Agenda Item 4

Metropolitan Transportation Commission
Report to the Audit Committee

November 5, 2014

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November 5, 2014

Members of the Audit Committee
Metropolitan Transportation Commission
Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, CA 94607

Dear Members of the Audit Committee:

We have substantially completed our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Transportation Commission ("MTC"), which collectively comprise MTC's basic financial statements for the year ended June 30, 2014. As part of our audit, we evaluated MTC's system of internal accounting control, to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Concurrently with this report, we are submitting to management an "Internal Control Report", with recommendations designed to help MTC make improvements to its system of internal accounting control and achieve operational efficiencies. Our audit was not designed to provide assurance on MTC's internal control structure.

We have included in this letter the status of the audit, and communications with you as required by professional auditing standards.

This communication of matters includes only those audit matters of governance interest that have come to our attention as a result of the performance of the audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

The accompanying report is intended solely for the information and use of the Audit Committee, the Commissioners, management and others within MTC.

We appreciate the opportunity to serve you and MTC. Should you have any questions or comments, please contact Joan Murphy, Engagement Partner, at (415) 498-7690. We look forward to being of continued service to you and MTC.

Yours truly,

Cc: Steve Heminger, Executive Director
Brian Mayhew, Chief Financial Officer
Eva Sun, Deputy Finance
Susan Woo, Deputy Treasurer
Suzanne Bode, Accounting Manager

Contents

THIS REPORT AND THE INFORMATION THAT IT CONTAINS ARE SOLELY FOR THE BENEFIT AND RESTRICTED USE OF THE AUDIT COMMITTEE, THE COMMISSIONERS, MANAGEMENT AND OTHERS WITHIN MTC AND ARE NOT INTENDED TO BE USED OR RELIED UPON BY ANY OTHER PARTIES.

Status of Audit

We have substantially completed our audit of the financial statements of MTC and MTC's Schedule of Expenditures of Federal Awards (OMB Circular A-133 audit) for the year ended June 30, 2014 pending the completion of the items noted below. Our audit has been performed substantially in accordance with the plan and timeline previously communicated in our Report to Management and the Exit Committee dated June 16, 2014.

Remaining Items to Complete

The following items will need to be completed prior to issuance of our opinions:

- Keeping current procedures
- Receipt of legal confirmation letters
- Receipt of management representation letter

Significant Accounting and Auditing Matters

We have summarized below significant accounting and auditing matters related to one-off events for the purposes of the audit of MTC for the year ended June 30, 2014.

Implementation of ATCAS II

A key focus area for our audit was understanding and evaluating the changes to reports and controls resulting from the phased transition of toll revenue collection from ATCAS I to ATCAS II, which was completed in fiscal 2014.

We have recommended to management in the Internal Control Report that documentation of policies and procedures for ATCAS II be formalized in relation to system access, change management and infrastructure support.

We had no other comments as a result of our testing of ATCAS II.

375 Beale Street: Transactions with Bay Area Air Quality Management District (BAAQMD) and Association of Bay Area Governments (ABAG)

There were several transactions and memoranda of understanding between MTC, BAAQMD and ABAG in relation to 375 Beale Street in fiscal 2014. Disclosure of the transactions is included in the *Commitments and Contingencies* footnote of MTC's financial statements, which is re-produced below. We concur with management's accounting recognition and disclosure of these events in the financial statements.

BAHA has entered into contracts with multiple external parties to perform the design, seismic retrofitting, renovation and working space of BAHA's building at 375 Beale Street, San Francisco (the "Building"). The renovation is in process and is expected to be completed by the end of 2015. As of June 30, 2014, the remaining balance of the contracts is $74,000,000.

In 2012, BAHA entered into an office lease agreement with the Bay Area Air Quality Management District (BAAQMD) to occupy space in the Building. The lease agreement grants BAAQMD the option to purchase office space (in the form of a condominium interest) in the Building (the "Purchase Option").

On November 7, 2013, BAAQMD issued a Certificate of Participation (COP) in the amount of $30 million to secure an ownership interest in the Building. BAHA purchased the COP and entered into a site and facilities lease and sublease agreement with BAAQMD on the premises. The effective date of these leases will commence from the date BAAQMD exercises its Purchase Option for the premises which is expected to be in December 2015, when the office space is expected to be ready for occupancy. The proceeds of the COP are being held by a trustee in escrow on behalf of BAAQMD, and are expected to be released to BAHA at the time the Purchase Option is exercised. At the same time the Purchase Option is exercised, *BAAQMD will deposit $8.5 million to the trustee to be used to pay BAHA as a prepayment of the COP. Rental payments under the site and facilities lease and sublease have been assigned to a trustee who will use these funds to pay principal and interest to BAHA under the COP.*

In 2013, BAHA and the Association of Bay Area Governments (ABAG) signed a Memorandum of Understanding, under which ABAG intends to enter into a Purchase and Sale Agreement with BAHA to purchase a condominium interest in the Building from BAHA. ABAG's purchase price for the condominium interest shall be the transfer to BAHA of ABAG's condominium ownership interest in its current headquarters, the Metro Center, located at 101 Eighth Street, Oakland, California. In addition, ABAG agreed to provide $4.2 million to BAHA for capital tenant improvements to the Building which will be paid in installments over the period to fiscal year 2021. The first payment installment of $400,000 for the tenant improvements was due in fiscal year 2014. ABAG's budget funding for the capital tenant improvements is provided by MTC.

Bond Refunding/Issuance Transactions in August 2014

BATA issued $1.4 billion in bridge toll revenue bonds in August 2014. We are satisfied that management have appropriately accounted for this event in the financial statements, including its disclosure as a subsequent event.

Other Audit Committee Communications

Independence

With respect to MTC, as of the date of this report, we confirm that we are independent accountants within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants ("AICPA"). Our quality control processes are established to ensure our continuing independence.

In addition to the non-audit services reported to the Exit Committee in our June 16, 2014 report, on August 29, 2014 we performed an electronic payments workshop for management, for which a separate engagement letter was issued. In our opinion, and management's, these services do not affect our independence with respect to MTC.

Relationships between PwC (or any Affiliates of the Firm) and MTC (and its Affiliates) and Other Matters that Might Reasonably Be Thought to Bear on Independence

There were no relationships or other matters identified that might reasonably be thought to bear on our independence.

Significant Issues Discussed with Management Prior to Appointment or Retention

There were no significant issues discussed, or subject to correspondence, with management in connection with the reappointment of PricewaterhouseCoopers LLP as independent auditors for fiscal 2014.

Fraud and Illegal Acts

In order to fulfill our responsibilities related to fraud, we have performed the following audit procedures:

- Inquiries of management, the Audit Committee Chair and others at MTC related to their knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by MTC.
- Disaggregated analytical procedures, primarily over revenue.
- Incorporated an element of unpredictability in the selection of the nature, timing and extent of audit procedures performed.
- Identified and selected journal entries and other adjustments for testing.

No irregularities, fraud or illegal acts involving senior management, or that would cause a material misstatement to the financial statements, came to our attention as a result of our auditing procedures.

Changes to the Planned Audit Strategy

There were no significant changes to the planned audit strategy or the significant risks initially identified and reported to the Exit Committee in our June 16, 2014 report.

Areas of Audit Emphasis

We emphasize certain areas in our audit on a recurring basis because of their potential significant impact on MTC's financial results. We have outlined below the key areas of audit focus, based on our cumulative knowledge of MTC, used in determining risk, materiality and the significance of various judgments.

Critical Accounting Policies and Significant Judgments and Estimates

We have identified certain audit areas as subject to significant judgment, based on our prior knowledge of MTC. Such audit areas are subject to critical accounting policies and/or significant judgments and estimates, and were key considerations in performing our audit:

- Valuation of other postemployment benefit ("OPEB") liability

- Valuation of interest rate swaps

No exceptions arose from our testing of these items.

Quality of MTC's Financial Reporting

We are responsible for discussing with the Audit Committee our judgments about the quality, not just the acceptability, of MTC's accounting principles and underlying estimates in its financial statements. We believe MTC has made appropriate disclosures in its financial statements, consistent with materiality standards, and that these disclosures are clear.

Alternative Accounting Treatments

There were no significant changes in accounting policies from the prior year.

On April 1, 2014 JP Morgan exercised its termination option on an interest rate swap entered into by BATA. On the same day, BATA entered into an equivalent interest rate swap with Wells Fargo, hedging the same interest rate exposure on the same debt to which the JP Morgan swap related. Management elected to apply hedge accounting for the new swap. There was no gain or loss arising from this transaction. We concur with management's accounting treatment of this transaction.

We did not identify any other alternative treatments permissible under US GAAP for accounting policies and practices related to material items, including recognition, measurement, and presentation and disclosure.

Management's Representation and Identified Misstatements

During our audit, we identified eight adjustments to the financial statements, one of which was recorded by management. Details of the seven unrecorded adjustments are included in an appendix to the Management Representation Letter which is in Appendix A to this report. The misstatement recorded by management is as follows:

BATA	Debit - $	Credit - $
Toll violation receivables	500,000	
Toll violation revenues		500,000
Correction of estimate of toll violation revenues		

This adjustment recorded by management was a $500,000 increase to toll violation revenues and receivables. This adjustment arose as a result of taking into account actual toll violation data subsequent to fiscal 2014.

Fees for Services

There has been no significant change to our fees from those reported to the Exit Committee in our June 16, 2014 report, other than $30,000 charged for an electronic payments workshop held at MTC on August 29, 2014.

Material Uncertainties Related to Events and Conditions (Specifically Going Concern)

We noted that MTC has a net position deficit, however management concluded, and we concurred, that this does not represent a going concern issue. We are not aware of any material uncertainties that cast doubt on MTC's ability to continue as a going concern. The deficit is addressed in Note 2 of the CAFR and is a function of the timing of BATA's expenditures to Caltrans for bridge repairs, maintenance and capital projects - which are all expensed, since the bridges are the property of the State of California.

Related Party Transactions

Management uses an informal process to identify related party transactions. MTC's relationship with RAFC is discussed in Note 12 of the CAFR. In addition, disclosure of significant transactions with other public agencies is included elsewhere in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements

Our responsibility with respect to other information in documents containing audited financial statements is to read the information and consider whether the information or the manner of its presentation is materially inconsistent with information appearing in the basic financial statements.

The audited financial statements are included in the CAFR. We have read the MD&A and the other financial information contained in the CAFR and considered whether its content or manner of presentation is materially inconsistent with the financial information covered by our report or whether it contains a material misstatement of fact.

Based on our reading, we noted no instances of inconsistent content or presentation or material misstatement of fact.

Disagreements with Management

During our audit, we received full cooperation from management and had no disagreements about matters that individually or in the aggregate were significant to MTC's financial statements, the effectiveness of internal control or our audit report.

Consultation with Other Accountants

Management has advised us that they have not consulted with other accounting firms regarding any significant accounting or auditing matters in fiscal 2014.

Significant Difficulties Encountered During the Audit

No significant difficulties were encountered while performing the audit that requires the attention of the Audit Committee.

Internal Control Recommendations

As a result of our audit, we noted certain recommendations pertaining to MTC's business processes and internal controls. See our Internal Control Report issued to management.

Other Matters

There were no other matters arising from the audit that are significant to the oversight of MTC's financial reporting process.

Appendix A

Management Representation Letter

November 12, 2014

PricewaterhouseCoopers LLP
3 Embarcadero Center
San Francisco, CA 94111
Attn: Joan Murphy

We are providing this letter in connection with your audits of the individual financial statements of (1) the Bay Area Infrastructure Financing Authority ("BAIFA"), (2) the Bay Area Headquarters Authority ("BAHA") and (3) the governmental activities, the business-type activities, the discretely presented component units (BAIFA and BAHA), each major fund, and the aggregate remaining fund information of the Metropolitan Transportation Commission ("MTC") that collectively comprise MTC's basic financial statements, for the purpose of expressing opinions as to whether such financial statements present fairly, in all material respects, the respective financial position of (1) BAIFA, (2) BAHA and (3) the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of MTC at June 30, 2014and 2013, and the respective changes in financial position and, where applicable, cash flows thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America. We acknowledge and confirm that we have fulfilled our responsibility, as set out in our engagement letter, for the preparation and fair presentation in these individual financial statements of financial position, changes in financial position, and where applicable, cash flows in conformity with generally accepted accounting principles, including the appropriate selection and application of accounting policies.

References to generally accepted accounting principles in this letter include Accounting Standards Codification (ASC) and Governmental Accounting Standards Board Statements (GASB).

Certain representations in this letter are described as being limited to those matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. Materiality used for purposes of this letter is enclosed in Appendix 1.

We confirm, to the best of our knowledge and belief, as of November 12, 2014, the date of your report, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which MTC, BAIFA and BAHA

are subject. We have prepared the financial statements on the basis that MTC, BAIFA and BAHA are each able to continue as a going concern, including to meet their obligations in the ordinary course of our operations, and we are not aware of any significant information to the contrary.

2. We have made available to you:

   a. All financial records and related data.

   b. Unconditional access to persons within the entity from whom you have requested audit evidence.

   c. All minutes of the meetings of the Commission and committees of the Commission and summaries of actions of recent meetings for which minutes have not yet been prepared through the date of this letter. The most recent meeting of the Commission was on October 22, 2014 and the most recent meetings of the committees of the Commission occurred between the dates of October 8, 2014 and November 12, 2014.

3. We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa. All intra-agency accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements. The effect of inter-fund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation.

4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices. We have shared with you the Government Finance Officers' Association's comments on MTC's financial statements for the fiscal year ended June 30, 2013.

5. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the financial statements.

6. The effect of the uncorrected financial statement misstatement summarized in the accompanying Appendix 2 is immaterial to the financial statements taken as a whole.

7. We acknowledge and confirm that we have fulfilled our responsibility, as set out in our engagement letter, for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error and we have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware. We have also disclosed to you which of these deficiencies we believe are significant deficiencies or material weaknesses in internal control over financial reporting.

8. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.

9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud and we have no knowledge of any fraud or suspected fraud affecting MTC, BAIFA or BAHA involving:

    a. Management,
    b. Employees who have significant roles in internal control over financial reporting, or
    c. Others where the fraud could have a material effect on the [consolidated] financial statements.

10. Other than as communicated to you, we have no knowledge of any allegations of fraud or suspected fraud affecting MTC, BAIFA or BAHA received in communications from employees, former employees, analysts, regulators, or others.

(As to items 8, 9, and 10, we understand the term "fraud" to mean those matters described in Statement on Auditing Standards No. 99.)

11. There have been no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

12. MTC, BAIFA and BAHA have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities. BAHA's plans to dispose of condominium interests in 375 Beale Street to the Bay Area Air Quality Management District and the Association of Bay Area Governments are disclosed in Note 10 to MTC's financial statements and Note 6 to BAHA's financial statements.

13. We have disclosed to you the identity of MTC's, BAHA's and BAIFA's related parties and all the related party relationships and transactions of which we are aware.

14. The following, if material, have been properly recorded or disclosed in the financial statements:

    a. Relationships and transactions with related-parties, as described in Section 2250—Additional Financial Reporting Considerations, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Significant changes in estimates in accordance with Section 2250 — Additional Financial Reporting Considerations.

15. There are no guarantees, whether written or oral, under which MTC, BAHA or BAIFA is contingently liable.

16. MTC, BAIFA and BAHA have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.

17. MTC has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

18. Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet dates and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

19. All liabilities of MTC of which we are aware are included in the financial statements at the balance sheet dates. There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450, *Contingencies*, and no unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed in accordance with that Statement.

20. We have not violated any covenants of our debt instruments during any of the periods presented, and we disclosed to you all covenants and information related to how we determined compliance with the covenants.

21. We are responsible for all significant estimates and judgments affecting the financial statements. Significant estimates and judgments and their underlying assumptions, methods, procedures and the source and reliability of supporting data are reasonable and based on applicable guidance, are completely and appropriately disclosed in the financial statements and appropriately reflect management's intent and ability to carry out specific courses of action, where relevant. The procedures and methods utilized in developing assumptions, estimates and judgments are appropriate and have been consistently applied in the periods presented. Other than as disclosed to you, there have been no subsequent events which would require the adjustment of any significant estimate and related disclosures.

22. MTC, BAIFA and BAHA have no unpaid claims of risks not covered by an insurer that should either be recorded as a liability or reported as a contingency.

23. Expenditure by external transit agencies is an eligibility requirement of the AB664 fund.

24. The Service Authority for Freeways and Expressways (SAFE) revenue is a fee and not a tax and therefore this entity is appropriately classified as an enterprise fund.

25. Management has determined in consultation with counsel that the contract between the Bay Area Toll Authority (BATA) and the patron for prepaid FasTrak toll monies establishes a legal restriction on the use of the patron's monies such that the monies may not be used by BATA for operating purposes.

26. Management has determined in consultation with counsel that the contract between BATA and the Golden Gate Bridge Highway and Transportation District relating to the collection of FasTrak toll monies establishes a legal restriction on the use of the monies such that the monies may not be used by BATA for operating purposes.

27. The Memorandum of Understanding Regarding the Operation and Maintenance of Clipper Fare Collection System (MOU) is a validly executed arrangement and is the basis by which MTC and the parties to the MOU are operating the Clipper Fare Collection System.

28. The discretely presented component unit, BAIFA, intends to charge fees for services rendered to outside organizations in the future.

29. The discretely presented component unit, BAHA is in the process of developing the new office space and facilities, at 375 Beale Street , San Francisco and rent out or sell parcels to regional government agencies as well as third parties, at market prices.

30. Management has followed applicable laws and regulations in adopting, approving, and amending budgets.

31. The financial statements of MTC, BAIFA and BAHA properly classify all funds and activities.

32. The financial statements of MTC include all component units and properly disclose all other related organizations.

33. All funds that meet the quantitative criteria in GASB Statements No. 34 and No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered to be important to financial statement users, and therefore presented accordingly.

34. Net position components (restricted, unrestricted, committed, unassigned, nonspendable, invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

35. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities and the statement of revenues, expenses and changes in net position, and allocations have been made on a reasonable basis.

36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

37. Deposits and investment securities are properly classified in a category of custodial credit risk.

38. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

39. We acknowledge responsibility for the presentation of the *Required Supplementary Information, Other Supplementary Information and Statistical Section* in accordance with the prescribed guidelines and we believe such information, including its form and content, is fairly presented in accordance with the applicable criteria. The methods of measurement or presentation have not changed from those used in the prior period. We have informed you about any significant assumptions or interpretations underlying the measurement or presentation of the information.

40. Investments are properly valued.

41. Special and extraordinary items are appropriately classified and reported.

42. Tax-exempt bonds issued have retained their tax-exempt status.

With respect to the federal awards program applicable to MTC and SAFE:

I. We are responsible for complying, and have complied, with the requirements of Circular A-133.

II. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.

III. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that MTC is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

IV. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

V. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

VI. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

VII. We have a process to track the status of audit findings and recommendations.

VIII. We have identified for you previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

IX. We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

X. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that MTC is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

XI. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

XII. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

XIII. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.

XIV. We have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.

XV. We believe that we have complied with the direct and material compliance requirements (except for noncompliance we have disclosed to you).

XVI. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

XVII. We have provided to you our interpretations of any compliance requirements that are subject to varying interpretations.

XVIII. We have disclosed to you any communications from grantors and pass-through entities concerning possible non-compliance with the direct and material compliance requirements including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

XIX. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

XX. We are responsible for taking corrective action on audit findings of the compliance audit.

XXI. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

XXII. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

XXIII. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by your report or stating that there were no such known instances.

XXIV. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance is audited.

XXV. We have charged costs to federal awards in accordance with applicable cost principles.

XXVI. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

XXVII. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

XXVIII. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

XXIX. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.

XXX. We have accurately completed the appropriate sections of the data collection form.

XXXI. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.

XXXII. We have issued management decisions timely after our receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

XXXIII. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.

XXXIV. We have considered the results of subrecipient audits and have made any necessary adjustments to our own books and records.

XXXV. We have disclosed all contracts or other agreements with service organizations.

XXXVI. We have disclosed to you all communications from service organizations relating to noncompliance at those service organizations.

To the best of our knowledge and belief, except as discussed in Note 13 to MTC's financial statements, no events have occurred subsequent to the balance sheet date and through the date of this letter for MTC, BAIFA and BAHA that would require adjustment to or disclosure in the aforementioned financial statements.

Steve Heminger - Executive Director

Brian Mayhew - Chief Financial Officer

Eva Sun - Deputy Finance Officer

Suzanne Bode - Accounting Manager

Appendix 1

Materiality Levels

Fund	Materiality ($)
MTC General	75,000
AB 664 Net Toll Revenue Reserve	245,000
STA	150,000
Rail Reserves	242,000
BART Car Exchange	211,000
Non-Major Governmental Funds	9,000
BATA	606,000
MTC Clipper	37,000
MTC SAFE	12,000
BAIFA	194,000
BAHA	251,000
Fiduciary Agency Fund	150,000
Governmental Activities	332,000

Appendix 2

Summary of uncorrected misstatements

There were seven uncorrected financial statement misstatements identified during the audit. Those that were out-of-period adjustments were not material to both FY 2013 and 2014.

Uncorrected misstatements identified in FY 2014:

1)	MTC General Fund	Debit ($)	Credit ($)
	Expenses	359,915	
	Accounts payable and accrued liabilities		359,915
	Correction of expenditures and liabilities related to FY 2014.		
	Accounts receivable	233,674	
	Federal revenue		233,674
	Due from STA	2,000	
	Transfers in		2,000
	Due from SAFE	1,689	
	Transfers in		1,689
	Recording the reimbursement revenue and receivable related to the expenditures corrected above.		
2)	MTC CLIPPER	Debit ($)	Credit ($)
	Expenses	54,563	
	Accounts payable and accrued liabilities		54,563
	Correction of expenditures and liabilities related to FY 2014.		
	Accounts receivable	7,719	
	Federal revenue		7,719
	Due from STA	46,844	
	Transfers in		46,844
	Recording the reimbursement revenue and receivable related to the expenditures corrected above.		

Out of period adjustments – correction of amounts recognized in FY 2014, but related to FY 2013

1)	MTC General Fund	Debit ($)	Credit ($)
	Net position (June 30, 2013)	552,490	
	Expenses (FY 2014)		552,490
	Correction of expenditures recognized in FY 2014, but related to FY 2013.		
	Federal revenue	535,884	
	Net position (June 30, 2013)		535,884
	Transfers in (FY 2014)	9,148	
	Net position (June 30, 2013)		9,148
	Correction of reimbursement revenue related to the expenditures corrected above.		
2)	Non-Major Governmental Funds	Debit ($)	Credit ($)
	Net position (June 30, 2013)	107,993	
	Expenses		107,993
	Correction of expenditures recognized in FY 2014, but related to FY 2013.		
3)	MTC SAFE	Debit ($)	Credit ($)
	Net position (June 30, 2013)	101,456	
	Expenses		101,456
	Correction of expenditures recognized in FY 2014, but related to FY 2013.		
	Federal revenue	78,150	
	Net position (June 30, 2013)		78,150
	Net position (June 30, 2013)	9,148	
	Transfers out (FY 14)		9,148
	Correction of reimbursement revenue related to the expenditures corrected above.		
4)	MTC SAFE	Debit ($)	Credit ($)
	Net position (June 30, 2013)	34,191	
	Professional fees		34,191
	Correction of overstated legal expenses in FY 2014 that related to FY 2013.		
5)	MTC Governmental Activities (General Fund)	Debit ($)	Credit ($)
	Net position – beginning (June 30, 2013)	228,401	
	Unearned revenue		228,401
	Correction related to indirect cost allocation correction made in FY 2014, but related to FY 2013.		