Los Angeles County Metropolitan Transportation Authority

Required Communications to the Board of Directors

June 30, 2007 CAFR Audit



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December 20, 2007

The Board of Directors of Los Angeles County Metropolitan Transportation Authority

This communication relates to the Comprehensive Annual Financial Report ("CAFR") audit for the year ended June 30, 2007 that has been performed by PricewaterhouseCoopers LLP ("PwC"), and other relevant information relating to PwC's relationship with the Los Angeles County Metropolitan Transportation Authority ("Metro"). As part of our responsibilities under generally accepted auditing standards, we are required to communicate to you certain matters regarding the results and scope of our audit, the work that we conduct relative to internal controls, as well as issues related to the accounting policies used by Metro. In addition, our Firm requires that we communicate certain additional items beyond those required by professional standards.

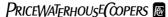
This document covers these required communications and sets forth a brief summary of the item, as well as its applicability to Metro. It is intended solely for the information and use of the Executive Management and Audit Committee and Board of Directors of Metro and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Princewaterhouse Coopers LLP

Overview of Audit Results

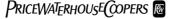
- We have completed our audit of Metro's CAFR for the year ended June 30, 2007.
- Our procedures and scope were substantially consistent with our planned audit strategy.
- Our report dated November 28, 2007 is unqualified. Our unqualified opinion indicates that
 the Metro's CAFR is presented fairly in accordance with accounting principles generally
 accepted in the United States of America.
- No material unadjusted differences were identified during the audit. We have one proposed adjustment related to estimated claims payable amounting to \$14 million which management passed as not material to the overall financial statements.
- No material weaknesses in internal controls were noted during the audit.
- Our OMB Circular A-133 audit is substantially completed and we expect to be able to release the report this month.



The following were particular areas of focus during our audit:

Investments

- The investment portfolio represents Metro's second most significant asset at \$1.8 billion.
- Management has responsibility for fair value assessments. This responsibility cannot, under any circumstances, be outsourced or assigned to a party outside the investor entity's management.
- The auditors are being expected to:
 - Better understand management's valuation processes and controls in place.
 - Document the auditors' assessment of valuation risk and management controls in place and operating.
- Our audit procedures around existence and valuation included:
 - Confirmation with the third party custodian.
 - Gathering data to assess risks and materiality based upon level of transparency.
 - Review of the organization's internal control procedures and testing the effective operation of these controls.
 - Independently pricing investments where possible.
 - Reviewing other sources of information such as investment transaction statements, summaries and reports to the Investment Committee.



• Claims Reserve

- Metro has recorded approximately \$297.9 million of estimated liability for workers' compensation and property damage/public liability claims.
- Our audit procedures to test the reasonableness of the estimate included testing of claims data obtained from Risk Management Group, and review by our AIMS Group of the Milliman actuarial report.

Debt Defeasance

- During FY2007, Metro executed three refundings:
 - In September 2006 issued Proposition C Sales Tax Revenue Refunding Bonds Series 2006-A to advance refund and defease \$123,270 of Proposition C Sales Tax Revenue Series 2000-A.
 - In April 2007 issued Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 2007-A to current refund and defease \$49,405 of Proposition A Sales Tax Revenue Refunding Bonds Series 1997-A.
 - In June 2007 issued Grand Central Square Multifamily Housing Revenue Refunding Bonds Series 2007-B to fully refund \$8,335 of Metro's Housing Bonds Series 1993-A.

• Debt Defeasance (Continued)

- To obtain assurance that Metro has properly accounted for the transaction in accordance with GASB Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, and GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, our audit procedures included:
 - Review of bond trust and refunding escrow agreements.
 - Review of bond counsel opinion providing consent for the defeasance as required.
 - > Review of the wire transfer of funds into escrow.

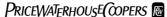


Auditors' Responsibility for Conducting the Audit in Accordance with Generally Accepted Auditing Standards

We are required to communicate to you the responsibility undertaken by us in connection with an audit performed in accordance with auditing standards generally accepted in the United States of America, as well as the additional requirements under Government Auditing Standards.

Our audit of Metro's CAFR is conducted in accordance with auditing standards generally accepted in the United States of America. Under those standards, we plan and perform the audit with the purpose of issuing an opinion on the fairness of the presentation of the basic financial statements. Our audits are based upon selective testing of transactions, and include reviewing the accounting principles used, as well as the disclosures and estimates inherent in the financial statements. Because of the specific purpose of our audits under generally accepted auditing standards, our audits cannot be relied upon to detect all errors and fraud related to the financial statements, nor to provide an opinion on internal control.

Since Metro is a recipient of federal funds, we also conducted our audit under Government Auditing Standards. Under those standards, we perform additional tests of Metro's compliance with federal laws and regulations with the purpose of reporting on Metro's compliance with and on internal controls related to federal programs. Although an audit under Government Auditing Standards involves additional tests of controls and transactions beyond that required under generally accepted auditing standards, it should not be assumed that this audit will meet the needs of all possible users of the basic financial statements.



Significant Accounting Policies, Unusual Transactions, Critical Accounting Policies and our Views on the Quality of Accounting Policies

In the course of our audit, we are required to communicate our views on the initial selection of and changes in accounting policies, critical accounting policies and their quality, the effect of significant accounting policies in controversial or emerging areas, as well as any unusual transactions related to the financial statements.

Metro's accounting policies are disclosed in the notes to the financial statements. Those which are most critical, sensitive or subject to judgment include:

- The determination of charges to federal contracts.
- The determination of fair values used in valuing investments.
- The assumptions and estimates used to determine the liability for workers' compensation and property damage/public liability.
- The assumptions and estimates used to determine the liability for other post-employment benefits.

We do not consider any of the accounting policies implemented by Metro to be controversial. All these critical accounting policies are disclosed in the financial statements.

Management Judgments and Accounting Estimates

As with any financial statements, the financial statements of Metro contain judgments and estimates. We are required to communicate to you the process used by Metro in developing particularly sensitive accounting estimates, as well as our views thereon.

In preparing its basic financial statements, Metro management makes judgments and estimates regarding:

- The determination of fair values used in valuing investments.
- Depreciable lives of fixed assets.
- The assumptions and estimates used to determine the liability for workers' compensation and property damage/public liability.
- Provisions for employee related costs.
- Allowances established for uncollectible trade receivables and obsolete inventories.
- The determination of charges to federal contracts.

Estimates used by Metro may be based on historical data, third party consultations, and/or available and relevant external data.

We have reviewed the process Metro used in developing these estimates and believe the process is reasonable. However, any estimates, however carefully developed, may differ materially from actual results.

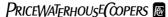
During any reporting period, adjustments of these estimates, while likely not to be significant to the net assets of Metro, may be significant to the change in net assets for the fiscal year.

Significant Audit Adjustments

In connection with our audit, we are required to report to you any adjustments that we have proposed to Metro which 1) have been recorded in the preparation of the basic financial statements and 2) have not been recorded but evaluated by us for materiality. In the course of our audit, we used a de minimis level to track adjustments. Items below that level are not accumulated.

As a result of our audit, two adjustments were proposed and booked by management. These audit adjustments were reclassifications among specific fixed asset categories and had no impact on the current year statement of activities (i.e. revenue and expense).

Also, there was one proposed adjustment to reduce by \$14 million the estimated liability for workers' compensation and property damage/public liability claims to an amount that represents the higher of the corroborative range of actuarial valuation. Management waived booking our proposed adjustment as of June 30, 2007.



Risks, Exposures and Material Uncertainties

We are required to report to you significant risks and uncertainties related to the financial statements as well as material uncertainties, especially related to going concern matters. The items discussed below are focused on current issues that affect the financial statements and are not intended to represent all risks that apply to Metro. The items below are disclosed in the financial statements, although we have added some additional discussion in this item beyond what is contained in the financial statements to place these items in context.

As a recipient of federal awards, Metro's revenue under grants and contracts is subject to annual audit under OMB Circular A-133, as well as reviews by its funding agencies. Moreover, due to the judgments necessary to charge amounts to federal awards, it is reasonably possible that mis-charges could occur.

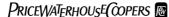
Metro maintains a large investment portfolio and invests in both publicly traded investments with available price quotes and investments with no readily available price quotes. Declines in the fair value of such investments would affect the income stream used to fund Metro's debt service and operations. In addition, while Metro maintains good controls over its investments, regularly discusses investment policy and results with the Investment Committee, it is subject to an audit on only an annual basis.

Lastly, Metro is subject to various other claims and contracts, some of which are currently in litigation. Management is of the opinion that outcome of such matters will not be material to Metro's financial position.

Other Information in Documents Containing Audited Financial Statements

If Metro includes its basic financial statements in other documents, we are required to describe to you our responsibility related to that other information.

Metro includes its basic financial statements in bond offering documents. We read Metro's bond offering documents to ensure there are no material inconsistencies between the audited financial statements and the other information in the bond offering documents.



Disagreements with Management

We are required to inform you of any instances of disagreement with management, whether or not satisfactorily resolved, about matters that are significant to the financial statements or the auditors' report.

There were no such instances of disagreement.

Consultation with Other Accountants

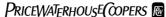
If we become aware that Metro has consulted with other accountants on significant accounting and auditing matters, disclosure or other items related to the financial statements, we would inform you of any such consultations.

We did not become aware of any such consultations.

Issues Related to Our Retention as Auditors

We are required to inform you of any matters discussed with management related to our retention as auditors, including matters of audit scope and reporting.

We had no discussions of matters of audit scope, reporting or any other matters which affect the preparation of the financial statements related to our retention as auditors of Metro.



Difficulties Encountered in Performing the Audit

We are required to communicate to you any serious difficulties encountered in performing the audit, including, but not limited to, restrictions on the scope of the audit or unreasonable time requirements placed on the auditors.

There were no serious difficulties related to the completion of the CAFR audit of Metro.

Internal Control Matters

We are required to report to you weaknesses in internal control which are either "significant deficiencies" or "material weaknesses," both of which represent significant deficiencies in the design or operation of the internal control structure. Note the scope of our audit did not include an audit of internal controls as is required for publicly-traded companies.

We noted no material weaknesses or significant deficiencies.

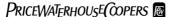
Observation

As stated in the Investment Policy, monthly Investment Transaction Reports shall be submitted to the Board of Directors for review. As discussed with the Board Secretary, these reports are part of the Board Box Items and it is left at the discretion of the Board as to whether it will be included in the Board agenda or not, and as to the level of review that it will conduct.

We selected three one-month periods in order to test if these reports are submitted to the Board timely. Out of three sample months (September 2006, February 2007 and April 2007), we were able to see one transmission note only for the month of February 2007.

Recommendation

We recommend that proof of submission of investment reports to the Board should be maintained.

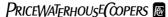


Fraud, Errors and Illegal Acts

We are required to ensure that you are informed of any instances of fraud we become aware of in the course of our audit, unless those matters are clearly inconsequential. We also are required to ensure that you are informed of any instances of illegal acts that come to our attention as part of our audit. Errors identified in connection with our audit are addressed in connection with recorded adjustments.

Metro has established policies and processes governing the reporting of all allegations and instances of misuse of Metro resources. Any matters of significance are required to be reported to the Office of Inspector General.

During the course of our audit, we did not note any fraud or illegal acts.



Our Independence

We hereby re-confirm to Metro that we are independent of Metro under applicable standards set forth by the American Institute of Certified Public Accountants (AICPA) and the Government Accountability Office (GAO).

From time to time, we may perform additional services for Metro, which are subject to the independence requirements of the AICPA and GAO. For the past fiscal years, those services have included the performance of the National Transit Database agreed-upon procedures and review of bond offerings.

Other

Management Letter Comments – No Report to Management will be issued.

Other Report for issuance – A-133 Federal Awards Audit Report for the Year Ended June 30, 2007.

Other Matters - None noted.

Appendix

 Management Representation Letter was received on December 20, 2007 by PwC from the management of Metro (available upon request).