

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, 2015
(With Comparative Totals For 2014)**



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Los Angeles County Metropolitan Transportation Authority

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(With Comparative Totals for 2014)

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Schedule of Revenues and Expenditures	4
Schedule of Revenues and Expenditures - Budget and Actual For the year ended June 30, 2015	5
Notes to the Schedule of Revenues and Expenditures for Measure R Special Revenue Fund	6
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 <i>Government Auditing Standards</i>	11
Independent Auditor's Report on Compliance with Requirements Applicable to Measure R Revenues and Expenditures in Accordance with the <i>Traffic Relief and Rail Expansion Ordinance</i>	13
Schedule of Current Year Findings	15
Status of Prior Year Findings	16

Independent Auditor's Report

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

Report on the Schedule of Measure R Revenues and Expenditures

We have audited the accompanying Schedule of Measure R Revenues and Expenditures (the Schedule) of the Los Angeles County Metropolitan Transportation Authority (LACMTA) for the year ended June 30, 2015, and the related notes to the Schedule, which collectively comprise LACMTA's basic Schedule as listed in the table of contents.

Management's Responsibility for the Schedule of Measure R Revenues and Expenditures

LACMTA's management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule 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 Schedule is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above present fairly, in all material respects, the Measure R Revenues and Expenditures of LACMTA for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 5 be presented to supplement the Schedule. Such information, although not a part of the basic Schedule, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic Schedule in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic Schedule, and other knowledge we obtained during our audit of the basic Schedule. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note 3 to the Schedule, the accompanying Schedule of the Measure R Fund is intended to present the revenues and expenditures attributable to the Fund. They do not purport to, and do not, present fairly the financial position of the LACMTA, as of June 30, 2015, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Prior-Year Comparative Information

We have previously audited the Schedule of Measure R Revenues and Expenditures of LACMTA, and we expressed an unmodified audit opinion in our report dated November 24, 2014. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015, 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* in considering LACMTA's internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, CA
November 20, 2015

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund Schedule of Revenues and Expenditures

For the Year Ended June 30, 2015

(With Comparative Totals for 2014)

(Amounts expressed in thousands)

	<u>2015</u>	<u>2014</u>
Revenues:		
Sales tax	\$ 745,919	\$ 714,218
Intergovernmental	6,953	7,326
Investment income	4,484	3,989
Net appreciation in fair value of investments	893	4,103
Total revenues	<u>758,249</u>	<u>729,636</u>
Expenditures:		
Administration and other transportation projects	60,297	67,973
Transportation subsidies	239,756	253,754
Total expenditures	<u>300,053</u>	<u>321,727</u>
Excess of revenues over expenditures	<u>458,196</u>	<u>407,909</u>
Other financing sources (uses)		
Transfers in	3,904	46,839
Transfers out	(871,538)	(979,073)
Total other financing sources (uses)	<u>(867,634)</u>	<u>(932,234)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (409,438)</u>	<u>\$ (524,325)</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, 2015
(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	\$ 734,199	\$ 734,199	\$ 745,919	\$ 11,720
Intergovernmental	-	-	6,953	6,953
Investment income	-	-	4,484	4,484
Net appreciation in fair value of investments	-	-	893	893
Total revenues	<u>734,199</u>	<u>734,199</u>	<u>758,249</u>	<u>24,050</u>
Expenditures:				
Administration and other	132,178	132,939	60,297	72,642
Transportation subsidies	<u>251,408</u>	<u>260,898</u>	<u>239,756</u>	<u>21,142</u>
Total expenditures	<u>383,586</u>	<u>393,837</u>	<u>300,053</u>	<u>93,784</u>
Excess of revenues over expenditures	<u>350,613</u>	<u>340,362</u>	<u>458,196</u>	<u>117,834</u>
Other financing sources (uses)				
Transfers in	31,778	17,684	3,904	(13,780)
Transfers out	<u>(885,585)</u>	<u>(1,010,751)</u>	<u>(871,538)</u>	<u>139,213</u>
Total other financing sources (uses)	<u>(853,807)</u>	<u>(993,067)</u>	<u>(867,634)</u>	<u>125,433</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (503,194)</u>	<u>\$ (652,705)</u>	<u>\$ (409,438)</u>	<u>\$ 243,267</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 the Schedule of Revenues and Expenditures

June 30, 2015

The Notes to the Schedule of Revenues and Expenditures are summaries of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying schedule of revenues and expenditures. Unless otherwise stated, all dollar amounts are expressed in thousands.

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 and 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 required to be allocated in the following manner: 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 county-wide 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 Schedule of Revenues and Expenditures for Measure R Special Revenue Fund have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America 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.

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund

Notes to the Schedule of Revenues and Expenditures

June 30, 2015

2. Summary of Significant Accounting Policies (Continued)

The most significant of LACMTA's accounting policies with regard to the special revenue fund type are described below:

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 Fund 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 no 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 the Schedule of Revenues and Expenditures

June 30, 2015

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 Schedule.

Interest Income and Appreciation in Fair Value of Investments

The net appreciation in 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 Schedule 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. Schedule of Revenues and Expenditures for Measure R Special Revenue Fund

The Schedule is intended to reflect the revenues and expenditures of Measure R fund only. Accordingly, the Schedule does not purport to, and does not, present fairly the financial position of the LACMTA and changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

4. Intergovernmental Transactions

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

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund

Notes to the Schedule of Revenues and Expenditures

June 30, 2015

5. 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. For the year ended June 30, 2015, transfers in was \$3,904 and transfers out was \$871,538 (See also Note 6 below for additional explanation as to the substantial increase in transfers out).

6. Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses

The Measure R fund at June 30, 2015 had a deficiency of revenues and other financing sources over expenditures and other financing uses of \$409,438, substantially due to funding of major capital projects such as Crenshaw/LAX Transit Corridor, Westside Purple Line Extension, Regional Connector and Gold Line Foothill extension and some major highway projects. The \$409,438 negative change in fund balance during the current year resulted in a decrease in Measure R fund balance from \$664,954 to \$255,516 at June 30, 2015.

7. Audited Financial Statements

The audited financial statements for Measure R Special Revenue Fund for the year ended June 30, 2015 are included in LACMTA's Audited Comprehensive Annual Financial Report (CAFR).

8. Contingent Liabilities

LACMTA is aware of potential claims that may be filed against them. The outcome of these matters is not presently determinable, but the resolution of these matters is not expected to have a significant impact on the financial condition of LACMTA.

9. Subsequent Events

Long-Term Debt

In September 2015, the Board authorized the issuance of General Revenue Bonds to refund LACMTA's variable rate General Revenue Bonds 2004-A in order to lock in low fixed interest rates. The 2004 General Revenue Bonds are auction rate bonds bearing interest at current ARS (Auction Rate Security) rate but no more than 12% per annum. The 2004 General Revenue Bonds has outstanding principal balance of \$86,175 as of June 30, 2015 maturing on July 1, 2027.

Los Angeles County Metropolitan Transportation Authority
Measure R Special Revenue Fund
Notes to the Schedule of Revenues and Expenditures
June 30, 2015

9. Subsequent Events (Continued)

Lease/Leaseback Obligations

In August 2015, the capital lease agreement with CIBC, Inc., one of LACMTA's defeased leases covering six heavy rail cars, was terminated at the option of CIBC, Inc.

**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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Revenues and Expenditures (the Schedule) for Measure R Special Revenue Fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA) for the year ended June 30, 2015, and the related notes to the Schedule, which collectively comprised LACMTA's basic Schedule, and have issued our report thereon dated November 20, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LACMTA's internal control over financial reporting (internal control) to determine the 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 LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of the LACMTA'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LACMTA's Schedule will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in

internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LACMTA's Schedule is 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 the amounts on the Schedule. 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*.

Restriction on Use

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.

BCA Watson Rice, LLP

Torrance, California
November 20, 2015

**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

Report on Compliance

We have audited the Los Angeles County Metropolitan Transportation Authority (LACMTA) compliance of the Measure R Revenues and Expenditures with the types of compliance requirements described in the *Traffic Relief and Rail Expansion Ordinance* (the Ordinance) for the year ended June 30, 2015.

Management's Responsibility

LACMTA's management is responsible for compliance with the requirements of laws and regulations applicable to the Measure R Revenues and Expenditures.

Auditor's Responsibility

Our responsibility is to express an opinion on LACMTA's compliance with the Measure R Revenues and Expenditures based on our audit of the types of compliance requirements referred to above. 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 the 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 on the Measure R Revenues and Expenditures. However, our audit does not provide a legal determination of LACMTA's compliance.

Opinion on Measure R Revenues and Expenditures

In our opinion, LACMTA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the Measure R Revenues and Expenditures for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the LACMTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the LACMTA's internal control over compliance with the types of requirements that could have a direct and material effect on the Measure R Revenues and Expenditures as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Traffic Relief and Rail Expansion 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the Measure R Revenues and Expenditures that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 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.

BCA Watson Rice, LLP

Torrance, California
November 20, 2015

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

For the Year Ended June 30, 2015

None noted.

Los Angeles County Metropolitan Transportation Authority

Measure R Special Revenue Fund

Status of Prior Year Findings

For the Year Ended June 30, 2015

None noted.

