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February 22, 2012

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, 2011 and have issued our report thereon dated February 22, 2012. 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. 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.

To the Board of Directors
Ann Arbor Transportation Authority

February 22, 2012

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 earliest convenience.

Very truly yours,

Plante & Moran, PLLC

David Helisek

Pamela L. Hill

To the Board of Directors
Ann Arbor Transportation Authority

February 22, 2012

Section I - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 27, 2011, 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 controls 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 February 22, 2012 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 the applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to the applicable government agencies. No such disclosures were required.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the additional information for the year ended September 30, 2011 included with the financial statements and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

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 January 3, 2012.

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. The Authority changed their accounting policy for recognizing property tax revenue in accordance with GASB No. 33. The effects of adopting this change are disclosed in Note 17 of the financial statements.

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 were as follows:

- OPEB (other postemployment benefits) costs - including the actuarial methods and assumptions. The assumptions 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 received from the City of Ann Arbor combined with management's estimates for uncertainties.

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.

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 following misstatement detected as a result of audit procedures was not corrected by management: Interest income is reported on the face of the financial statements as a component of operating revenue rather than as a component of nonoperating revenue. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following misstatement detected as a result of audit procedures was corrected by management: Accounting for property tax revenue in accordance with Governmental Accounting Standard (GASB) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

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 February 22, 2012.

To the Board of Directors
Ann Arbor Transportation Authority

February 22, 2012

Section II - Legislative and Other Informational Items

Senate Bill 34 - Elimination of the Personal Property Tax

On January 19, 2011, SB 34 was introduced. Very simply, this bill, if it becomes law, will amend PA 206 of 1893 and exempt all personal property from the collection of taxes. Altogether, this would reduce revenue for communities, and therefore the Authority, across the State by approximately $770 million. Including the school districts, the lost revenue would be over $1 billion. This bill does not provide any source of revenue to replace that which is lost.

Obviously, this would be devastating to many communities, and therefore the Authority, as personal property taxes are a significant component of the City of Ann Arbor's tax structure. During the governor's announcement of his budget, he did state that the elimination of the personal property tax was not part of his 2012 budget. We do feel this is an important bill for the Authority to keep an eye on as this has been a focus of Governor Snyder's reform and has been a hot topic in Lansing. Any changes to this funding will affect the Authority in the upcoming budgets and also as they look out towards regionalization.

Federal Grants Period of Availability

As part of our testing of the Authority's expenditures of federal awards, we noted instances where dated grants (grants that have exceeded the period of availability) are still being drawn down by the Authority and reimbursed by the Federal Transit Administration (FTA). Each federal grant outlines the funding availability of awarded grants which begins when the funds become available (in the year of appropriation) plus two to three additional years for a total of a three- to four-year eligibility period (depending on the grant type). Although the FTA has not enforced this compliance requirement in the past, under grants that are funded with the American Recovery and Reinvestment Act (ARRA) monies, enforcement will be more stringent. Additionally, we understand that as this is being enforced under ARRA, it is anticipated that enforcement for all federal grant programs will also be more rigorous in future years. Given the significance of federal awards to the Authority, we encourage the Authority to review its processes and procedures for ensuring that grants are being spent within the period of availability going forward to ensure that awarded amounts are not forfeited.

Investments

During the audit, Plante & Moran, PLLC reviewed the Authority's investments for compliance with Public Act 20 of 1943 and the Authority's investment policy. It appears that as of September 30, 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. Plante & Moran, PLLC discussed the investment with the Authority's management. Based on a review of Public Act 20 of 1943, it does not appear that this investment is in compliance with state law. However, we encourage the Authority to consult with their 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.

Additionally, Public Act 217 of 2007 requires that the Authority provide to the board on a quarterly basis an investment report that reports on the types of investments that the Authority is investing in along with other information related to the investments that the board will find valuable. For example, the board may want to know the interest rate on each investment. It does not appear that the Authority is in compliance with this state law as of September 30, 2011.