November XX, 2021

To the Board of Directors
Suburban Mobility Authority for
Regional Transportation

We have audited the financial statements of the Suburban Mobility Authority for Regional Transportation (the “Authority” or SMART) as of and for the year ended June 30, 2021 and have issued our report thereon dated November XX, 2021. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other 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 SMART.

Section II contains informational items that we believe will be of interest to you.

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 are invaluable.

This report is intended solely for the use of the members of the board of directors and management of SMART 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 these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Pamela L. Hill

Keith Szymanski

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 16, 2021, 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 SMART. 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 SMART'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 SMART, including compliance with certain provisions of laws, regulations, contracts, and 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 November xx, 2021 regarding our consideration of SMART'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 August 25, 2021.

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 SMART are described in Note 1 to the financial statements.

During the year, SMART implemented GASB Statement No. 84, *Fiduciary Activities*, and retrospectively applied its provisions to fiscal year 2020.

We noted no transactions entered into by SMART 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 SMART's financial statements were as follows:

- Net OPEB (other postemployment benefits) and pension liabilities and related disclosures, including the actuarial methods and assumptions: These estimates are based on third-party valuations performed with the underlying assumptions used in those valuations, which are based principally on plan provisions, health care-related trends, and payroll data. The significant assumptions include future rate of return on investments, future health care costs, employee eligibility rates, life expectancies, and projected salary increases.

- Estimated liabilities and the related resolution of self-insurance claims, including claims incurred but not reported (IBNR): The assumptions are based on reported incidents, third-party established actuarial methods, and historical claims incurred experience.

- Estimated reserve related to state operating grants (Act 51 revenue): The estimate is based on preliminary determinations made by the State, combined with management's estimates for uncertainties and historical results.

We evaluated the key factors and assumptions used to develop the 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.

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. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the SMART, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as SMART'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 November XX, 2021.

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 SMART'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.

Section II - Other Items

COVID-19 Resource Center and ARPA

Throughout the COVID-19 pandemic, Plante & Moran, PLLC's COVID-19 task force of leaders across the firm has monitored, addressed, and provided insight related to the virus and the unique challenges our local governments have faced while continuing to provide essential services to their communities through our COVID-19 resource center at https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-government-resource-center. This will continue as our nation emerges from this crisis.

In March 2021, the president signed the American Rescue Plan Act (ARPA) into law, which included $30.5 in federal funding to support public transportation systems. The ARPA award terms provide that payments from the Fiscal Recovery Funds as a general matter will be subject to the provision of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), including the cost principles and restrictions on general provisions for selected items of cost. The Authority will need to understand these reforms and may be required to evaluate, document, and monitor internal procedures around compliance, including maintaining certain required policies.

The COVID-19 resource center is being continuously updated for the latest guidance and strategy related to ARPA and will help keep the Authority running smoothly through our nation's recovery.

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Auditor Reporting Standards

The AICPA Auditing Standards Board (ASB) issued several new standards that will be effective shortly, which will significantly change the independent auditor's report and make some changes to certain required audit procedures. The standards discussed below are both first effective for your fiscal year ending June 30, 2022.

Statement on Auditing Standards No. 137 addresses auditors' responsibilities relating to other information included in annual reports. This new standard may increase the scope of audit procedures and may result in some audit work being performed outside of the normal timing. To the extent that the Authority issues a document meeting the AICPA's definition of an annual report under the standard, additional audit procedures will need to be performed on that separate document before it is issued.

Statement on Auditing Standards No. 134 requires changes in the form and content of the auditor's report issued as a result of an audit of financial statements in order to provide financial statement users with more meaningful information about the audit process and meaning of auditor opinions. This is the first significant change to auditors' reports in years.

Significant elements of the new standard include:

- Revision of order for elements of the opinion letter, including moving the auditor's opinion to the top of the letter

- Expansion of information to be included within a basis of opinion section and notification to the user that the auditor is required to be independent of the entity and meet other ethical responsibilities

- Explanation of how misstatements to financial statements are determined to be material

- Addition of definition of “reasonable assurance” and identifying that the risk of material misstatement due to fraud is greater than the risk due to error

- Enhanced reporting related to going concern, including a description of management’s responsibilities when required by the applicable reporting framework

- Description of the auditor’s responsibilities, including responsibilities relating to professional judgment and professional skepticism, internal controls, identification of risks of material misstatement to the financial statements, evaluation of accounting policies used, conclusion on the entity’s ability to continue as a going concern, and the auditor’s communications with those charged with governance

We are happy to discuss these changes with you so that you are well prepared.

Process Efficiencies

While performing our audit, we are always looking for ways to assist SMART, whether through best practices or ways to be more efficient. Through our testing, we have observed that SMART’s chart of accounts and processes for recording transactions can be burdensome and likely more complex than they need to be. This can make accurate financial reporting more difficult to achieve and also places greater strain on the finance staff. We have found that, as systems age and organizations are able to take a step back to look at practices that have been in place for several years, there may be more efficient ways of doing things. We always encourage organizations to revisit the business processes in place to look for efficiencies. We recommend SMART consider reviewing and potentially optimizing its chart of accounts and business processes. We are happy to discuss this further with SMART management.

ACH Policy

SMART utilizes automated clearing house (ACH) payments on a limited basis without having a written policy in place related to ACH payments. Public Act (PA) 738 of 2002 requires a written policy be in place anytime a local unit of government is making ACH payments. The policy should include the employee responsible for overseeing the process, reporting of the goods or services received, the internal accounting controls, and the approval process. We recommend SMART implement a written ACH policy in order to be in compliance with PA 738 of 2002.

Cybersecurity

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, governmental entities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. They potentially can also be subject to financial and legal liabilities. Managing this issue is especially challenging because even a government with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner.

Recognizing the risk of cyber-attacks, the Department of Homeland Security recently announced that TSA will impose cybersecurity mandates on certain rail transit systems and railroads. It will be recommended that public transit agencies not covered by the directive adopt certain measures including developing and implementing contingency/response plans for cyber-attacks and conducting self-assessments to benchmark cybersecurity posture.

We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

Upcoming Accounting Standard Requiring Preparation – GASB Statement No. 87 - Leases

This new accounting pronouncement will be effective for SMART's 2022 fiscal year. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information now related to all significant lease agreements in order to more efficiently implement this new standard once it becomes effective.

Plante Moran has been providing trainings and other resources to our to help prepare for the implementation of this new standard. Please reach out to your engagement team for assistance in getting started.