407,520	-
Change in assets and liabilities:				
Due from other funds	-	-	-	56,000
Materials and supplies inventory	(158,679)	-	(4,613)	-
Prepaid expenses	770,140	-	(842,891)	-
Net pension asset	(196,428)	-	(212,386)	-
Municipal and community credits payable	(528,557)	-	(833,826)	-
Payable under purchase service contracts	259,744	-	(195,848)	-
Accrued self-insurance	218,827	-	(1,586,485)	-
Payable to State of Michigan	-	-	(82,891)	-
Accounts payable and accrued expenses	2,198,642	-	(452,284)	-
Due to other funds	-	-	(56,000)	-
OPEB net obligation	1,867,955	-		-
Accrued compensated absences	235,448	-	321,410	-
Net cash used in operating activities	**$ (93,987,579)**	**$ -**	**$ (96,462,129)**	**$ -**

The accompanying notes are an integral part of these financial statements.

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, Oakland, and Wayne. SMART is managed by a seven-member board of directors, who represent the counties that comprise SMART's operating region.

In August 2006, voters in Macomb County and in those communities participating in Act 196 Transportation Authorities in Oakland County and Wayne County approved a four-year, .59-mill property tax dedicated to public transportation. Tax revenues received by Macomb County, the Wayne County Act 196 Authority, and the Oakland County Act 196 Authority and contributed to SMART for the years ended June 30, 2008 and 2007 were $52,950,000 and $50,873,086, respectively.

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 RTCC provide that 35% of any state or federal transportation operating assistance or formula capital grants or loans is to be distributed to SMART, and the remaining 65% is to be distributed to DDOT. FTA and the State of Michigan pay such funds directly to SMART and DDOT at the direction of RTCC. Capital grants or loans – which 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 – are allocated to SMART and DDOT based on the terms of the grant or loan.

Reporting Entity

For financial reporting purposes, all departments and operations over which SMART exercises oversight responsibility are included in the reporting entity. 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.

No governmental units other than SMART itself are included in the reporting entity. SMART does not have oversight responsibility over any other governmental unit. 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 has no authority to appoint or remove SMART's management or board of directors and is not accountable for its fiscal matters.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The accounts of the Authority, which are organized as an Enterprise fund to account for general operations and an Internal Service fund used for accumulating resources for retiree health care, both are used to account for the Authority's activities that are financed and operated in a manner similar to a private business enterprise. Accordingly, the Authority maintains its records on the accrual basis of accounting using the economic resources measurement focus. Revenues from operations, investments, and other sources are recorded when earned. Expenses (including depreciation and amortization) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which SMART receives value without directly giving equal value in return, include federal operating and preventative 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.

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.

Basis of Presentation

The Authority uses the following proprietary funds:

Enterprise fund – This fund is used to account for principal ongoing operations of the Authority which are similar to those often found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Internal service fund – This fund is used to account for resources that are charged to the Authority enterprise fund to service the increasing demands of retiree health care costs.

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

Materials and supplies inventory consist of repair parts for buses and operating supplies and are valued at the lower of cost or market, with cost determined on an average-cost basis.

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 a year. Purchased or constructed capital assets are reported at cost or estimated historical cost. Improvements, which extend the useful lives of the assets, are capitalized. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost 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 upon the estimated useful lives of the assets as follows:

	Years
Building	25
Fixed route buses	7-12
Connector transit buses	4-7
Equipment and office furniture	3-10

Leasehold improvements are amortized over the shorter of the life of the improvement or the life of the related lease.

Claims Expense

Claims expense is accrued in the period that incidents of loss occur, based upon estimates of liability made by management with the assistance of third-party administrators, legal counsel, and actuaries. Claims liability represents management's best estimate based on known information.

Compensated Absences

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; upon termination of employment, employees are paid for unused accumulated vacation. With certain limitations, sick leave may be accumulated and paid upon retirement and, for certain employees, upon voluntary termination of employment. For certain employees, some accumulated sick leave may also be converted into additional vacation time. Accumulated unpaid vacation and sick leave are recorded as a liability.

Capital Acquisition Grant Activities

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 balance sheet and capital contributions in the statement of revenues, expenses, and changes in net assets when the related qualified expenditures are incurred. When capital assets relating to other transit agencies are transferred to such transit agencies, their related costs are removed from the records of SMART.

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 remitted to the granting federal agency.

Net Assets

Equity is displayed 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, 2008 or 2007.

- *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 Revenues

SMART has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as revenues from transit operations.

- *Nonoperating revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions that are defined as nonoperating revenues 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.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

III. 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. RTCC is the designated recipient of such funds, and SMART is a subrecipient of RTCC. SMART has recorded operating grant revenues 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 revenues of SMART and DDOT, the percentage of 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.

Based on the latest available determinations of State operating assistance allocable to SMART in accordance with the Act 51 funding formula, for certain of the State's fiscal years through September 30, 2006, operating assistance payments were received in excess of the amounts allocable to SMART. The overpayments, in the amount of $1,423,896 was recorded as a payable to the State of Michigan at June 30, 2008.

Act 51 requires SMART to provide a portion of the State 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 lies. SMART was required to provide approximately $3,059,000 pursuant to this provision in both fiscal years 2008 and 2007.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Investment and deposit risk

Overview. The investment policy adopted by SMART allows deposits and investments that are in accordance with State regulations. Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes SMART to make deposits and investments as follows. SMART is authorized to invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. SMART is allowed to invest in bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated with 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.

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. SMART'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.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified 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. SMART's investment policy does not have specific limits in excess of state law on investment credit risk. SMART's investment in commercial paper of $19,500,000 was rated A1, P1 by Standard & Poor's and Moody's nationally recognized statistical rating organizations.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, SMART's deposits may not be returned. State law does not require and SMART does not have a policy for deposit custodial credit risk. At June 30, 2008 and 2007, the book amount of SMART's deposits was $6,796,908 and $6,395,100, respectively, and the bank balance was $7,848,541 and $9,189,815, respectively. As a result, at June 30, 2008 and 2007, $7,548,541 and $8,889,815 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, SMART will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and SMART does not have a policy for investment custodial credit risk. Of the investments in commercial paper of $19,500,000 at June 30, 2008, and $17,000,000 at June 30, 2007, the total amount was subject to custodial credit risk because the related securities are uninsured, unregistered and held by the Agency's brokerage firm.

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. SMART's investment policy does not have specific limits in excess of State law on concentration of credit risk. At June 30, 2008, the Agency had over 70% of its investments in commercial paper with two corporate entities.

B. Grants Receivable

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

	2008	2007
Accounts receivable, billed		
Federal Operating Grant (CMAQ)	$ 3,543,325	$ 2,384,520
Federal government grants	15,021,256	13,800,604
State of Michigan grants	948,122	758,976
Total billed	19,512,703	16,944,100
Accounts receivable, unbilled		
Federal government grants	508,119	749,915
State of Michigan grants	978,321	274,733
Local grants	3,074	34,720
Total unbilled	1,489,514	1,059,368
Total	**$ 21,002,217**	**$ 18,003,468**

C. Capital Assets

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

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets not being depreciated				
Land	$ 4,246,270	$	$	$ 4,246,270
Construction in progress	2,173,426	10,662,330	2,173,426	10,662,330
Total capital assets not being depreciated	6,419,696	10,662,330	2,173,426	14,908,600
Capital assets being depreciated				
Fixed Route buses & equip.	83,599,799	116,400	782,625	82,933,574
Connector buses and related equipment	28,715,553	929,199	1,049,283	28,595,469
Buildings	40,033,838	2,903,148	-	42,936,986
Office furniture and equipment	1,803,844	42,433	-	1,846,277
Other equipment	39,001,823	2,388,193	-	41,390,016
Leasehold improvements	4,670,165	617,784	-	5,287,949
Total capital assets being depreciated	197,825,022	6,997,157	1,831,908	202,990,271
Less accumulated depreciation and amortization				
Fixed Route buses and equipment	36,938,536	6,396,264	469,555	42,865,245
Connector buses and related equipment	17,582,852	3,512,936	1,049,283	20,046,505
Buildings	28,384,503	1,005,125		29,389,628
Office furniture and equipment	1,752,500	16,993		1,769,493
Other equipment	35,313,295	1,385,502		36,698,797
Leasehold improvements	2,664,127	334,659		2,998,786
Total accumulated depreciation and amortization	122,635,813	12,651,479	1,518,838	133,768,454
Total capital assets being depreciated, net	75,189,29	(5,654,322)	313,070	69,221,817
Total capital assets, net	**$ 81,608,905**	**$5,008,008**	**$ 2,486,496**	**$ 84,130,417**

Capital asset activity during the fiscal year ended June 30, 2007 is as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets not being depreciated				
Land	$ 4,246,270	$	$	$ 4,246,270
Construction in progress	195,970	2,173,426	195,970	2,173,426
Total capital assets not being depreciated	4,442,240	2,173,426	195,970	6,419,696
Capital assets being depreciated				
Fixed Route buses & equip.	83,908,565	40,242	349,008	83,599,799
Connector buses and related equipment	31,068,526	630,776	2,983,749	28,715,553
Buildings	39,516,798	517,040		40,033,838
Office furniture and equipment	1,803,844			1,803,844
Other equipment	38,066,193	935,630		39,001,823
Leasehold improvements	3,979,148	691,017		4,670,165
Total capital assets being depreciated	198,343,074	2,814,705	3,332,757	197,825,022
Less accumulated depreciation and amortization				
Fixed Route buses and equipment	30,854,491	6,433,052	349,009	36,938,536
Connector buses and related equipment	16,686,729	3,879,872	2,983,749	17,582,852
Buildings	27,288,284	1,096,219		28,384,503
Office furniture and equipment	1,732,859	19,641		1,752,500
Other equipment	33,610,771	1,702,524		35,313,295
Leasehold improvements	2,387,916	276,211		2,664,127
Total accumulated depreciation and amortization	112,561,050	13,407,519	3,332,758	122,635,813
Total capital assets being depreciated, net	85,782,024	(10,592,814)		75,189,29
Total capital assets, net	**$ 90,224,264**	**$ (8,419,388)**	**$ 195,971**	**$ 81,608,905**

D. 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.

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

	2008	2007
Municipal credits	$ 3,058,956	$3,058,956
Community credits	3,359,247	3,089,149
Community transit bus service	2,126,698	2,346,040
Specialized services	787,821	763,807
RTCC	16,411	-
NOTA	232,265	
New Services	51,191	38,132
Community-based services	103,003	46,122
Total	**$ 9,735,592**	**$9,342,206**

E. Interfund Receivables and Payables

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenses occur.

At June 30, 2008 and 2007 the internal service fund had amounts due from the enterprise operating fund of $3,000,000 and $3,000,000, respectively.

F. Long-term Debt

On September 8, 2000, SMART entered into an installment purchase contract to acquire 100 transit coaches during fiscal year 2001 at a cost of $27.3 million. The acquisition is financed at a 5.23% interest rate over a 10-year period, with a semi-annual payment of principal and interest of $1.77 million, each due on February 15 and August 15 of each year. The contract also provided for two annual options to acquire 100 and 87 additional coaches during fiscal years 2002 and 2003, respectively, at interest rates indexed to the market. At June 30, 2003, all 100 buses were delivered.

In August 2001, SMART exercised its option to obtain 100 additional buses. This acquisition is financed at a 4.90% rate over a 10-year period, with semi-annual payment of principal and interest of $1.9 million, each due on February 15 and August 15 of each year.

In October 2002, SMART exercised its option to acquire the final 87 buses. The acquisition is financed at a 4.78% rate over a 10-year period, with semi-annual payment of principal and interest of $1.6 million, each due on February 15 and August 15 of each year. These three contracts are recorded as notes payable in the financial statements.

Subsequent to the acquisition of the first 100 transit coaches (Note 1), a significant downward fluctuation in the capital market interest rates occurred. The decrease in market rates was sufficient to warrant a restructuring of Note 1 with a reduction in interest expense to SMART. Effective February 18, 2004, the new interest rate for Note 1 is 4.44%, with a semi-annual payment of principal and interest of $1.74 million. The restructuring of Note 1 will reduce interest expense by over $425,000 over the life of the note.

During fiscal year 2007, Note 2 and Note 3 were also restructured to further reduce interest expense to SMART. Effective August 11, 2006, the new interest rate for Note 2 is 4.5%, with a semi-annual payment of principal and interest of $1.6 million. Effective March 23, 2007, the new interest rate for Note 3 is 4.64%, with a semi-annual payment of principal and interest of $1.4 million. The restructuring of Note 2 and Note 3 will reduce interest expense by over $1 million over the life of the notes.

On December 21, 2007, SMART entered into an installment purchase agreement (Note 4) to finance an engine replacement plan due to the number and severity of the mechanical failures of bus engines. The acquisition is financed at a 5.27% interest rate over a 5-year period, with a semi-annual payment of principal and interest of $1.02 million, each due on February 15 and August 15 of each year.

Note payable activity for the year ended June 30, 2008 was as follows:

Issue	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due within one year
Note 1	$ 11,139,748	$ -	$ 3,010,059	$ 8,129,689	$ 3,145,190
Note 2	12,937,034	-	2,655,284	10,281,750	2,776,116
Note 3	13,584,293	-	2,279,224	11,305,069	2,314,548
Note 4	-	9,000,000	943,396	8,056,604	1,631,122
Total	**$ 37,661,075**	**$9,000,000**	**$ 8,887,963**	**$ 37,773,112**	**$ 9,866,976**

Note payable activity for the year ended June 30, 2007 was as follows:

Issue	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due within one year
Note 1	$ 14,020,483	$ -	$ 2,880,735	$ 11,139,748	$ 3,010,059
Note 2	15,187,022	-	2,249,988	12,937,034	2,655,284
Note 3	15,575,635	-	1,991,342	13,584,293	2,279,225
Total	**$ 44,783,140**	**$ -**	**$ 7,122,065**	**$ 37,661,075**	**$ 7,944,568**

As of June 30, 2008, the annual requirements to pay principal and interest on the note are as follows:

	Principal	Interest	Total
Year ended June 30			
2009	$ 9,866,976	$ 1,659,382	$ 11,526,358
2010	10,330,187	1,196,171	11,526,358
2011	9,079,419	711,129	9,790,548
2012 and thereafter	8,496,530	377,667	8,874,197
Total	**$ 37,773,112**	**$ 3,944,349**	**$ 41,717,461**

The figures above present the financial position of notes payable as of June 30, 2008.

V. OTHER INFORMATION

A. Risk Management

In fiscal 2008 and 2007, SMART was a qualifying self-insurer for vehicle and general liability with a self retention per occurrence of $1 million, and excess insurance in an amount of $4 million per occurrence. SMART also was 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 $500,000 per claim. Vehicle and 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. Liabilities include an amount for claims that have been incurred but not reported. These liabilities are classified as current, although some portion may not be paid within one year. Management believes, based on prior experience that the estimated reserve for claims is adequate to satisfy all claims filed, or to be filed, for incidents that occurred through June 30, 2008.

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

SMART carries commercial insurance for other areas of risk, including health benefits.

Changes in the balances of self-insured liabilities during fiscal 2008 and 2007 were as follows:

	2008	2007
Claims liability - July 1	$ 14,383,922	$ 15,970,407
Current year claims	4,460,698	4,724,540
Claim payments	(4,241,871)	(6,311,025)
Claims liability - June 30	**$ 14,602,749**	**$ 14,383,922**

B. Pension Information

Plan Description

SMART participates in the Municipal Employees' Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee defined-benefit pension plan created under Public Act 135 of 1945, now operating under Public Act 220 of 1996. MERS was established to provide retirement, survivor, and disability benefits on a voluntary basis to the State of Michigan's local government employees.

Pursuant to Act 220, on August 15, 1996, MERS became an independent public nonprofit corporation, which is an instrumentality of the participating municipalities and courts. Prior to that, MERS was a component unit of the State of Michigan and operated within the Department of Management and Budget. MERS is administered solely by a Retirement Board. Benefit programs and provisions are established by the Retirement Board. MERS assigns the authority to establish and amend the benefit provisions of the plan to the respective employer entities. MERS of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan, 48917 or by calling 1-800-767-6377.

Substantially all SMART employees are members of the MERS plan. As of December 31, 2007, the date of the last actuarial valuation, 461 retirees and beneficiaries were receiving benefit payments, and the Plan had 891 active members and 193 inactive vested members.

For employees hired prior to July 1, 2007:

Benefits vest after 6 years of service, with special provisions for death and disability. Normal retirement is at age 60 with 6 years of service or at age 55 with 15 years of service. Early retirement with reduced benefits is available beginning at age 50 with 25 years of service.

For employees hired after July 1, 2007:

Benefits vest after 10 years of service, with special provisions for death and disability. Normal retirement is at age 60 with 10 years of service or at age 55 with 20 years of service. Early retirement with reduced benefits is available beginning at age 50 with 25 years of service.

Funding Policy

Members of only one of SMART's collective bargaining units make contributions to MERS. For the years ended June 30, 2008 and 2007, such employees contributed 3% of their payroll. SMART is required to contribute at an actuarially determined rate. For the fiscal year ended June 30, 2008, the rates, as a percentage of annual payroll, are as follows: ATU drivers, 12.23%; ATU clerical, 11.41%; UAW #771, 8.85%; Teamsters #247, 12.99%; AFSCME #1917, 15.63%; nonunion, 16.43%. The contribution requirements of plan members are established and may be amended by the Retirement Board of MERS.

Annual Pension Cost

For fiscal years ended June 30, 2008 and 2007, SMART recorded annual pension expense of $5,245,276 and $5,100,478, respectively.

The required contribution amount was determined as part of the December 31, 2005 actuarial valuation using the entry-age normal cost actuarial method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit; and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement for pensions under certain categories. The actuarial values of assets are determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%) and includes an adjustment to reflect market value. SMART's unfunded actuarial accrued liability is being amortized as a level percent of payroll over a period of 30 years.

SMART's annual pension cost and net pension obligations for the years ended June 30, 2008 and 2007 are as follows:

	2008	2007
Annual required contributions	$ 5,069,952	$ 4,903,596
Interest on net pension cost	(64,028)	(47,037)
Adjustment to annual required contribution	42,924	31,533
Annual pension cost	5,048,848	4,888,092
Contributions made	5,245,276	5,100,478
Increase in net pension asset	(196,428)	(212,386)
Pension obligation at beginning of year	(800,344)	(587,958)
Pension obligation/asset, at end of year	**$ (996,772)**	**$ (800,344)**

Three-year Historical Trend Information (dollar amounts in thousands):

	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation/ Asset
Fiscal year ended June 30			
2006	$ 4,716	104%	$ (588)
2007	4,888	104%	(800)
2008	5,049	104%	(997)

C. Other Postretirement Benefits

Plan Description

SMART provides postretirement health insurance, life insurance, and prescription benefits to certain employees who retire after attaining age 60 with at least 6 years of service or after attaining age 55 with at least 15 years of service. For employees hired after July 1, 2007, health, life and prescription benefits will be provided after the employee attains age 55 with at least 25 years of service.

Substantially all SMART employees are members of the Plan. As of December 31, 2007, the date of the last actuarial valuation, 458 retirees and beneficiaries were receiving benefit payments, and the Plan had 907 active members.

Funding Policy

The employer contributes 100% of the actual current costs for these benefits and administrative expenses of the plan. The employer also contributes additional amounts to pre-fund benefits in years it can afford to do so. Expenses for such postretirement benefits for the years ended June 30, 2008 and 2007 were approximately $3,390,000 and $2,706,000, respectively. In addition, the employer contributed $3,000,000 and $3,065,000 for the years ended June 30, 2008 and 2007 to the Municipal Employees' Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee defined-benefit pension plan that is held in trust specifically for other postretirement benefits of eligible Authority employees and retirees.

Annual OPEB Cost and Net OPEB Obligation

The required contribution amount was determined as part of the December 31, 2007 actuarial valuation using the individual entry-age actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 0.3% to 8.4% per year, depending on age, attributable to seniority/merit; and (d) the assumption that benefits will increase 4.5% to 10% per year (annually). The actuarial values of assets are determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%) and includes an adjustment to reflect market value. SMART's unfunded actuarial accrued liability is being amortized as a level percent of payroll over a period of 30 years.

SMART's annual pension cost and net pension obligations for the years ended June 30, 2008 and 2007 are as follows:

	2008	2007
Annual required contributions	$ 8,258,515	$ -
Interest on net pension cost	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	8,258,515	-
Contributions made	6,390,560	-
Increase in net OPEB liability	1,867,955	-
OPEB obligation at beginning of year	-	-
OPEB obligation/asset, at end of year	**$ 1,867,955**	**$ -**

Two-year Historical Trend Information (dollar amounts in thousands):

	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation/ (Asset)
Fiscal year ended June 30			
2007	$ -	-%	$ -
2008	8,259	77	1,868

D. Commitments

SMART leases certain office space and equipment under operating lease agreements. Some leases include escalation clauses for SMART's pro-rata share of taxes and operating expenses. Total rent expense for the years ended June 30, 2008 and 2007 was approximately $475,800 and $637,000, respectively.

SMART entered into a new, non-cancelable 10 year lease commencing October 1, 2007 through September 30, 2017 for its administrative offices and the ticket sales store. The 10 year lease provides for 42 months of free rent. The first 28 months of the lease are free, with the remaining free months distributed throughout the remaining 8 year period as is outlined in the lease agreement.

Minimum lease payments are as follows:

Fiscal Year Ended June 30,	Amount
2008	$ -
2009	-
2010	211,818
2011	338,956
2012	361,378
2013 to 2018	1,975,520
Total	**$ 2,887,672**

E. Contingencies

Various legal actions and workers' compensation claims are outstanding or may be instituted or asserted against SMART. Management has accrued amounts with respect to such actions and claims based on its best estimate of SMART's ultimate liability in these matters, including an estimate for claims that have been incurred but not reported for self-insured vehicle liability.

F. Deferred Compensation Plan

SMART offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan are held for the exclusive benefit of the participants and their beneficiaries and are not reflected in SMART's financial statements.

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REQUIRED SUPPLEMENTARY SCHEDULES

SUBURBAN MOBILITY AUTHORITY
FOR REGIONAL TRANSPORTATION

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Defined Benefit Pension Plan

Schedule of Funding Progress (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / (c)
12/31/04	$ 113,930	$ 135,308	$ 21,379	84.20 %	$ 40,342	53%
12/31/05	122,591	146,089	23,498	83.92 %	40,866	58%
12/31/06	132,547	157,725	25,178	84.04 %	42,543	59%
12/31/07	142,931	165,631	22,700	86.30 %	40,865	56%

Other Postemployment Benefits

Schedule of Funding Progress (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / (c)
12/31/07	$ 6,093	$ 110,869	$ 104,776	5.5 %	$ 40,865	256%