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2

January 12, 2007

To: Independent Citizen's Advisory and Oversight Committee

From: Josie V. Nicasio, Controller

The attached documents are submitted in relation to the ICAOC board meeting on January 23, 2007:

- Independent Auditor's Report on Schedule of Revenues and Expenditures for Proposition A and Proposition C
- Schedule of Transportation Subsidies to External Agencies – Prop A
- Schedule of MTA Expenditures – Prop A
- Schedule of Transportation Subsidies to External Agencies – Prop C
- Schedule of MTA Expenditures – Prop C

If you have any questions, please do not hesitate to call me @213.922.6810.

Attachments

Los Angeles County

Metropolitan Transportation Authority

**Independent Auditor's Report on Schedule of
Revenues and Expenditures
For
Proposition A and Proposition C
Special Revenue Funds**

For the Year Ended June 30, 2006

December 2006

TCBA

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**Los Angeles County Metropolitan Transportation Authority
Independent Auditor's Report on
Schedule of Revenues and Expenditures
For
Proposition A and Proposition C
Special Revenue Funds

For The Year Ended June 30, 2006**

Table Of Contents

	<u>Page</u>
Independent Auditor's Report	1
Report on Compliance and Internal Control over Financial Reporting	2
Proposition A Special Revenue Fund:	
Schedule of Revenues and Expenditures	4
Schedule of Revenues and Expenditures - Budget to Actual	5
Proposition C Special Revenue Fund	
Schedule of Revenues and Expenditures	6
Schedule of Revenues and Expenditures - Budget to Actual	7
Notes to Schedule of Revenues and Expenditures Proposition A and Proposition C Special Revenue Funds	8
Schedule of Current Year Findings	11
Status of Prior Year Findings	12

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INDEPENDENT AUDITOR'S REPORT

Independent Citizens' Advisory and Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited the accompanying Schedules of Proposition A ("Ordinance No. 16") and Proposition C ("Ordinance No. 49") Revenues and Expenditures (the "Schedules") of the Los Angeles County Metropolitan Transportation Authority (the "LACMTA") for the year ended June 30, 2006. These Schedules are the responsibility of the LACMTA's management. Our responsibility is to express an opinion on these Schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules of Proposition A and Proposition C revenues and expenditures are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedules referred to above present fairly, in all material respects, the Proposition A and Proposition C revenues and expenditures of the LACMTA for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 26, 2006, on our consideration of the LACMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Torrance, CA
December 26, 2006

Thompson, Cobb, Bazilio & Associates, PC

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**Report On Internal Control Over Financial Reporting
And On Compliance Based On An Audit
Performed In Accordance With
Government Auditing Standards**

Independent Citizens' Advisory and Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited the Schedules of Revenues and Expenditures (the "Schedules") for Proposition A and Proposition C Special Revenue Funds of the Los Angeles County Metropolitan Transportation Authority (the "LACMTA") for the year ended June 30, 2006 and have issued our report thereon dated December 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LACMTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these Schedules and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedules are free of material misstatement, we performed tests of the LACMTA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the revenue and expenditure amounts in the Schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the LACMTA's Board of Directors and management, and the Independent Citizens' Advisory and Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
December 26, 2006

Thompson, Cole, Bazilio & Associates, PC

Los Angeles County Metropolitan Transportation Authority
Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures
For the year ended June 30, 2006
(Amounts expressed in thousands)

Revenues:		
Sales tax	\$	668,984
Investment income		<u>4,760</u>
Total revenues		<u>673,744</u>
Expenditures:		
Transportation subsidies		<u>248,343</u>
Total expenditures		<u>248,343</u>
Excess of revenues over expenditures		<u>425,401</u>
Other financing sources (uses)		
Operating transfers out		<u>(395,753)</u>
Total other financing sources (uses)		<u>(395,753)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$	<u><u>29,648</u></u>

The notes to the financial statements are an integral part of this statement.

Los Angeles County Metropolitan Transportation Authority

Proposition A Special Revenue Fund

Schedule of Revenues and Expenditures - Budget to Actual

For the year ended June 30, 2006

(Amounts expressed in thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:			
Sales tax	\$ 619,348	\$ 668,984	\$ 49,636
Investment income	<u>2,000</u>	<u>4,760</u>	<u>2,760</u>
Total revenues	<u>621,348</u>	<u>673,744</u>	<u>52,396</u>
Expenditures:			
Transportation subsidies	<u>228,245</u>	<u>248,343</u>	<u>(20,098)</u>
Total expenditures	<u>228,245</u>	<u>248,343</u>	<u>(20,098)</u>
Excess (Deficiency) of revenues over expenditures	<u>393,103</u>	<u>425,401</u>	<u>32,298</u>
Other financing sources (uses)			
Operating transfers out	<u>(377,858)</u>	<u>(395,753)</u>	<u>(17,895)</u>
Total other financing sources (uses)	<u>(377,858)</u>	<u>(395,753)</u>	<u>(17,895)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 15,245</u>	<u>\$ 29,648</u>	<u>\$ 14,403</u>

The notes to the financial statements are an integral part of this statement.

Los Angeles County Metropolitan Transportation Authority
Proposition C Special Revenue Fund
Schedule of Revenues and Expenditures
For the year ended June 30, 2006
(Amounts expressed in thousands)

Revenues:	
Sales tax	\$ 669,025
Intergovernmental	16,546
Investment income	11,513
Other	<u>497</u>
Total revenues	<u>697,581</u>
Expenditures:	
Administration and other	33,768
Transportation subsidies	<u>364,014</u>
Total expenditures	<u>397,782</u>
Excess of revenues over expenditures	<u>299,799</u>
Other financing sources (uses)	
Operating transfers in	42,673
Operating transfers out	<u>(271,702)</u>
Total other financing sources (uses)	<u>(229,029)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (See Note 5)	<u>\$ 70,770</u>

The notes to the financial statements are an integral part of this statement.

Los Angeles County Metropolitan Transportation Authority
Proposition C Special Revenue Fund
Schedule of Revenues and Expenditures - Budget and Actual
For the year ended June 30, 2006
(Amounts expressed in thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:			
Sales tax	\$ 619,321	\$ 669,025	\$ 49,704
Intergovernmental	51,964	16,546	(35,418)
Investment Income	7,600	11,513	3,913
Other	<u>-</u>	<u>497</u>	<u>497</u>
Total revenues	<u>678,885</u>	<u>697,581</u>	<u>18,696</u>
Expenditures:			
Administration and other	51,027	33,768	17,259
Transportation subsidies	<u>391,513</u>	<u>364,014</u>	<u>27,499</u>
Total expenditures	<u>442,540</u>	<u>397,782</u>	<u>44,758</u>
Excess (Deficiency) of revenues over expenditures	<u>236,345</u>	<u>299,799</u>	<u>63,454</u>
Other financing sources (uses)			
Operating transfers in	22,549	42,673	20,124
Operating transfers out	<u>(324,129)</u>	<u>(271,702)</u>	<u>52,427</u>
Total other financing sources (uses)	<u>(301,580)</u>	<u>(229,029)</u>	<u>72,551</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (65,235)</u>	<u>\$ 70,770</u>	<u>\$ 136,005</u>

The notes to the financial statements are an integral part of this statement.

Los Angeles County Metropolitan Transportation Authority
Notes to Schedules of Revenues and Expenditures
for Proposition A and Proposition C Special Revenue Funds

For the Year Ended June 30, 2006

1. Organization

General

The Los Angeles County Metropolitan Transportation Authority (the "LACMTA") is governed by a Board of Directors composed of the five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, three members appointed by the Mayor, four members who are either a mayor or a member of a city council and have been appointed by the Los Angeles County City Selection Committee to represent the other cities in the County, and a non-voting member appointed by the Governor of the State of California.

The LACMTA is responsible for planning and programming, operating and constructing all aspects of ground transportation in Los Angeles County including (1) highway construction and traffic flow management; (2) public parking facilities; (3) rail construction; (4) bus, rail and ferry services; (5) alternate modes of transportation; (6) research and development of alternate energy sources for transit vehicles; and (7) air quality, environmental impact land use and economic development decisions.

Proposition A

The Proposition A Fund is a special revenue fund used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on August 20, 1980. Revenues collected are to be allocated: 25% to be distributed to local jurisdictions for local transit; 35% to be used for construction, debt service payments and operation of rail rapid transit systems; and 40% to be used for public transit purposes at the discretion of the LACMTA.

Proposition C

The official name of this special revenue fund is the "Los Angeles Anti-Gridlock Transit Improvement Fund". This fund is used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on April 1, 1990. Revenues collected are to be allocated: 5% to improve and expand rail and bus security; 10% for Commuter Rail and construction of Transit Centers, Park-and-Ride lots and Freeway Bus Stops; 20% to local jurisdictions for public transit and related services; 25% for essential county-wide transit related improvements to freeways and state highways; and 40% to improve and expand rail and bus transit county-wide.

Los Angeles County Metropolitan Transportation Authority
Notes to Schedules of Revenues and Expenditures
for Proposition A and Proposition C Special Revenue Funds

For the Year Ended June 30, 2006

2. Summary of Significant Accounting Policies

The Schedules of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The more significant of the LACMTA's accounting policies with regard to the special revenue fund type are described below:

Fund Accounting

The LACMTA utilizes fund accounting to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Governmental Funds are used to account for most of the LACMTA's general activities. The measurement focus is a determination of changes in financial position, rather than a net income determination. The LACMTA uses governmental fund type Special Revenue Funds to account for Proposition A and Proposition C sales tax revenues and expenditures. Special Revenue Funds are used to account for proceeds of specific revenue sources (rather than major capital projects) that are legally restricted to expenditures for specified purposes.

Basis of Accounting

The modified accrual basis of accounting is used for the special revenue fund type. Under the modified accrual basis of accounting, revenues (primarily from sales tax) are recorded when susceptible to accrual, which means measurable (amount can be determined) and available (collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period).

Budgetary Accounting

The established legislation and adopted policies and procedures provide that the LACMTA's Board approves an annual budget. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

Los Angeles County Metropolitan Transportation Authority
Notes to Schedules of Revenues and Expenditures
for Proposition A and Proposition C Special Revenue Funds

For the Year Ended June 30, 2006

Prior to the adoption of the budget, the Board conducts public hearings for discussion of the proposed annual budget and at the conclusion of the hearings, but not later than June 30, adopts the final budget. All appropriations lapse at fiscal year end. The budget is prepared by fund, project, expense type, and department. The legal level of control is at the fund level and additional appropriations must be approved by the Board. By policy, the Board has provided procedures for management to make revisions within operational or project budgets only when there is no net dollar impact to the total appropriations at the fund level. A re-forecasted budget for operating and capital expenditures is submitted to the Board a minimum of once a year.

Annual budgets are adopted by the LACMTA on the modified accrual basis of accounting for the special revenue fund types, on a basis consistent with GAAP as reflected in the Schedules.

Interest Income and Appreciation in Fair Value of Investments

The net appreciation in the fair value of investments is shown on the Schedule of Revenues and Expenditures. The LACMTA maintains a pooled cash and investments account that is available for use by all funds, except those restricted by state statutes.

Use of Estimates

The preparation of the Schedules in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Intergovernmental Transactions

Any transaction conducted with a governmental agency outside the complete jurisdiction of the LACMTA will be recorded in an account designated as Intergovernmental.

4. Operating Transfers

Amounts reflected as operating transfers represent permanent, legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended. All operating transfers in/out of the Proposition A and Proposition C Special Revenue Funds have been made in accordance with all expenditure requirements of both Proposition A and Proposition C Ordinances.

Los Angeles County Metropolitan Transportation Authority
Current Year Findings

For the Year Ended June 30, 2006

None noted.

Los Angeles County Metropolitan Transportation Authority
Status of Prior Year Findings

For the Year Ended June 30, 2006

None noted.