

**Los Angeles County
Metropolitan Transportation Authority**

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

For the Year Ended June 30, 2002

TCBA

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Report of Independent Auditors

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

In our opinion, the accompanying Schedules 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 "LACMTA") for the fiscal year ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial Schedules are the responsibility of the LACMTA's management; our responsibility is to express an opinion on these financial Schedules based on our audit. We conducted our audit of these Schedules 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued a report dated November 1, 2002 on our consideration of the LACMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations.

November 1, 2002 *Thompson, Cobb, Bazilio & Associates, PC*

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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 schedules of revenues and expenditures for Proposition A and Proposition C Special Revenue funds of the Los Angeles County Metropolitan Transportation Authority (the "LACMTA") for the fiscal year ended June 30, 2002 (the "Schedules") and have issued our report thereon dated November 1, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Schedules are free of material misstatement, we performed tests of their 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 Schedules. However, providing an 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 LACMTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these financial statements 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 amount 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.

This report is intended for the information 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.

November 1, 2002 *Thompson, Codd, Basilio & Associates, PC*

Los Angeles County Metropolitan Transportation Authority
Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures
For the Year Ended June 30, 2002
(Amounts in Thousands)

Revenues:	
Sales tax	\$ 525,980
Investment income	3,128
Net appreciation in fair value of investments	<u>226</u>
Total revenues	<u>529,334</u>
Expenditures:	
Current:	
Transportation subsidies	<u>199,563</u>
Total expenditures	<u>199,563</u>
Excess of revenues over expenditures	<u>329,771</u>
Other financing sources (uses)	
Operating transfers in	569
Operating transfers out	<u>(349,595)</u>
Total other financing sources (uses)	<u>(349,026)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u><u>\$ (19,255)</u></u>

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

Los Angeles County Metropolitan Transportation Authority
Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures - Budget and Actual
For the Year Ended June 30, 2002
(Amounts in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:			
Sales tax	\$ 528,443	\$ 525,980	\$ (2,463)
Investment income	6,000	3,128	(2,872)
Net appreciation in fair value of investments	<u>-</u>	<u>226</u>	<u>226</u>
Total revenues	<u>534,443</u>	<u>529,334</u>	<u>(5,109)</u>
Expenditures:			
Current:			
Transportation subsidies	<u>194,391</u>	<u>199,563</u>	<u>(5,172)</u>
Total expenditures	<u>194,391</u>	<u>199,563</u>	<u>(5,172)</u>
Excess of revenues over expenditures	<u>340,052</u>	<u>329,771</u>	<u>(10,281)</u>
Other financing sources (uses)			
Operating transfers in	-	569	569
Operating transfers out	<u>(340,356)</u>	<u>(349,595)</u>	<u>(9,239)</u>
Total other financing sources (uses)	<u>(340,356)</u>	<u>(349,026)</u>	<u>(8,670)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (304)</u>	<u>\$ (19,255)</u>	<u>\$ (18,951)</u>

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

Los Angeles County Metropolitan Transportation Authority
Proposition C Special Revenue Fund
Schedule of Revenues and Expenditures
For the Year Ended June 30, 2002
(Amounts in Thousands)

Revenues:	
Sales tax	\$ 525,876
Intergovernmental	47,733
Investment income	11,572
Net appreciation in fair value of investments	2,853
Other	<u>(81)</u>
Total revenues	<u>587,953</u>
Expenditures:	
Current:	
Administration and other	45,899
Transportation subsidies	283,457
Capital Outlay	<u>1,796</u>
Total expenditures	<u>331,152</u>
Excess of revenues over expenditures	<u>256,801</u>
Other financing sources (uses)	
Operating transfers in	5,344
Operating transfers out	<u>(330,958)</u>
Total other financing sources (uses)	<u>(325,614)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u><u>\$ (68,813)</u></u>

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

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, 2002
(Amounts in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:			
Sales tax	\$ 528,340	\$ 525,876	\$ (2,464)
Intergovernmental	57,761	47,733	(10,028)
Investment income	14,000	11,572	(2,428)
Net appreciation in fair value of investments	-	2,853	2,853
Other	-	(81)	(81)
	<u>600,101</u>	<u>587,953</u>	<u>(12,148)</u>
Total revenues			
Expenditures:			
Current:			
Administration and other	78,790	45,899	32,891
Transportation subsidies	384,184	283,457	100,727
Capital Outlay	6,130	1,796	4,334
	<u>469,104</u>	<u>331,152</u>	<u>137,952</u>
Total expenditures			
Excess of revenues over expenditures	<u>130,997</u>	<u>256,801</u>	<u>125,804</u>
Other financing sources (uses)			
Operating transfers in	113,264	5,344	(107,920)
Operating transfers out	<u>(328,115)</u>	<u>(330,958)</u>	<u>(2,843)</u>
Total other financing sources (uses)	<u>(214,851)</u>	<u>(325,614)</u>	<u>(110,763)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (83,854)</u>	<u>\$ (68,813)</u>	<u>\$ 15,041</u>

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

Los Angeles County Metropolitan Transportation Authority
Notes to Schedules of Revenues and Expenditures
of Proposition A and C Special Revenue Funds
For the Year Ended June 30, 2002

1. Organization

General

The Los Angeles County Metropolitan Transportation Authority (the "LACMTA") 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 a member of a city council and have been 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) 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 jurisdictions for local transit; 35% to be used for construction and debt services payments and operation of rail rapid transit systems; and 40% is allocated 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
of Proposition A and C Special Revenue Funds
For the Year Ended June 30, 2002

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

Fund Accounting

The LACMTA 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 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
of Proposition A and C Special Revenue Funds
For the Year Ended June 30, 2002

2. Summary of Significant Accounting Policies (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 appropriate budget is prepared by the 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 with 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 special revenue fund type, on a basis consistent with GAAP as reflected in the financial statements.

Interest Income and Gain on Investments

Net appreciation in the fair value of investments is shown on the Statement 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 financial statements 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 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
Current Year Findings and Status of Prior Year Findings
For the Year Ended June 30, 2002

None noted.