SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT

Report to the Board of Directors

For the Year Ended June 30, 2018

Certified Public Accountants

SAN FRANCISCO BAY AREA
RAPID TRANSIT DISTRICT

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Year Ended June 30, 2018

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To the Board of Directors of the San Francisco
Bay Area Rapid Transit District
Oakland, California

In planning and performing our audit of the financial statements of the Enterprise Fund and the Retiree Health Benefit Trust Fund of the San Francisco Bay Area Rapid Transit District (District) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Professional auditing standards require auditors to communicate with the audit committee, or its equivalent, on a number of subjects. The Required Communications section of this report satisfies these requirements. This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 26, 2018

REQUIRED COMMUNICATIONS

<u>Significant Audit Findings</u>

I. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the District's financial statements. As described in Note 1 to the financial statements, the District implemented the following Governmental Accounting Standards Board (GASB) pronouncements in 2018: GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*, GASB Statement No. 85 – *Omnibus 2017*, and GASB Statement No. 86 – *Certain Debt Extinguishment Issues.* These statements did not have significant impacts on the District's financial statements.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- *Fair value of investments*. The District's investments are generally at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District's investments are valued and classified using the fair value hierarchy established by GASB Statement No. 72, based on guidance from its custodian banks.
- *Useful life estimates for capital and intangible assets*. The estimated useful lives of capital and intangible assets were based on management's estimate of the economic lives of the assets.
- *Estimated claims liabilities*. Reserves for estimated claims liabilities were based on actuarial evaluations using historical loss, other data, and attorney judgment about the ultimate outcome of claims.
- *Accrual of compensated absences.* The accrual for compensated absences is based on the unused sick leave, vacation, and holiday time earned by employees and their salary rates as of June 30, 2018.
- *Defined Benefit Pension and Other Postemployment Benefits (OPEB) Plans*. The contribution requirements, net pension liability and related pension amounts of the pension plans, and the net OPEB liability and related OPEB amounts of the OPEB plans were based on actuarially determined studies.

REQUIRED COMMUNICATIONS (Continued)

I. Qualitative Aspects of Accounting Policies (continued)

We evaluated the key factors and assumptions used to develop the accounting estimates described above in determining that they are reasonable in relation to the District's financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are related to investments, long-term debt, defined benefit pension benefits, and postemployment healthcare benefits and other postemployment benefits as discussed in notes 2, 6, 10 and 12, respectively, to the financial statements.

The financial statement disclosures are neutral, consistent and clear.

II. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

III. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the District's financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the District's financial statements taken as a whole.

IV. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or to the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

V. Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 26, 2018.

REQUIRED COMMUNICATIONS (Continued)

VI. 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 the District's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those financial 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.

VII. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

VIII. Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedule of employer pension contributions, the schedules of changes in net OPEB liability and related ratios, and the schedules of employer contributions for the OPEB plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

IX. Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the financial statements and our report does not extend beyond the financial information identified in our audit report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. The District will include its financial statements and our report in its annual report. However, we will read the other information in District's annual report and consider whether such information, or its manner of presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements.

CURRENT YEAR RECOMMENDATIONS

None

STATUS OF PRIOR YEAR RECOMMENDATIONS

None

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SUMMARY OF UNCORRECTED MISSTATEMENTS

Impact of Uncorrected Misstatements on Enterprise Fund Financial Statement Captions - Increase (Decrease)

	Statements of Net Position			Statements of Revenues, Expenses and Changes in Net Position			
Description (Nature) of Audit Differences	**Assets and Deferred Outflows of Resources**	**Liabilities Deferred Inflows of Resources**	**Ending Net Position**	**Beginning Net Position**	**Operating Revenues**	**Operating Expenses**	**Nonoperating Revenues, Net and Capital Contributions**
Uncorrected misstatements							
To adjust sales tax revenues from the cash basis to accrual basis.	$ 38,405,729	$ -	$ 38,405,729	$ 47,070,070	$ -	$ -	$ (8,664,341)
Total uncorrected misstatements	$ 38,405,729	$ -	$ 38,405,729	$ 47,070,070	$ -	$ -	$ (8,664,341)
Financial statement amounts	$ 9,812,031,000	$ 3,260,197,000	$ 6,551,834,000	$ 6,374,621,000	$ 546,614,000	$ 992,816,000	$ 643,901,000
Impact as a percentage of financial statement amounts	0.39%	0.00%	0.59%	0.74%	0.00%	0.00%	-1.35%