

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

INDEPENDENT AUDITOR'S REPORT ON
STATEMENTS OF REVENUES AND EXPENDITURES

FOR PROPOSITION A and PROPOSITION C
SPECIAL REVENUE FUNDS
For The Year Ended June 30, 1999

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
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REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying statements of revenues and expenditures for Proposition A ("Ordinance No. 16") and Proposition C ("Ordinance No. 49") present fairly, in all material respects, the revenues and expenditures for Ordinance No. 16 and Ordinance No. 49 of the Los Angeles County Metropolitan Transportation Authority (the "MTA") for the fiscal year ended June 30, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the MTA's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for the opinion expressed above.

In accordance with Government Auditing Standards, we have also issued a report dated December 17, 1999 on our consideration of the MTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, and regulations.

PricewaterhouseCoopers LLP

December 17, 1999

REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING 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 statement of revenues and expenditures for Proposition A and Proposition C Special Revenue funds of the Los Angeles County Metropolitan Transportation Authority (the "MTA") for the fiscal year ended June 30, 1999 (the "Statement") and have issued our report thereon dated December 17, 1999. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of its 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 within the Statement. However, providing and opinion on compliance with those provisions was not the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the MTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these financial statement and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the Statement 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the MTA within the schedule of current year findings listed in the accompanying table of contents.

This report is intended for the information of the MTA'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.

Francis W. Cooper, Jr.

December 17, 1999

Los Angeles County Metropolitan Transportation Authority
 Proposition A Special Revenue Fund
 Statement of Revenues and Expenditures
 For the year ended June 30, 1999

(Amounts expressed in thousands)

	<u>Actual</u>
Revenues:	
Sales tax	\$ 449,054
Investment income	5,498
Net decline in fair value of investments	<u>(479)</u>
 Total revenues	 <u>454,073</u>
Expenditures:	
Current:	
Transportation subsidies	<u>151,921</u>
 Total expenditures	 <u>151,921</u>
 Excess of revenues over expenditures	 <u>302,152</u>
Other financing Sources (Uses):	
Operating transfers in	1,923
Operating transfers out	<u>(291,226)</u>
 Total other financing and sources (uses)	 <u>(289,303)</u>
 Excess of revenues and other financing sources over expenditures and other financing uses	 <u>\$ 12,849</u>

Los Angeles County Metropolitan Transportation Authority
 Proposition A Special Revenue Fund
 Statement of Revenues and Expenditures - Budget and Actual
 For the year ended June 30, 1999
 (Amounts expressed in thousands)

	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Sales tax	\$ 449,695	\$ 449,054	\$ (641)
Investment income	3,400	5,498	2,098
Net decline in fair value of investments	-	(479)	(479)
Total revenues	453,095	454,073	978
Expenditures:			
Current:			
Transportation subsidies	180,106	151,921	28,185
Total expenditures	180,106	151,921	28,185
Excess of revenues over expenditures	272,989	302,152	29,163
Other financing Sources (Uses):			
Operating transfers in	900	1,923	1,023
Operating transfers out	(283,504)	(291,226)	(7,722)
Total other financing and sources (uses)	(282,604)	(289,303)	(6,699)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (9,615)	\$ 12,849	\$ 22,464

Los Angeles County Metropolitan Transportation Authority
 Proposition C Special Revenue Fund
 Statement of Revenues and Expenditures
For the year ended June 30, 1999
 (Amounts expressed in thousands)

	<u>Actual</u>
Revenues:	
Sales tax	\$ 452,232
Intergovernmental	37,141
Investment income	15,792
Net decline in fair value of investments	(1,460)
Other	933
Total revenues	<u>504,638</u>
Expenditures:	
Current:	
Administration and other	7,041
Transportation subsidies	274,558
Total expenditures	<u>281,599</u>
Excess of revenues over expenditures	<u>223,039</u>
Other financing Sources (Uses):	
Operating transfers in	39,978
Operating transfers out	(206,831)
Total other financing and sources (uses)	<u>(166,853)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ 56,186</u>

Los Angeles County Metropolitan Transportation Authority
 Proposition C Special Revenue Fund
 Statement of Revenues and Expenditures - Budget and Actual
 For the year ended June 30, 1999
 (Amounts expressed in thousands)

	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Sales tax	\$ 452,089	\$ 452,232	\$ 143
Intergovernmental	-	37,141	37,141
Investment income	7,835	15,792	7,957
Net decline in fair value of investments	-	(1,460)	(1,460)
Other	-	933	933
Total revenues	459,924	504,638	44,714
Expenditures:			
Current:			
Administration and other	8,441	7,041	1,400
Transportation subsidies	261,019	274,558	(13,539)
Total expenditures	269,460	281,599	(12,139)
Excess of revenues over expenditures	190,464	223,039	32,575
Other financing Sources (Uses):			
Operating transfers in	295,359	39,978	(255,381)
Operating transfers out	(231,193)	(206,831)	24,362
Total other financing and sources (uses)	64,166	(166,853)	(231,019)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ 254,630	\$ 56,186	\$ (198,444)

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

Notes to Statements of Revenues and Expenditures of Proposition A and C Special Revenue Funds For the Years Ended June 30, 1999

1. Organization

General

The Los Angeles County Metropolitan Transportation Authority (the "MTA") is governed by a 14-member Board of Directors ("Board"). The Board is composed of the five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, two public members and one member of the City Council of Los Angeles, 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 and a non-voting member appointed by the Governor of the State of California.

The MTA is responsible for planning and programming, operating, 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) alternative modes of transportation; (6) research and development of alternative energy sources for transit vehicles; and (7) air quality, environmental impact land use and economic development decisions.

Proposition A

This 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 local jurisdiction for local transit; 35% to be used for construction and debt services payments and operation of rail rapid transit systems; 40% is allocated at the discretion of the MTA.

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; 40% to improve and expand rail and bus transit county-wide.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

Notes to Statements of Revenues and Expenditures of Proposition A and C Special Revenue Funds (Continued) For the Years Ended June 30, 1999

2. Summary of Significant Accounting Policies

The statement of revenue and expenditures for Proposition A and Proposition C Special Revenue Funds has been prepared in conformity with Generally Accepted Accounting Principles ("GAAP") as applied to governmental 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 MTA's accounting policies are policies with regard to the special revenue fund type are described below:

Fund Accounting

The MTA utilized 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 function 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 MTA's general activities. The measurement focus is a determination of changes in financial position, rather than a net income determination. The MTA 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 (other 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

Enabling legislation and adopted policies and procedures provide that the MTA's Board approve an annual budget. Annual budgets are adopted on a basis consistent with general accepted accounting principles for all governmental funds.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

Notes to Statements of Revenues and Expenditures of Proposition A and C Special Revenue Funds (Continued) For the Years Ended June 30, 1999

2. Summary of Significant Accounting Policies (Continued)

Budgetary Accounting (Continued)

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 appropriated 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 are submitted to the Board a minimum of once a year.

Annual budgets are adopted by the MTA on the modified accrual basis of accounting for special revenue fund type, on a basis consistent with GAAP as reflected in the financial statements.

Interest Income

Net appreciation (depreciation) in the fair value of investments is shown on the Statement of Revenues and Expenditures. The MTA 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 financial statement 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 MTA will be recorded in an account designated as Intergovernmental.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

Notes to Statements of Revenues and Expenditures
of Proposition A and C Special Revenue Funds (Continued)
For the Years Ended June 30, 1999

4. Individual Funds With Excess of Expenditures Over Appropriations

The expenditures for the Proposition C fund exceeded appropriations during the year by \$12,139,000.

5. Operating Transfers

Amounts reflected as operating transfers represents 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 C special revenue funds have been made in accordance with all expenditure requirements of both Proposition A and C ordinances.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

SCHEDULE OF CURRENT YEAR FINDINGS

for the fiscal year ended June 30, 1999

99-1. Matching Expenditures to Revenue

Observation

During our review of the MTA accounting procedures for Proposition A and Proposition C, we noted that although the MTA accrues revenue for funding due as of year end, but not yet received, there is no accrual for the related Local Return expenditures that are susceptible to accrual under the modified accrual basis as of year end.

Criteria

According to Statement 1 of the National Council on Governmental Accounting ("NCGA"), expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable. Further the "Matching principle" under GAAP requires that expenditures should be matched to revenue recognized. Therefore, as the MTA recognizes the revenue accrual for Proposition A and Proposition C funds as of year end, it should also record all known, measurable expenditures to be paid from that revenue.

Recommendation

We recommend the MTA implement procedures to ensure that Proposition A and Proposition C Local Return expenditures are recognized in accordance with GAAP.

Management Response

Management agrees with the above finding and as a part of the year end closing process will accrue the Local Return liabilities referred to in the finding.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

STATUS OF PRIOR YEAR FINDINGS
for the fiscal year ended June 30, 1999

<u>Number</u>	<u>Finding</u>	<u>Disposition</u>
1 (98-1)	Documentation Identifying the Internal Controls in Place Over the Receipt and Expenditure of Proposition A and Proposition C Funds Needs Improvements	Partially implemented. The existence of the related internal control documentation has been confirmed, however management should update for current roles and responsibilities.
2 (98-2)	Improve the Documentation of Proposition A and Proposition C Expenditure Decisions	No such deficiencies noted. Management concurs with the prior year finding. However, as the prior year audit report was issued on November 3, 1999, management has yet to effect programmatic changes.
3 (98-3)	Improve Controls Over Authorization of Transactions	See Number 2 above.
4 (98-4)	Improve Controls to Ensure Consistent Application of Accounting Policies	See Number 2 above.
5 (98-5)	Conduct Periodic Internal Control Reviews of Proposition A and C Funds	Not implemented. Management concurs with the prior year finding. However, as the prior year audit report was issued on November 3, 1999, management has yet to effect programmatic changes.
6 (98-6)	Improve Tracking and Resolution of Local Return Audit Issues	See Number 5 above.
7 (98-7)	Improve Controls Over Retrieval of Voucher Packages	Implemented.