

Los Angeles County Metropolitan Transportation Authority

INDEPENDENT AUDITOR'S REPORT
ON SCHEDULE OF REVENUES AND EXPENDITURES
FOR
PROPOSITION A AND PROPOSITION C
SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

Submitted by

TCBA

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**Los Angeles County Metropolitan Transportation Authority
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Schedule of Revenues and Expenditures
For
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(With Comparative Totals for 2010)**

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Independent Auditor's Report

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

We have audited the accompanying Schedules of Proposition A ("Ordinance No. 16") and Proposition C ("Ordinance No. 49") Revenues and Expenditures (the Schedules) of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2011. 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 2010 Schedules of Proposition A and Proposition C Revenues and Expenditures and, in our report dated November 12, 2010, 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 Proposition A and Proposition C revenues and expenditures are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and 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 Proposition A and Proposition C Revenues and Expenditures of LACMTA as of June 30, 2011, 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 October 28, 2011, 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
November 28, 2011

Thompson, Cobb, Bazilio & Associates, P.C.

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**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***

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

We have audited the accompanying Schedules of Revenues and Expenditures (the Schedules) for Proposition A and Proposition C Special Revenue Funds of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated November 28, 2011. 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*.

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

Torrance, California
November 28, 2011

Thompson, Cobb, Bazilio & Associates, P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Proposition A and Proposition C Revenues and Expenditures in Accordance with the *MTA Reform and Accountability Act of 1998*

Independent Citizens' Advisory and 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 *MTA Reform and Accountability Act of 1998* (the Act), *Ordinance No. 16 (Proposition A)* and *Ordinance No. 49 (Proposition C)* that are applicable to Proposition A and Proposition C revenues and expenditures for the year ended June 30, 2011. Compliance with the requirements of the laws, the Act and Ordinances applicable to its Proposition A and Proposition C 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 Proposition A and Proposition C 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 Proposition A and Proposition C revenues and expenditures for the year ended June 30, 2011.

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 Proposition A and Proposition C 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 Proposition A and Proposition C 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 *MTA Reform and Accountability Act of 1998, Ordinance No. 16 (Proposition A)* and *Ordinance No. 49 (Proposition C)*, 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 Independent Citizens' Advisory and Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
November 28, 2011

Thompson, Cobb, Bazilio & Associates, P.C.

Los Angeles County Metropolitan Transportation Authority
Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures
For the year ended June 30, 2011
(With Comparative Totals for 2010)
(Amounts expressed in thousands)

	<u>2011</u>	<u>2010</u>
Revenues:		
Sales tax	\$ 601,883	\$ 565,746
Investment income	2,246	2,419
Net appreciation (decline) in fair value of investment	(854)	316
Other revenues	41	-
Total revenues	<u>603,316</u>	<u>568,481</u>
Expenditures:		
Transportation subsidies	<u>264,328</u>	<u>229,407</u>
Total expenditures	<u>264,328</u>	<u>229,407</u>
Excess of revenues over expenditures	338,988	339,074
Other financing sources (uses)		
Operating transfers in	-	47,744
Operating transfers out	<u>(350,475)</u>	<u>(420,897)</u>
Total other financing sources (uses)	<u>(350,475)</u>	<u>(373,153)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (11,487)</u>	<u>\$ (34,079)</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, 2011
(Amounts expressed in thousands)

	Budget	Actual	Favorable (Unfavorable)
Revenues:			
Sales tax	\$ 589,803	\$ 601,883	\$ 12,080
Investment income	-	2,246	2,246
Net decline in fair value of investments	-	(854)	(854)
Other revenues	-	41	41
Total revenues	589,803	603,316	13,513
 Expenditures:			
Transportation subsidies	243,794	264,328	(20,534)
Total expenditures	243,794	264,328	(20,534)
 Excess of revenues over expenditures	346,009	338,988	(7,021)
 Other financing sources (uses)			
Operating transfers out	(355,050)	(350,475)	4,575
 Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (9,041)	\$ (11,487)	\$ (2,446)

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, 2011
(With Comparative Totals for 2010)
(Amounts expressed in thousands)

	<u>2011</u>	<u>2010</u>
Revenues:		
Sales tax	\$ 601,932	\$ 565,787
Intergovernmental	183,085	130,115
Investment income	3,637	10,020
Net decline in fair value of investment	(2,735)	(549)
Total revenues	<u>785,919</u>	<u>705,373</u>
Expenditures:		
Administration and other	150,757	246,657
Transportation subsidies	343,358	423,686
Total expenditures	<u>494,115</u>	<u>670,343</u>
Excess of revenues over expenditures	291,804	35,030
Other financing sources (uses)		
Operating transfers in	2,200	3,942
Operating transfers out	(293,105)	(401,433)
Total other financing sources (uses)	<u>(290,905)</u>	<u>(397,491)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 899</u>	<u>\$ (362,461)</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, 2011
(Amounts expressed in thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:			
Sales tax	\$ 589,803	\$ 601,932	\$ 12,129
Intergovernmental	223,152	183,085	(40,067)
Investment income	-	3,637	3,637
Net decline in fair value of investment	-	(2,735)	(2,735)
Other	-	-	-
Total revenues	<u>812,955</u>	<u>785,919</u>	<u>(27,036)</u>
Expenditures:			
Administration and other	250,350	150,757	99,593
Transportation subsidies	463,717	343,358	120,359
Total expenditures	<u>714,067</u>	<u>494,115</u>	<u>219,952</u>
Excess of revenues over expenditures	98,888	291,804	192,916
Other financing sources (uses)			
Operating transfers in	2,383	2,200	(183)
Operating transfers out	(312,382)	(293,105)	19,277
Total other financing sources (uses)	<u>(309,999)</u>	<u>(290,905)</u>	<u>19,094</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (211,111)</u>	<u>\$ 899</u>	<u>\$ 212,010</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
For Proposition A and Proposition C Special Revenue Funds

June 30, 2011

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.

Proposition A

The Proposition A Fund is a special revenue fund used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on August 20, 1980. Revenues collected are to be allocated: 25% to be distributed to local jurisdictions for local transit; 35% to be used for construction, debt service payments and operation of rail rapid transit systems; and 40% to be used for public transit purposes at the discretion of 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 August 8, 1990. Revenues collected are to be allocated: 5% to improve and expand rail and bus security; 10% for Commuter Rail and construction of Transit Centers, Park-and-Ride lots and Freeway Bus Stops; 20% to local jurisdictions for public transit and related services; 25% for essential county-wide transit related improvements to freeways and state highways; and 40% to improve and expand rail and bus transit county-wide.

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

June 30, 2011

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 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:

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 Proposition A and Proposition C 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 (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

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

June 30, 2011

consistent with generally accepted accounting principles in the United States of America for all governmental funds.

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 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. 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.

Comparative Financial Data

The amounts shown for 2010 in the accompanying financial statements are included only to provide a basis for comparison with 2011 and are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles.

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

June 30, 2011

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 Proposition A and Proposition C Special Revenue Funds have been made in accordance with all expenditure requirements of both Proposition A and Proposition C Ordinances.

Los Angeles County Metropolitan Transportation Authority
Schedule of Current Year Findings

For the Year Ended June 30, 2011

None noted.

Los Angeles County Metropolitan Transportation Authority
Status of Prior Year Findings

For the Year Ended June 30, 2011

None noted.