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January 19, 2017

To the Board of Directors
Ann Arbor Area Transportation Authority

We have audited the financial statements of Ann Arbor Area Transportation Authority (the "Authority") as of and for the year ended September 30, 2016 and have issued our report thereon dated January 19, 2017. Professional standards require that we provide you with the following information related to our audit.

Section I - Communications Required Under AU 260

Section II - Legislative Items

Section III - Other Recommendations

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

Section II contains updated legislative items that we believe will be of interest to you. These comments are offered in the interest of helping the Authority in its efforts toward continuous improvement and understanding of current legislation and the effect on the Authority's operations.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Authority's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards.

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

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

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

Very truly yours,

Plante & Moran, PLLC

Pamela Hill, CPA
Partner

Josh Yde, CPA
Manager

Section I - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 10, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of the Authority's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the comptroller general of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Authority, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated January 19, 2017 regarding our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 23, 2016.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements.

As described in the footnotes to the financial statements, the Authority changed accounting policies related to the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the disclosures in the financial statement have been added to meet the requirements of this standard.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the financial statements related to the following:

- OPEB (other postemployment benefits) costs, including the actuarial methods and assumptions. These assumptions used are based on plan provisions, healthcare-related trends, and payroll data.

- Allowance for collectibility reserve related to local revenue source receivables. The assumptions are based on communications from the City of Ann Arbor, the City of Ypsilanti, and Ypsilanti Township, combined with management's estimates for uncertainties and historical results.

- Reserve for Act 51 operating assistance revenue. The assumption is based on the estimated reduction of the collective qualifying expenditures by the Authority and RTA member agencies, which could result in less total eligible expenditures to be reimbursed by Act 51 monies from the State of Michigan through the Regional Transportation Authority (RTA). There was no reserve recorded at September 30, 2016.

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

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 19, 2017.

Management Consultations with Other Independent Accountants

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

Opinion Unit: Business-type Activities
Y/E: September 30, 2016

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	Retiree health account should be shown as a reduction to the retiree healthcare liability as opposed to the Authority's cash	$ (99,741)				$ (99,741)					
A2	To recognize net revenue for the assets transferred from "get downtown" in current year as opposed to unearned revenue				$ (52,238)				$ 52,238		$ 52,238
JUDGMENTAL ADJUSTMENTS:											
B1	Estimate for future tax refunds should be recorded as a liability versus a reduction to AR	104,246			104,246						
B2											
PROJECTED ADJUSTMENTS:											
C1											
C2											
		-	$ -	$ -	-	-	$ -	$ -	-	$ -	-
	Total	**$ 4,505**	**$ -**	**$ -**	**$ 52,008**	**$ (99,741)**	**$ -**	**$ -**	**$ 52,238**	**$ -**	**$ 52,238**

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 The retiree healthcare account is currently recorded as an investment of the Authority, although it should not be, as it is in a fiduciary fund over which the Authority does not have custody. As such, the Authority is passing on any GASB 72 disclosures related to this account. Furthermore, the Authority is passing on recording this in the OPEB disclosures as a plan asset.

D2 GASB 53 requires disclosures related to derivative instruments that are omitted from the financial statements.

Section II - Legislative Items

New Other Postemployment Benefits Standards (Retiree Healthcare Obligations)

In June 2015, the GASB issued new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB, which refers to retiree healthcare). GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees.

The Authority will now be required to include in the financial statement more extensive note disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Authority will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability in full. The Authority is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 75 is effective for the Authority's year end of September 30, 2018.

Legacy Cost Impact – Pro Forma

A pro forma of how the reporting of these two liabilities is expected to impact the Authority's statement of net position is shown below:

	As Currently Reported	With Unfunded Health Care
Net position:		
Net investment in capital assets	$ 54,738,269	$ 54,738,269
Unrestricted	18,513,172	16,791,241
Total net position	$ 73,251,441	$ 71,529,510

This pro forma indicates the Authority will likely still have a positive total net position and unrestricted net position. This generally means that the Authority has successfully funded the total cost of government services provided to date. While legacy costs earned to date have not been fully funded, when viewed from a combined perspective, the Authority has paid the cost of services received in total.

Section III - Other Recommendations

We would like to compliment the Authority on implementing most of the new policies and procedures required by the Uniform Grant Guidance in the current year. There are a few items still left to complete, however. We just want to add a reminder to ensure that the Authority is appropriately monitoring these items and implementing or changing policies and procedures as required under the Uniform Guidance. We are more than happy to assist the Authority in anyway related to the implementation of all Uniform Guidance items. Most of these items relate to the new procurement policies for which the Authority had elected to defer implementation and certification language required for reimbursement requests.