

**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, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

Submitted by

BCA

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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, 2013
(With Comparative Totals for 2012)

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Independent Auditor's Report

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

Report on the Schedules of Proposition A and Proposition C Revenues and Expenditures

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, 2013, and the related notes to the Schedules, which collectively comprise LACMTA's basic Schedules as listed in the table of contents.

Management's Responsibility for the Schedules of Proposition A and Proposition C Revenues and Expenditures

LACMTA's management is responsible for the preparation and fair presentation of these Schedules 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 Schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Schedules 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 Schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedules, 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 Schedules 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 Schedules.

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

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, 2013, for the year then ended 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 pages 5 and 7 be presented to supplement the Schedules. Such information, although not a part of the basic Schedules, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic Schedules 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 Schedules, and other knowledge we obtained during our audit of the basic Schedules. 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 Schedules, the accompanying Schedules of the Proposition A and C Funds are intended to present the revenues and expenditures attributable to the Funds. They do not purport to, and do not, present fairly the financial position of the LACMTA, as of June 30, 2013, 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 Schedules of Proposition A and Proposition C Revenues and Expenditures of LACTMA, and we expressed an unmodified audit opinion in our report dated December 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 December 5, 2013, 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.

Bajilio Cabt Associates

Torrance, CA
December 5, 2013

Los Angeles County Metropolitan Transportation Authority

Proposition A Special Revenue Fund
Schedule of Revenues and Expenditures

For the Year Ended June 30, 2013

(With Comparative Totals for 2012)

(Amounts expressed in thousands)

	<u>2013</u>	<u>2012</u>
Revenues:		
Sales tax	\$ 687,172	\$ 648,692
Investment income	1,270	843
Net decline in fair value of investments	(1,046)	(82)
Other revenues	-	-
Total Revenues	<u>687,396</u>	<u>649,453</u>
Expenditures:		
Transportation subsidies	<u>275,057</u>	<u>259,569</u>
Total Expenditures	<u>275,057</u>	<u>259,569</u>
Excess of Revenues over Expenditures	412,339	389,884
Other financing sources (uses)		
Operating transfers in	32,224	28,794
Operating transfers out	<u>(414,610)</u>	<u>(326,569)</u>
Total other financing sources (uses)	<u>(382,386)</u>	<u>(297,775)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ 29,953</u>	<u>\$ 92,109</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, 2013

(Amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales tax	\$ 629,304	\$ 629,304	\$ 687,172	\$ 57,868
Investment income	-	-	1,270	1,270
Net decline in fair value of investments	-	-	(1,046)	(1,046)
Other	-	-	-	-
Total revenues	629,304	629,304	687,396	58,092
Expenditures				
Transportation subsidies	253,160	253,160	275,057	(21,897)
Total expenditures	253,160	253,160	275,057	(21,897)
Excess of revenues over expenditures	376,144	376,144	412,339	36,195
Other financing sources (uses)				
Transfers in	-	(94)	32,224	32,318
Transfers out	(384,828)	(372,066)	(414,610)	(42,544)
Total other financing sources (uses)	(384,828)	(372,160)	(382,386)	(10,226)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (8,684)	\$ 3,984	\$ 29,953	\$ 25,969

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, 2013

(With Comparative Totals for 2012)

(Amounts expressed in thousands)

	<u>2013</u>	<u>2012</u>
Revenues:		
Sales tax	\$ 687,332	\$ 648,776
Intergovernmental	241,298	210,322
Investment income	661	1,298
Net decline in fair value of investments	(141)	(145)
Total Revenues	<u>929,150</u>	<u>860,251</u>
Expenditures:		
Administration and other	275,403	237,755
Transportation subsidies	445,353	347,767
Total Expenditures	<u>720,756</u>	<u>585,522</u>
Excess of Revenues over Expenditures	208,394	274,729
Other financing sources (uses)		
Operating transfers in	2,419	2,821
Operating transfers out	(305,408)	(259,810)
Total other financing sources (uses)	<u>(302,989)</u>	<u>(256,989)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (94,595)</u>	<u>\$ 17,740</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, 2013

(Amounts expressed in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales tax	\$ 629,304	\$ 629,304	\$ 687,332	\$ 58,028
Intergovernmental	178,460	178,460	241,298	62,838
Investment income	-	-	661	661
Net decline in fair value of investments	-	-	(141)	(141)
Total revenues	807,764	807,764	929,150	121,386
Expenditures				
Administration and other	214,751	213,769	275,403	(61,634)
Transportation subsidies	413,663	413,678	445,353	(31,675)
Total expenditures	628,414	627,447	720,756	(93,309)
Excess of revenues over expenditures	179,350	180,317	208,394	28,077
Other financing sources (uses)				
Transfers in	8,142	8,142	2,419	(5,723)
Transfers out	(271,057)	(280,800)	(305,408)	(24,608)
Total other financing sources (uses)	(262,915)	(272,658)	(302,989)	(30,331)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (83,565)	\$ (92,341)	\$ (94,595)	\$ (2,254)

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, 2013

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.

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, 2013

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

Los Angeles County Metropolitan Transportation Authority
Notes to Schedules of Revenues and Expenditures
For Proposition A and Proposition C Special Revenue Funds
June 30, 2013

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 2012 in the accompanying Schedules are included only to provide a basis for comparison with 2013 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, 2013

3. Schedules of Revenues and Expenditures for Proposition A and Proposition C Special Revenue Funds

The Schedules are intended to reflect the revenues and expenditures of Proposition A and Proposition C funds only. Accordingly, the Schedules do not purport to, and do not, present fairly the financial position of the LACMTA and changes in financial position thereof for the years 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.

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 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.

6. Subsequent Events

Proposition C fund at June 30, 2013 had a deficit of approximately \$94.6 million. On October 24, 2013, the Finance, Budget and Audit Committee voted and approved the sale of Proposition C “New Money” bonds and “Refunding Bonds” of approximately \$360 million to fund Proposition C eligible capital projects.



**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, 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 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, 2013, and the related notes to the Schedules, which collectively comprised LACMTA’s basic Schedules, and have issued our report thereon dated December 5, 2013.

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 Schedules 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 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 the amounts on the Schedules. 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 Independent Citizens' Advisory and Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Basilio Cabt Associates".

Torrance, California
December 5, 2013



**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

Report on Compliance

We have audited the Los Angeles County Metropolitan Transportation Authority (LACMTA) compliance of the Proposition A and Proposition C revenues and expenditures 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)* for the year ended June 30, 2013.

Management's Responsibility

LACMTA's management is responsible for compliance with the requirements of laws and regulations applicable to the Proposition A and Proposition C revenues and expenditures.

Auditor's Responsibility

Our responsibility is to express an opinion on LACMTA's compliance with Proposition A and Proposition C 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 Proposition A and Proposition C 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 Proposition A and Proposition C revenues and expenditures. However, our audit does not provide a legal determination of LACMTA's compliance.

Opinion on Proposition A and Proposition C 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 Proposition A and Proposition C revenues and expenditures for the year ended June 30, 2013.

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 Proposition A and Proposition C 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 *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. *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 Proposition A and Proposition C 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 Independent Citizens' Advisory and Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Basilio Cabt Associates

Torrance, California
December 5, 2013

Los Angeles County Metropolitan Transportation Authority
Schedule of Current Year Findings
For the Year Ended June 30, 2013

None noted.

Los Angeles County Metropolitan Transportation Authority
Status of Prior Year Findings
For the Year Ended June 30, 2013

None noted.