

January 25, 2018

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, 2017 and have issued our report thereon dated January 25, 2018. 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 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.

Section III presents recommendations related to internal control, procedures, and other matters 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 supplementary schedule of expenditures 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.

To the Board of Directors
Ann Arbor Area Transportation Authority

January 25, 2018

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

Handwritten signature of Pamela J. Hill in black ink.

Pamela Hill, CPA
Partner

Handwritten signature of Josh Yde in blue ink.

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 7, 2017, 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 25, 2018 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 22, 2017.

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 2017.

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

Section I - Communications Required Under AU 260 (Continued)

We noted 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, Michigan, the City of Ypsilanti, Michigan, 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, 2017.

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 significant 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.

**Section I - Communications Required Under AU 260
(Continued)**

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 25, 2018.

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 Company'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.

Client: **Ann Arbor Area Transportation Authority**
 Opinion Unit: **Business-type Activities**
 Y/E: **9/30/2017**

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	Purchase of 6 Engine rebuilds that extended the useful life of the buses and therefore should have been capitalized		\$ 206,250							\$ (206,250)	\$ 206,250
A2	Proceeds from the sale of fixed assets that was recorded as unearned revenue				\$ (230,150)				\$ 230,150		230,150
JUDGMENTAL ADJUSTMENTS:											
B1											
PROJECTED ADJUSTMENTS:											
C1											
		\$ -	-	\$ -	-	\$ -	\$ -	\$ -	-	-	-
Total		\$ -	\$ 206,250	\$ -	\$ (230,150)	\$ -	\$ -	\$ -	\$ 230,150	\$ (206,250)	\$ 436,400

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1

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 health care). 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 statements 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 ending September 30, 2018.

Public Act 530 of 2016 - Additional Legacy Cost Reporting

On December 31, 2016, the Governor signed Public Act 530 of 2016 which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act is effective March 29, 2017.

Under the existing act, communities were required to publish a Summary Annual Report setting forth key information related to pension and retiree healthcare plans. The amendment requires that this Summary Annual Report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree healthcare) that is not funded at a level of at least 60 percent, the community must now post a report to their website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable timeframe.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the State.

Pension and OPEB Reporting Under Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the "Act"), which was a primary component of the act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

The releases by the Department of Treasury included Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html

Section II - Legislative Items (Continued)

The due date for completion of Form 5572 is January 31, 2018 for local units with a fiscal year ended on or before June 30, 2017. For local units with fiscal years ending after June 30, 2017, Form 5572 is due no later the six months after the end of your fiscal year.

In addition to submitting this new form to the Department of Treasury, local units must also post this information on their websites or in a public place, if the local unit does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

The Public Act 202 defines that a local unit of government is in “underfunded status” if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities, according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government’s governmental funds operations revenue.
2. Retirement pension plans - Total plan assets are less than 60 percent of plan total liabilities and according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 10 percent of the local unit of government’s governmental funds operations revenue.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a “waiver” under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury. The template for the waiver has not yet been provided by the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

*Primary units of government are cities, villages, townships, and counties.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting their website at www.Michigan.gov/LocalRetirementReporting

Section III - Other Recommendations

During our audit, we noted areas where we believe there are opportunities for the Authority to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below:

Positive Pay - In today's environment with fraud occurring often and the ease of availability of a governmental entity's information, we would recommend that the Authority look into the cost of implementing a positive pay system with its main bank. This system can help to mitigate the risk of fraud in relation to fraudulent vendors. This tool is widely used by governmental entities and typically, the cost is very modest.

Enterprise Contract - We understand that the Authority has entered into a contract with Enterprise for van pool vehicles. As the rules surrounding the use of federal dollars have recently changed and this is a new contract, we encourage the Authority to look at the new contract and ensure that they have made a determination as to if Enterprise is a vendor or a subrecipient in the eyes of the federal government and for the purpose of compliance with federal regulations. We would be happy to review the Authority's conclusion or talk through the factors with the Authority as it goes through the analysis. This analysis is important to ensure the Authority is in compliance with federal regulations.