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March 7, 2013

To the Board of Directors
Ann Arbor Transportation Authority

We have audited the financial statements of the Ann Arbor Transportation Authority (the "Authority") as of and for the year ended September 30, 2012 and have issued our report thereon dated March 7, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Legislative and Other Informational Items

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

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

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

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

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

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

Very truly yours,

Plante & Moran, PLLC

David Helisek

To the Board of Directors
Ann Arbor Transportation Authority

March 7, 2013

Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 8, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of the Authority's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Authority's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated March 7, 2013, 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.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the Authority, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 11, 2012, and in our direct discussions about planning matters with the Board Chair, Charles Griffith.

To the Board of Directors
Ann Arbor Transportation Authority

March 7, 2013

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. No new accounting policies were adopted and the application of existing policies was not changed during the year.

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 Authority's financial statements were as follows:

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no other misstatements detected as a result of audit procedures.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 7, 2013.

Ann Arbor Transportation Authority
General Fund - Major Enterprise Fund
9/30/2012

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	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses
KNOWN MISSTATEMENTS:								
A1	To recognize net assets transferred from "get downtown" in current year revenue			$ (81,649)			$ 81,649	
A2	Estimate for future tax refunds should be recorded as a liability versus a reduction to AR	$ 162,595		162,595				
ESTIMATE ADJUSTMENTS:								
B1	Adjustment to increase property tax reserves for MTT estimated refunds			97,000			(97,000)	
B2								
IMPLIED ADJUSTMENTS:								
C1	Remove MERS assets off the books since assets are not available to AATA and are being held in trust in a fiduciary capacity	(70,280)				$ (70,280)		
C2		-	$ -	-	$ -	-	-	$ -
	Total	**$ 92,315**	**$ -**	**$ 177,946**	**$ -**	**$ (70,280)**	**$ (15,351)**	**$ -**

To the Board of Directors
Ann Arbor Transportation Authority

March 7, 2013

Section II - Legislative and Other Informational Items

Update on Prior Year Audit Results

During the prior year audit, we recommended that the Authority provide the board a quarterly investment report as required by Public Act 217 of 2007. We are pleased to report that a new process was implemented relative to quarterly investment reporting to the board and as of December 31, 2012, the Authority is in compliance with this Public Act.

During the prior year audit, we reviewed the Authority's investment policy. Additionally, during both the current and prior years, we also reviewed the Authority's investments for compliance with relevant State statutes. As of September 30, 2012 and 2011, the Authority is investing in heating oil futures. Based on our review of the Authority's investment policy, it does not appear that this investment complies with the Authority's policy. We discussed the investment with the Authority's management and have communicated that it does not appear that this investment is in compliance with applicable state laws. However, we continue to encourage the Authority to consult with its legal counsel regarding this matter and, based on the opinion received regarding the legality of this investment, either adjust the Authority's investment policy or appropriately adjust the types of investments in which the Authority is investing. We understand that this matter has been discussed by management and the board and is pending correspondence from the State of Michigan regarding compliance.

Information Technology General Controls

As part of our audit procedures, we are required to perform an assessment of the Authority's information technology general controls. During that review, we identified some best practice improvement opportunities. The Authority does not have formal policies for adding/ modifying/termination users' rights in the system. We recommend that a formal, written policy be created to ensure appropriate controls are in place and consistency applied as users in the system are changed. Additionally, there are not processes or controls in place to monitor/review user access within the system. Although this has been done at year end over the past couple of years in conjunction with our IT assessment, we encourage the Authority to adopt a policy that would require review of user access in the system regularly throughout the year to ensure the propriety of user access in the system.

Personal Property Tax Proposals

The personal property tax was repealed by the passing of PA 397 of 2012 during the legislature's lame duck session in December. This repeal is contingent upon a statewide vote in August 2014. Key provisions of the act phases out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than $40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. In addition, local governments would have the option to assess a special assessment on industrial property (referred to as essential services assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

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

Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts: http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx

Right-to-work for Public Employees

The governor signed PA 349 in December 2012 which creates a "right-to-work" for public employees. The act will take effect mid-March 2013. The act, which exempts police and firefighters that are PA 312 eligible, makes it illegal to require as a condition of employment for public and private sector workers that they financially support a union (this includes dues, fees, assessments, and any other charges). Requirement to make payment to a third party or a charitable organization in lieu of financial support is also prohibited. In addition, impacted workers are no longer required to become or remain a member of a union.

Upcoming Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Ann Arbor Transportation Authority's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the enterprise fund level.