



Mr. Steve Heminger
Executive Director
Metropolitan Transportation Commission
Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, California 94607-4700

April 18, 2011

Dear Mr. Heminger:

The purpose of this letter is to confirm our understanding of the terms of our engagement as independent accountants of Metropolitan Transportation Commission (MTC) and its governmental activities and the business type activities (collectively referred to as the "Organization"). This letter should be read in conjunction with the professional services agreement between MTC on behalf of itself and its operating entities and PricewaterhouseCoopers LLP. Should there be any conflict between this engagement letter and the agreement, the parties intend for the terms of this engagement letter to prevail.

Services and related reports

We will audit the basic financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information which collectively comprise the Organization's basic financial statements at June 30, 2011 and for the year then ending. Upon completion of our audit, we will provide you with our audit report on the basic financial statements referred to above. In conjunction with the audit of the basic financial statements, we will report on the supplementary schedule of expenditures of federal awards in relation to those basic financial statements taken as a whole as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In addition, we will provide you with our report on our tests of the Organization's compliance with laws, regulations, and provisions of contracts and grant agreements and on our consideration of its internal control over financial reporting, as required under *Government Auditing Standards*. If that report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, we will obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

We also will audit the Organization's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of the Organization's major federal programs for the year ended June 30, 2011. Upon completion of the audit of compliance, we will provide you with our report on the Organization's



compliance with requirements applicable to each major federal program and on our consideration of its internal control over compliance, as required under OMB Circular A-133. If our auditing procedures disclose instances of noncompliance with those requirements, we will provide a schedule of findings and questioned costs as required by OMB Circular A-133. We will assist the Organization in completing Part I, Item 6, *Auditor Information* including the *Auditor Statement* of the Organization's *Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations* required by OMB Circular A-133 (the "DCF"). Further, we will complete Part II, *Financial Statements*; and Part III, *Federal Programs* of the Organization's DCF.

If for any reason relating to the affairs or management of the Company we are unable to complete the audit, we may decline to issue a report as a result of this engagement.

Under generally accepted accounting principles promulgated for governmental organizations in the United States, management's discussion and analysis (MD&A) and certain other information are required supplementary information (RSI). In connection with the Organization's presentation of RSI, we will apply certain limited procedures and report deficiencies in, or the omission of, such information. However, we have not been engaged to examine and, accordingly, will not express an opinion, or any other form of assurance, on RSI.

Our responsibilities and limitations
Audit of financial statements

The objective of a financial statement audit is the expression of an opinion on the basic financial statements. We will be responsible for performing the audit in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Additionally, we may modify or redirect certain of the procedures applied in our audit of the basic financial statements in order that we may express an opinion on the supplementary schedule of federal awards in relation to the basic financial statements taken as a whole.

We will consider the Organization's internal control over financial reporting solely for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the basic financial statements. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal control over financial reporting. We will include in our report on our tests of internal control over financial reporting and in the schedule of findings and questioned costs any significant deficiencies, identifying those we believe to be material weaknesses, as required under *Government Auditing Standards*. Deficiencies in internal control that are not significant deficiencies will be communicated separately to the Organization.



We will design our audit to obtain reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the basic financial statements as well as other illegal acts or violations of provisions of contracts or grant agreements having a direct and material effect on financial statement amounts. Absolute assurance is not attainable due to the nature of audit evidence and the characteristics of fraud. Our audit will not include a detailed audit of transactions, such as would be necessary to disclose errors or fraud that did not cause a material misstatement of the basic financial statements. It is important to recognize that there are inherent limitations in the auditing process. An audit is based on the concept of selective testing of the data underlying the financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed. An audit is, therefore, subject to the limitation that material errors or fraud or other illegal acts or violations of provisions of contracts or grant agreements having a direct and material financial statement impact, if they exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion, falsified documentation and management's ability to override controls, an audit designed and executed in accordance with auditing standards generally accepted in the United States may not detect a material fraud. Further, while effective internal control reduces the likelihood that errors, fraud, other illegal acts, or violations of provisions of contracts or grant agreements will occur and remain undetected, it does not eliminate that possibility. For these reasons we cannot ensure that errors, fraud, other illegal acts, or violations of provisions of contracts or grant agreements, if present, will be detected. Additionally, we are unable to, nor are we expected to, design our audit to obtain reasonable assurance of detecting abuse (as that term is defined in *Government Auditing Standards*), because the determination of abuse is subjective. Our tests will not be sufficient to enable us to provide assurance on the Organization's compliance with provisions of laws, regulations, contracts and grants. However, our report on such tests will identify any instances of fraud or illegal acts reportable under auditing standards generally accepted in the United States as well as significant violations of provisions of contracts or grant agreements and significant abuse reportable under *Government Auditing Standards*. Lesser violations of provisions of contracts or grants or abuse will be communicated separately to the Organization.

As required by *Government Auditing Standards*, we will follow up on known significant findings and recommendations from previous audits that directly relate to the objectives of the audit being undertaken, including those related to significant deficiencies, to determine whether the Organization has taken timely and appropriate corrective actions. We are required to report the status of any uncorrected findings and recommendations that were included in prior audit reports that affect the current financial statement audit. In addition, OMB Circular A-133 requires us to follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the Organization, and report, as a current year audit finding, if we conclude that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

Audit of compliance with requirements applicable to federal programs

We will be responsible for performing the audit of compliance with requirements applicable to each major federal program in accordance with auditing standards generally accepted in the United States;



the standards applicable to financial audits contained in *Government Auditing Standards*; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with those requirements that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We also will make a determination as to whether the Organization is a "low risk auditee" as defined in OMB Circular A-133 for purposes of determining the required coverage of our tests of internal control and compliance related to major federal programs. Our audit does not provide a legal determination of the Organization's compliance with those requirements. We will, however, include in the schedule of findings and questioned costs any instances of noncompliance required to be reported under OMB Circular A-133.

We will consider the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures necessary for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal control over compliance with requirements applicable to major federal programs. We will, however, include in our report on our tests of internal control over compliance and in the schedule of findings and questioned costs any significant deficiencies, identifying those we believe to be material weaknesses, as required under OMB Circular A-133.

Other

We also are responsible for determining that the Executive Director, Chief Financial Officer and Audit Committee are informed about certain other matters related to the conduct of the audit, including (i) any disagreements with management about matters that could be significant to the Organization's financial statements or our report thereon; (ii) any serious difficulties encountered in performing the audit; (iii) information relating to our independence with respect to the Organization; (iv) other matters related to the Organization's financial statements including its accounting policies and practices; and (v) all significant deficiencies and material weaknesses identified during the audit, as previously mentioned. Lastly, we are responsible for ensuring that the Executive Director, Chief Financial Officer and Audit Committee receive copies of certain written communications between us and management, including management representation letters and written communications on accounting, auditing, internal control or operational matters.

The audit will not be planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Government Auditing Standards require that we communicate the results of our Firm's most recent external quality control review to you which is for the year ended June 30, 2009. This review resulted in



an unqualified opinion on the Firm's system of quality control. A copy of that report is appended to this letter.

Management's responsibilities

The Organization's management is responsible for the basic financial statements referred to above. In this regard, management is responsible for establishing policies and procedures that pertain to the maintenance of accounting records, the authorization of receipts and disbursements, the safeguarding of assets, the proper recording of transactions in the accounting records, and for reporting financial information (including required supplementary information and other supplementary information, as appropriate) in conformity with accounting principles generally accepted in the United States. Management also is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us (i) about all known or suspected fraud affecting the Organization involving (a) management, (b) employees who have significant roles in internal control over financial reporting, and (c) others where the fraud could have a material effect on the financial statements; and (ii) of its knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, analysts, regulators, short sellers, or others. Management is responsible for (i) adjusting the financial statements to correct material misstatements and for affirming to us that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the year under audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole; and (ii) notifying us of all material weaknesses including other significant deficiencies in the design or operation of the Organization's internal control over financial reporting that are reasonably likely to adversely affect the Organization's ability to record, process, summarize and report external financial data reliably in accordance with generally accepted accounting principles. Management also is responsible for identifying and ensuring that the Organization complies with laws, regulations, and provisions of contracts and grant agreements applicable to its activities.

As part of management's responsibility for the basic financial statements and the effectiveness of internal control over financial reporting, management is responsible for making available to us, on a timely basis, all of the Organization's original accounting records and related information, documentation of compliance matters and organization personnel to whom we may direct inquiries. As required by auditing standards generally accepted in the United States and *Government Auditing Standards* and by OMB Circular A-133, we will make specific inquiries of management and others about the representations embodied in the financial statements, the effectiveness of internal control over financial reporting, and on compliance with the requirements applicable to each major federal program. Auditing standards generally accepted in the United States also require that we obtain written representations covering audited financial statements and matters related to federal awards from certain members of management. The results of our audit tests, the responses to our inquiries and the written representations comprise the evidential matter we intend to rely upon in forming our opinions on the financial statements and on compliance with the requirements applicable to each major federal program.



Under *Government Auditing Standards*, management is responsible for (i) resolving audit findings and recommendations directed to them and for having a process to track their status; (ii) taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that may be identified in our reports; and (iii) providing its views on our reported findings and recommendations, as well as management's planned corrective actions, the timing of such planned actions, and the organization official responsible for such actions. Additionally, management is responsible for following up and taking corrective actions on audit findings associated with OMB Circular A-133, including preparation of a summary schedule of the current status of prior audit findings and management's views and corrective action plan on current audit findings.

Management is responsible for identifying in its accounts all federal awards received and expended and the federal programs under which they were received, and for preparation of the supplemental schedule of expenditures of federal awards that is required by OMB Circular A-133. Management also is responsible for ensuring that the reporting package (financial statements, supplementary schedule of expenditures of federal awards, auditor's reports, and any summary schedules of prior audit findings and corrective action plans) is distributed to the appropriate parties. Additionally, management is responsible for completion of Part I of the aforementioned data collection form (except for Items 6, 7, and 8) that is required under OMB Circular A-133.

Other documents

Auditing standards generally accepted in the United States require that we read any annual report (or similar document) that contains our audit report. The purpose of this procedure is to consider whether other information in the annual report, including the manner of its presentation, is materially inconsistent with information appearing in the financial statements. We assume no obligation to perform procedures to corroborate such other information as part of our audit.

The Organization may wish to include our report on these financial statements in a registration statement proposed to be filed under the Securities Act of 1933 or in some other securities offering. You agree that the aforementioned audit report, or reference to our Firm, will not be included in any such offering without our prior permission or consent. Any agreement to perform work in connection with an offering, including an agreement to provide permission or consent, will be a separate engagement.

Additionally, regulations established by certain non-U.S. countries include a requirement for the auditor to be registered in that country if the Company offers its securities in the non-U.S. country or provides financial information to a non-U.S. regulator or government. The potential consequences of our non-compliance with these regulatory regimes in a timely manner can be severe for both our Firm and the Organization. Accordingly, you will notify us of (i) your current or planned offering of securities in a non-U.S. country or (ii) when you have provided or plan to provide audited financial statements to a non-U.S. regulator or government in connection to your access to its capital markets, whether or not you include or refer to our report or include reference to our Firm.



Release and indemnification

Because of the importance of oral and written management representations to an effective audit, the Organization releases and indemnifies PricewaterhouseCoopers LLP and its personnel from any and all claims, liabilities, costs, and expenses attributable to any knowing misrepresentation by management.

In no event shall PricewaterhouseCoopers LLP be liable to the Organization, whether a claim be in tort, contract or otherwise, for any consequential, indirect, lost profit or similar damages relating to PricewaterhouseCoopers LLP's services provided under this engagement letter, except to the extent finally determined to have resulted from the willful misconduct or fraudulent behavior of PricewaterhouseCoopers LLP relating to such services.

In the event that our report is subsequently included in a filing with the Securities and Exchange Commission (unless our report is included as a result of Rule 3-05 or Rule 3-14 of Regulation S-X), we and the Company hereby agree that the preceding two paragraphs in this "Release and Indemnification" section of this letter and any paragraphs covering the same issues in our previous engagement letters for previously issued reports included in the filing will be null and void and will no longer confer any rights or obligations on the parties. Such engagement letters will be deemed to be amended accordingly at the time of such filing, without further action by either party. Any letters so amended will remain in full force and effect unless otherwise amended by the parties.

In the unlikely event that differences concerning our services or fees should arise that are not resolved by mutual agreement, to facilitate judicial resolution and save time and expense of both parties, the Organization and PricewaterhouseCoopers LLP agree not to demand a trial by jury in any action, proceeding or counterclaim arising out of or relating to our services and fees for this engagement.

Timing and fees

Completion of our work is subject to, among other things, 1) appropriate cooperation from the Organization's personnel, including timely preparation of necessary schedules, 2) timely responses to our inquiries, and 3) timely communication of all significant accounting and financial reporting matters. When and if for any reason the Organization is unable to provide such schedules, information and assistance, PricewaterhouseCoopers LLP and you will mutually revise the fee to reflect additional services, if any, required of us to complete the audit.

Our fee estimates are based on the time required by the individuals assigned to the engagement. We estimate our fees for this audit engagement will be \$685,166, subject to the terms and conditions above. We will advise you should any other circumstances arise which may cause actual time to exceed that estimate.



Our fees and out-of-pocket expenses and internal charges will be billed as follows:

<u>Deliverable</u>	<u>Date</u>	<u>Fee Amount</u>
Audit preparation	April, 2011	\$100,000
Commencement of interim audit work	May, 2011	\$150,000
Completion of interim audit work	June, 2011	\$100,000
Delivery of final detailed audit plan	July, 2011	\$100,000
Commencement of year-end on-site audit work	August, 2011	\$107,000
Completion of on-site audit work	September, 2011	\$ 90,000
Delivery of draft financial audit report	October, 2011	\$ 25,000
Formal presentation of Audit Report to the Audit Committee	October, 2011	\$ 13,166
TOTAL		\$685,166

Invoices rendered are due and payable upon receipt.

We may use temporary contract staff to perform certain tasks on your engagement and will bill for that time at the rate that corresponds to PwC staff providing a similar level of service. Upon request, we will be happy to provide details on the training, supervision and billing arrangements we use in connection with these professionals.

Other matters

PricewaterhouseCoopers LLP is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Depending on the nature of the services we provide, non-CPA owners may be involved in providing services to you now or in the future.

PricewaterhouseCoopers LLP is the U.S. firm of the global network of separate and independent PricewaterhouseCoopers firms. In the course of providing the services herein, we may, in our discretion, draw on the resources of other PricewaterhouseCoopers firms, or to PricewaterhouseCoopers LLP subsidiaries or other subcontractors outside the United States. You agree that we may provide any information we receive in connection with this engagement to such other PricewaterhouseCoopers firms, subsidiaries and subcontractors for the purpose of providing the services set forth in this engagement letter and/or for internal administrative and regulatory compliance purposes. Unless another PricewaterhouseCoopers firm is contracted by you or a group entity to provide any of the services which are the subject of this engagement letter, provision of the services remains the responsibility of PricewaterhouseCoopers LLP alone.



Any additional services that may be requested and we agree to provide will be the subject of separate arrangements.

We may be requested to make certain working papers available to the Department of Transportation pursuant to authority given to them by law or regulation. If requested, access to such working papers will be provided under the supervision of PricewaterhouseCoopers LLP personnel. Furthermore, upon request, we may provide copies of selected working papers to the above regulator(s). This party may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

In the event we are requested or authorized by the Organization or required by government regulation, subpoena, or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for the Organization, the Organization will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such a request.

The Organization agrees that it will not, directly or indirectly, agree to assign or transfer this engagement letter or any rights, obligations, claims or proceeds from claims against PricewaterhouseCoopers LLP arising under this engagement letter to anyone, except to an entity with which the Organization merges or an entity which acquires all or substantially all of the assets of the Organization and where, in either case, the assignee entity agrees to be bound by this provision. Any assignment or transfer by the Organization in violation of this paragraph shall be void and invalid.

This engagement letter reflects the entire agreement between us relating to the services covered by this letter. It replaces and supersedes any previous proposals, correspondence and understandings, whether written or oral. The agreements contained in this engagement letter shall survive the completion or termination of this engagement.

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We are pleased to have the opportunity to provide services to MTC. If you have any questions about this letter, please discuss them with Ian Fleming at (415) 498-7942. If the services outlined in this letter are acceptable, please sign one copy of this letter in the space provided and return it to me.

Very truly yours,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

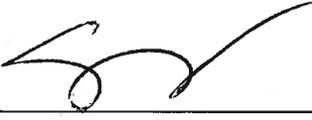
cc: Audit Committee

Brian Mayhew, Chief Financial Officer

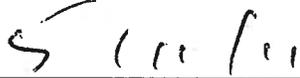


The services and terms as set forth in this letter are agreed to.

Metropolitan Transportation Commission

By: 

Steve Heminger, Executive Director



Date