

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

INDEPENDENT AUDITOR'S REPORT
ON SCHEDULE OF REVENUES AND EXPENDITURES
FOR
MEASURE R
SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

Submitted by

BCA

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Los Angeles County Metropolitan Transportation Authority

Independent Auditor's Report on
Schedule of Revenues and Expenditures

For
Measure R
Special Revenue Fund

For The Year Ended June 30, 2012
(With Comparative Totals for 2011)

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Independent Auditor's Report

Measure F Independent Taxpayers Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited the accompanying Schedules of Measure R Revenues and Expenditures (the "Schedules") of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") as of and for the year ended June 30, 2012. These Schedules are the responsibility of LACMTA's management. Our responsibility is to express an opinion on these Schedules based on our audit. The prior year's summarized comparative information has been derived from the 2011 Schedules of Measure R Revenues and Expenditures and, in our report dated November 28, 2011 we expressed an unqualified opinion on those Schedules.

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 Measure R 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 the 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 Measure R revenues and expenditures of LACMTA as of June 30, 2012, for the year then ended 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 5, 2012, on our consideration of LACMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 5, 2012
Bazilio Cobb Associates

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund Schedule of Revenues and Expenditures For the year ended June 30, 2012 (With Comparative Totals for 2011)

(Amounts expressed in thousands)

	<u>2012</u>	<u>2011</u>
Revenues:		
Sales tax	\$ 645,026	\$ 598,647
Intergovernmental	1,804	176
Investment income	7,403	10,372
Net decline in fair value of investments	(601)	(2,475)
Total revenues	<u>653,632</u>	<u>606,720</u>
Expenditures:		
Administration and other transportation projects	51,768	83,765
Transportation subsidies	152,742	148,077
Total expenditures	<u>204,510</u>	<u>231,842</u>
Excess of revenues over expenditures	449,122	374,878
Other financing sources (uses)		
Operating transfers in	12,047	57,379
Operating transfers out	(157,276)	(204,458)
Total other financing sources (uses)	<u>(145,229)</u>	<u>(147,079)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 303,893</u>	<u>\$ 227,799</u>

The notes to the schedule of revenues and expenditures are an integral part of this schedule.

Los Angeles County Metropolitan Transportation Authority
 Measure R Special Revenue Fund
 Schedule of Revenues and Expenditures – Budget and Actual
 For the year ended June 30, 2012

(Amounts expressed in thousands)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales tax	\$ 605,100	\$ 605,100	\$ 645,026	\$ 39,926
Intergovernmental	970	970	1,804	834
Investment income	-	-	7,403	7,403
Net decline in fair value of investments	-	-	(601)	(601)
Total revenues	<u>606,070</u>	<u>606,070</u>	<u>653,632</u>	<u>47,562</u>
Expenditures:				
Administration and other transportation projects	103,422	109,976	51,768	58,208
Transportation subsidies	249,879	248,829	152,742	96,087
Total expenditures	<u>353,301</u>	<u>358,805</u>	<u>204,510</u>	<u>154,295</u>
Excess of revenues over expenditures	252,769	247,265	449,122	201,857
Other financing sources (uses)				
Operating transfers in	9,484	9,484	12,047	2,563
Operating transfers out	(156,609)	(156,609)	(157,276)	(667)
Total other financing sources (uses)	<u>(147,125)</u>	<u>(147,125)</u>	<u>(145,229)</u>	<u>1,896</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 105,644</u>	<u>\$ 100,140</u>	<u>\$ 303,893</u>	<u>\$ 203,753</u>

The notes to the schedule of revenues and expenditures are an integral part of this schedule.

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund

Notes to Schedule of Revenues and Expenditures

June 30, 2012

1. Organization

General

The Los Angeles County Metropolitan Transportation Authority (“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, and four members who are either mayors or members 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.

LACMTA is unique among the nation's transportation agencies. It serves as transportation planner and coordinator, designer, builder and operator for one of the country's largest, most populous counties. More than 10 million people – about one fourth of California's residents - live, work, and play within its 1,433-square-mile service area.

Measure R

Measure R, also known as the Traffic Relief and Rail Expansion Ordinance is a special revenue fund used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on July 1, 2009 and continuing on for the next 30 years. Revenues collected are allocated to: 1) 2% for rail capital improvements; 2) 3% for Metrolink capital improvement projects within Los Angeles County; 3) 5% for rail operations for new transit project operations and maintenance; 4) 15% for local return; 5) 20% for countywide bus service operations, maintenance, and expansion; 6) 20% for highway capital projects; and 7) 35% for transit capital specific projects.

2. Summary of Significant Accounting Policies

The Schedules of Revenues and Expenditures for Measure R Special Revenue Fund have been prepared in conformity with Generally Accepted Accounting Principles 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 LACMTA’s accounting policies with regard to the special revenue fund type are described below:

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund Notes to Schedule of Revenues and Expenditures

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Fund Accounting

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 LACMTA's governmental activities. The measurement focus is a determination of changes in financial position, rather than a net income determination. LACMTA uses governmental fund type Special Revenue Funds to account for Measure R sales tax revenues and expenditures. Special Revenue Funds are used to account for proceeds of specific revenue sources 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 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 generally accepted accounting principles in the United States of America for all governmental funds.

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 the Board must approve additional appropriations.

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund

Notes to Schedule of Revenues and Expenditures

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Budgetary Accounting (Continued)

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. Budget amendments are made when needed.

Annual budgets are adopted by 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 (Decline) in Fair Value of Investments

The net appreciation (decline) in the fair value of investments is shown on the Schedule of Revenues and Expenditures. 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 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 Measure R Special Revenue Fund have been made in accordance with all expenditure requirements of the Measure R Ordinance.

Los Angeles County Metropolitan Transportation Authority
Measure R Special Revenue Fund
Notes to Schedule of Revenues and Expenditures

June 30, 2012

5. Audited Financial Statements

The audited financial statements for Measure R Special Revenue Fund for the year ended June 30, 2012 are included in LACMTA's Annual Audited Financial Report.

6. Subsequent Events

In September 2012, the U.S. Department of Transportation (USDOT) approved LACMTA's request for \$545.9 million Transportation Infrastructure Finance and Innovation Act's (TIFIA) loan for the Crenshaw/LAX Transit Corridor project. The Crenshaw/LAX Transit Corridor project is 8.5-mile light rail project with six new stations scheduled to begin construction in 2013 and expected to be completed by 2018.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Measure R Independent Taxpayers Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited the accompanying Schedules of Revenues and Expenditures (the "Schedules") for Measure R Special Revenue Fund of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated, December 5, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the LACMTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LACMTA's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LACMTA's Schedules will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LACMTA's Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

We noted certain matters that we reported to management of the LACMTA in a separate letter dated December 5, 2012.

This report is intended for the information and use of the LACMTA Board of Directors and management, and the Measure R Independent Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
December 5, 2012

Bazilio Cobb Associates

**Independent Auditor's Report on Compliance with Requirements Applicable to
Measure R Revenues and Expenditures in Accordance with the
*Traffic Relief and Rail Expansion Ordinance***

Measure R Independent Taxpayers Oversight Committee
Los Angeles County Metropolitan Transportation Authority

Compliance

We have audited the compliance of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") with the types of compliance requirements described in the *Traffic Relief and Rail Expansion Ordinance* (the Ordinance) that are applicable to Measure R revenues and expenditures for the year ended June 30, 2012. Compliance with the requirements of the laws and the Ordinance applicable to its Measure R revenues and expenditures is the responsibility of LACMTA's management. Our responsibility is to express an opinion on LACMTA's compliance based on our audit.

We conducted our audit of compliance 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Measure R revenues and expenditures occurred. An audit includes examining, on a test basis, evidence about LACMTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on LACMTA's compliance with those requirements.

In our opinion, LACMTA complied, in all material respects, with the requirements referred to above that are applicable to the Measure R revenues and expenditures for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the LACMTA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations applicable to the Measure R revenues and expenditures. In planning and performing our audit, we considered the LACMTA's internal control over compliance requirements that could have a direct and material effect on the Measure R revenues and expenditures 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 the Ordinance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the LACMTA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Torrance, California
December 5, 2012

Bazilio Cobb Associates

Los Angeles County Metropolitan Transportation Authority
Measure R Special Revenue Fund
Current Year Findings

For the Year Ended June 30, 2012

None noted.

Los Angeles County Metropolitan Transportation Authority
Measure R Special Revenue Fund
Prior Year Findings

For the Year Ended June 30, 2012

None noted.

Bazilio Cobb Associates

December 5, 2012

Measure R Independent Taxpayers Oversight Committee
Los Angeles County Metropolitan Transportation Authority

We have audited the Schedules of Measure R Revenues and Expenditures (the "Schedules") of the Los Angeles County Metropolitan Transportation Authority ("LACMTA") for the year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards (and when applicable, Government Auditing Standards)

Our responsibility, as described by professional standards, is to form and express an opinion about whether the schedules that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the schedules does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the schedules are free of material misstatement. An audit of the schedules includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Measure R funds solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

There were no findings regarding significant control deficiencies over financial reporting and material noncompliance noted during our audit. However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency which we reported to management of LACMTA in a separate letter dated December 5, 2012.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to management of LACMTA during our entrance conference.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by LACMTA is included in Note 2 to the schedules. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2012. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Disclosures

There were no significant disclosures noted in the schedules.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements relating to revenues and expenditures of Measure R funds.

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, which could be significant to the schedules or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated December 5, 2012.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with LACMTA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as LACMTA's auditors.

This report is intended solely for the use of the LACMTA Board of Directors and management, and the Measure R Independent Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bazilio Cobb Associates

Bazilio Cobb Associates

Measure R Independent Taxpayers Oversight Committee
Los Angeles County Metropolitan Transportation Authority

In planning and performing our audit of the Schedules of Revenues and Expenses of the Measure R Special Revenues Fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the fiscal year ended June 30, 2012, we considered the 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 financial statements. Our auditing procedures included determining proper oversight over outside entities receiving the largest dollar amount of Measure R funds for the fiscal year ended June 30, 2012. Our auditing procedures also included determining the status of observations and recommendations identified by the other auditors of Local Return funds.

During our audit we noted a matter that could strengthen LACMTA's oversight over the use of Measure R Local Return funds. Our comment is summarized as follows:

More Timely Follow-up Needed of Prior Audit Local Return Audit Findings

We found that LACMTA management did not follow-up with Local Return recipients to resolve audit findings reported for the fiscal year 2010-11 audits in a timely manner. Although final reports were all issued by March 2012, follow-up letters to jurisdictions with audit findings on Local Return funds were not sent until November 2012. Furthermore, these follow-up letters were sent only after our audit inquiry on follow-up actions taken on prior audit findings. Timely follow-up actions are needed to ensure that audit findings are resolved, that jurisdictions are in compliance with the Measure R Ordinance, and that any funds not spent in accordance with the Ordinance are returned to LACMTA.

Recommendation

We recommend that LACMTA Local Return project management ensure that prior audit findings follow-up actions are taken in a timely manner.

Management Response

LACMTA will make a more coordinated effort to ensure that the response letters are sent in a timely manner for all future audits.

This report is intended solely for the use of the LACMTA Board of Directors and management, and the Measure R Independent Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to serve LACMTA. We appreciate the courtesy and cooperation extended to us during our audit.

Torrance, California
December 5, 2012

Bazilia Cobb Associates