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Budget and Audit Committee
Transportation District Commission of Hampton Roads

We have audited the consolidated financial statements of the Transportation District Commission of Hampton Roads and subsidiary (Commission) as of and for the year ended June 30, 2007, and have issued our report thereon. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated May 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the consolidated financial statements are free of material misstatement, and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures 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.

As part of obtaining reasonable assurance about whether the Commission's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Commission's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Commission's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Commission's compliance with those requirements.

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Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note 2 to the consolidated financial statements. During the year ended June 30, 2007, there were no changes in significant accounting policies or procedures. We noted no transactions entered into by the Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Often, certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the consolidated financial statements was management's estimate of the self-insurance liability and the funded reserves. We evaluated the key factors and assumptions used to develop the self-insurance liability and the funded reserves in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the consolidated financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Commission's financial reporting process (that is cause future consolidated financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Commission either individually or in the aggregate indicate matters that could have significant effect on the Commission's financial reporting process. In addition, the attached schedule summarizes uncorrected misstatements of the consolidated financial statements that management has determined are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

Disagreements with Management

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Other Comments

Following is an additional comment not normally required by professional standards. Nevertheless, we thought we would bring it to your attention.

Insurance Reserves

The Commission is self-insured for general liability and worker's compensation claims. To manage these risks, liabilities are recognized for known claims and additional amounts are set aside for catastrophic or unknown claims. The amounts set aside for known claims are a "case based" system. The Commission uses historical trends and actuarial information for catastrophic or unknown claims. Since September 30, 2004, the fund balance for self-insurance claims has continued to decrease from a surplus of approximately $730,000 to a deficit of approximately $1,500,000. We recommend that the Commission's management increase the amount of monthly reserve allocation to adjust the reserve balance to a positive amount.

Management's Response to Auditor's Management Letter (SAS 61) Comment Regarding "Insurance Reserves"

Management acknowledges the decline in self-insurance reserve fund balance cited by the auditor and concurs with the auditor's recommendation to increase the budgeted reserve allocation to address that decline. In fact, based on the FY2006 audit results and the June 30, 2006 actuarial valuation of HRT's self-insurance program, management increased its funding for this purpose from $1,200,000 in FY2007 to $1,400,000 in FY2008. In addition, the $1,200,000 funded in our FY2007 budget was an increase from the $968,000 budgeted in FY2006.

In the past, management has strived to fund its self-insurance program at the actuarially-defined "Expected" or "50%" confidence level for the value of claims—i.e., the level at which there is expected to be a 50 – 50 probability that the amount of funding will equal the value of claims. Actual claims settlement amounts and prudent revisions of claims values can, of course, affect the relationship between funding and actuarial estimates. Following the FY2006 audit and June 30, 2006 actuarial valuation, management has established a goal to fund in excess of the Expected or 50% confidence level—hence, the funding increase to $1,400,000 in FY2008. Management's goal is to continue this level of increased funding of its self-insurance program in FY2009 and beyond to address the noted fund balance shortfall.

> HRT's self-insurance program annual actuarial valuation is performed by AMI Risk Consultants, Inc. of Miami, Florida. It is worth noting that the aforementioned June 30, 2007 valuation report included the following findings: "…HRT claims appear to be settled more quickly than average industry claims…it appears that HRT's new claims, when compared to average industry claims, are being reserved more adequately earlier in the life of each claim. We…commend the efforts of your claims staff in achieving these results. In the long-run, your aggressive approach is likely to produce lower overall claim costs, and will certainly keep HRT's IBNR (incurred, but not reported) reserve at a lower than average level."

We will review the status of the aforementioned comments during our subsequent audit engagement. We have already discussed these comments and suggestions with various Commission personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We wish to express our appreciation to the accounting staff of the Commission for their courteous assistance in organizing and coordinating the information we requested. We appreciate the opportunity to serve you and look forward to working with you in the coming years.

The above information is intended solely for use of the Budget and Audit Committee, management and others within the Transportation District Commission of Hampton Roads and should not be used for any other purpose.

Goodman & Company L.L.P.

Newport News, Virginia
December 5, 2007