

Los Angeles County Metropolitan Transportation Authority

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

(With Independent Auditor's Report Thereon)



Metro®

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

Financial Statements and
Required Supplementary Information

June 30, 2010

(With Independent Auditors' Report Thereon)



LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

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Independent Auditors' Report

The Board of Directors
Los Angeles County Metropolitan Transportation Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2010, which collectively comprise LACMTA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of LACMTA's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the defined benefit pension plan financial statements of the United Transportation Union Plan (UTU), the Transportation Communication Union Plan (TCU), the Amalgamated Transit Union Plan (ATU), the Non-Contract Employees Plan (NCE), and the American Federation State County Municipal Employees Plan (AFSCME), which are reported in LACMTA's Employee Retirement Trust Funds and represent 59%, 60%, and 69% of the assets, net assets/fund balances, and revenues/additions of the aggregate remaining fund information, respectively. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for UTU, TCU, ATU, NCE, and AFSCME, are based solely on the reports of the other auditor.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LACMTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Los Angeles County Metropolitan Transportation Authority, as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note T in the notes to the financial statements, the LACMTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Reporting for Derivative Instruments*, effective July 1, 2009.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010 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.

The management's discussion and analysis on pages 3 through 15, the schedules of funding progress for pension plans and other postemployment benefits on pages 87 and 88, respectively, and the budgetary comparison information on pages 89 through 96 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 20, 2010

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

As management of the Los Angeles County Metropolitan Transportation Authority (LACMTA), we offer readers of our financial statements this narrative overview and analysis. It is designed to:

- Provide an overview of LACMTA's financial activities;
- Highlight significant financial issues;
- Discuss changes in LACMTA's financial position;
- Explain any material deviations from the approved budget; and
- Identify individual fund issues.

We encourage readers to consider information presented here in conjunction with the basic financial statements (beginning on page 17). All dollar amounts are expressed in thousands unless otherwise indicated.

Financial Highlights

- LACMTA's total assets exceeded its liabilities as of June 30, 2010 by \$7,063,499. Of this amount, \$232,492 is reported as unrestricted net assets.
- Total net assets increased by \$389,719 (5.84 percent) this year over previous year. Business-type net assets increased by \$278,772 (6.15 percent) and governmental net assets increased by \$110,947 (5.18 percent). The increase in the business-type activities net assets is due to capital grants received for billable projects. The increase in net assets in the governmental activities is mainly due to revenues received from Measure R half-cent sales tax which was became effective in July 2009.
- At year-end, the governmental funds reported fund balances totaling \$1,418,958. Of this amount, \$1,202,994 is reserved for encumbrances and other commitments and \$215,964 is unreserved fund balance available for spending at LACMTA's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to LACMTA's basic financial statements. LACMTA's basic financial statements comprise three components: (1) the government-wide financial statements; (2) the fund financial statements; and (3) notes to basic financial statements. This report also contains required supplementary information in addition to the basic financial statements.

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Government-wide Financial Statements

The government-wide financial statements provide a broad overview of LACMTA's finances in a manner similar to private-sector entities.

The statement of net assets (page 17) presents information on all of LACMTA's assets and liabilities, with the difference between the two being reported as net assets. Trends of increasing or decreasing net assets may serve as useful indicators of financial health.

The statement of activities (pages 18-19) shows how net assets changed during the year. It reports these changes when the underlying event occurs (total economic resources measurement focus) regardless of the timing of related cash flows. It shows the gross and net costs of LACMTA's functions.

Both of the government-wide financial statements distinguish between those functions that are intended to recover a significant portion of their costs from user fees and charges (business-type activities) and those functions that are principally supported by intergovernmental revenues (governmental activities).

The government-wide financial statements include LACMTA and its legally separate entities that are financially accountable to LACMTA. Since they are in substance part of LACMTA's operations, their information has been blended with LACMTA's information. These entities include Public Transportation Services Corporation (PTSC), the Service Authority for Freeway Emergencies (SAFE), and the Exposition Metro Line Construction Authority (EXPO).

Fund Financial Statements

A fund is a group of related accounts that is distinguished by specific activities or objectives in accordance with special regulations or restrictions. LACMTA uses fund accounting to ensure and demonstrate compliance with legal requirements. All of LACMTA's funds are divided into three categories: proprietary, governmental, and fiduciary.

Proprietary Funds

LACMTA maintains only one type of proprietary fund: the Enterprise fund. All transit-related transactions, including support services, capital and related debt transactions are in the Enterprise fund.

The Enterprise fund is used to report the type of functions presented in the business-type activities in the government-wide financial statements. LACMTA uses the Enterprise fund to account for its transit operations: bus, rail, and regional programs. The basic proprietary fund financial statements are on pages 27-29.

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Governmental Funds

Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental funds use the current financial resources measurement focus. Thus, they report near term inflows, outflows, and balances of spendable resources.

The basic governmental fund financial statements are on pages 20-21 and 24-25.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information provided for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliation statements on pages 23 and 26 are shown to facilitate the comparison between the governmental funds and the government-wide financial statements.

LACMTA maintains eleven individual governmental funds, seven of which are considered major funds. Individual fund data for the major funds are presented in the governmental funds balance sheet and governmental funds statement of revenues, expenditures, and changes in fund balances.

LACMTA adopts a spending plan each year. Budgetary comparison schedules are provided for the General fund and for each major special revenue fund on pages 89-96.

Fiduciary Funds

Fiduciary funds are used to account for assets held by LACMTA in a trustee capacity or as an agent. Since these assets are not available to fund LACMTA's programs, they are excluded from the government-wide financial statements. The basic fiduciary fund statements can be found on pages 30-31. They cover the five employee pension funds and the OPEB Trust fund that are administered by LACMTA.

Notes to Basic Financial Statements

Various disclosures accompany the government-wide and fund financial statements in order to provide a full understanding of LACMTA's finances. The notes to basic financial statements are on pages 33-86.

Other Information

Besides the basic financial statements and accompanying notes, this report presents certain required supplementary information starting on page 87.

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Government-wide Financial Analysis

Statement of Net Assets

As mentioned earlier, net assets can serve as an indicator of financial health. LACMTA's net assets increased by 5.84 percent over the previous year. This increase was due to grants received to finance capital projects.

The following table is a summary of the statement of net assets as of June 30, 2010 and 2009.

Los Angeles County Metropolitan Transportation Authority Summary Statement of Net Assets						
	Business-type Activities		Governmental Activities		Total	
	2010	2009	2010	2009	2010	2009
Current & other assets	\$2,436,942	\$2,450,949	\$1,737,260	\$1,545,965	\$4,174,202	\$3,996,914
Capital assets	7,366,524	7,216,342	772,794	772,794	8,139,318	7,989,136
Deferred outflow – derivatives	25,386	32,406	-	-	25,386	32,406
Total assets and deferred outflows	9,828,852	9,699,697	2,510,054	2,318,759	12,338,906	12,018,456
Current liabilities	607,587	570,545	201,872	117,190	809,459	687,735
Noncurrent liabilities	4,409,816	4,596,475	56,132	60,466	4,465,948	4,656,941
Total liabilities	5,017,403	5,167,020	258,004	177,656	5,275,407	5,344,676
Invested in capital assets, net of related debt	4,366,480	3,900,614	772,794	772,794	5,139,274	4,673,408
Restricted for debt service	446,878	419,282	-	-	446,878	419,282
Restricted for other purpose	-	-	1,244,855	1,268,069	1,244,855	1,268,069
Unrestricted	(1,909)	212,781	234,401	100,240	232,492	313,021
Total net assets	\$4,811,449	\$4,532,677	\$2,252,050	\$2,141,103	\$7,063,499	\$6,673,780

The increase in current and other assets of \$191,295 (12.37%) in the governmental activities is mainly due to accrued Measure R sales tax revenues.

Invested in capital assets, net of related debt in the business-type activities increased by \$465,866 (11.94%) is attributable to the completion of the Gold Line Eastside extension which opened in November 2009, the continuing construction of Exposition Light Rail Project, and acquisition of rail cars and compressed natural gas (CNG) buses.

The decrease in unrestricted net assets in the business-type activities of \$214,690 (100.90%) is mainly due to the increase in capital assets not funded by long term debt.

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Overall, the significant changes in fiscal year 2010 are the opening of the Metro's Light Rail Gold Line Eastside extension, the implementation of Measure R half-cent sales tax, and the start of construction of the I-405 Sepulveda Pass Widening Project.

Statement of Activities

The following table is a summary of the statement of activities for the year ended June 30, 2010 and 2009.

Los Angeles Metropolitan Transportation Authority Change in Net Assets						
	Business-type Activities		Governmental Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$342,087	\$357,895	\$15,713	\$10,101	\$357,800	\$367,996
Operating grants and contributions	239,835	214,285	267,306	162,387	507,141	376,672
Capital grants and contributions	411,392	424,732	-	-	411,392	424,732
General revenues:						
Sales tax	-	-	2,085,370	1,596,152	2,085,370	1,596,152
Investment income	8,811	7,912	35,068	44,742	43,879	52,654
Net appreciation (decline) in fair Value of investments	(709)	(119)	4,200	10,540	3,491	10,421
Miscellaneous	16,346	20,231	26,979	41,065	43,325	61,296
Total program revenues	<u>1,017,762</u>	<u>1,024,936</u>	<u>2,434,636</u>	<u>1,864,987</u>	<u>3,452,398</u>	<u>2,889,923</u>
Program Expenses:						
Transit operations	1,808,257	1,807,037	-	-	1,808,257	1,807,037
Transit operators programs	-	-	201,354	282,305	201,354	282,305
Local cities programs	-	-	370,177	300,113	370,177	300,113
Highway projects	-	-	247,715	45,591	247,715	45,591
Regional multimodal capital programs	-	-	102,084	145,354	102,084	145,354
Paratransit programs	-	-	25,283	14,208	25,283	14,208
Other transportation subsidies	-	-	88,180	79,910	88,180	79,910
General government	-	-	219,629	199,338	219,629	199,338
Total program expenses	<u>1,808,257</u>	<u>1,807,037</u>	<u>1,254,422</u>	<u>1,066,819</u>	<u>3,062,679</u>	<u>2,873,856</u>
Increase (decrease) in net assets before transfers:	(790,495)	(782,101)	1,180,214	798,168	389,719	16,067
Transfers	1,069,267	1,005,062	(1,069,267)	(1,005,062)	-	-
Increase (decrease) in net assets	278,772	222,961	110,947	(206,894)	389,719	16,067
Net assets—beginning of year	4,532,677	4,309,716	2,141,103	2,347,997	6,673,780	6,657,713
Net assets – end of year	<u>\$4,811,449</u>	<u>\$4,532,677</u>	<u>\$2,252,050</u>	<u>\$2,141,103</u>	<u>\$7,063,499</u>	<u>\$6,673,780</u>

Transit operations recovered 27.64 percent of total operating expenses from operating revenues, excluding depreciation and interest, compared to 30.3 percent of the prior year. The remaining costs were covered by grants and transfers provided by LACMTA's

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governmental activities. Capital asset replacement costs have traditionally been funded as needed with governmental resources.

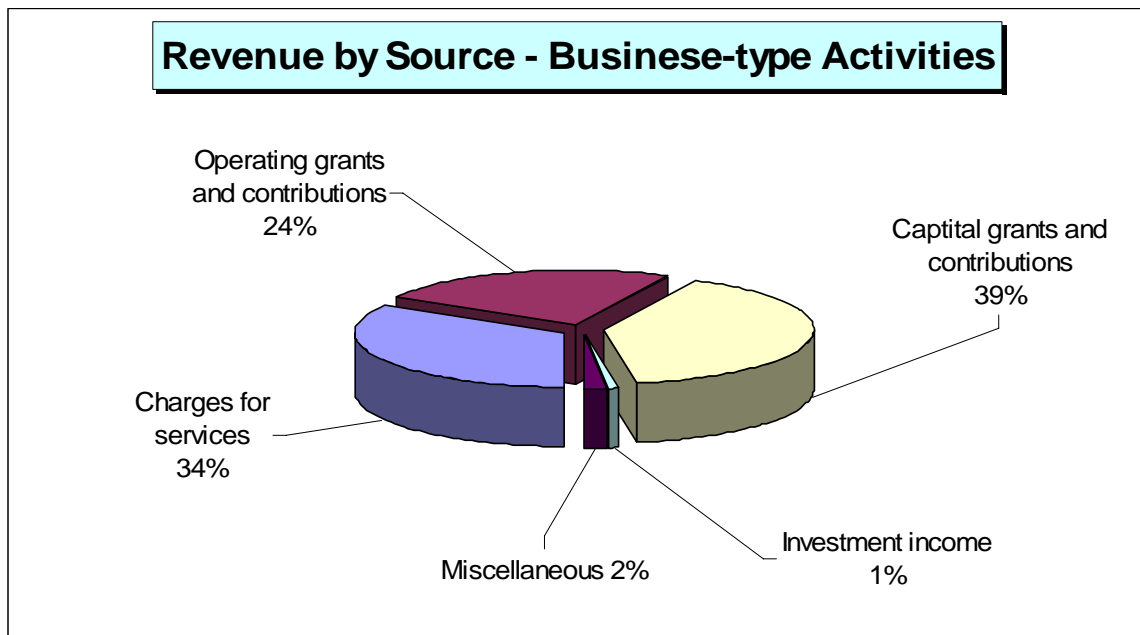
The increase in sales tax revenues in the governmental activities of \$489,218 (30.65%) is mainly due to the revenues received from the Measure R half-cent sales tax that became effective in July 2009.

Most of the governmental activities expenditures are subsidies related to countywide transportation planning and development programs. These programs are primarily funded by local sales taxes. Subsidies totaling \$1,034,793 to other agencies represented the largest governmental expenditures, which include the pass-through of state, federal and local funding to other agencies in Los Angeles County for public transit, transportation demand management, bikeways, and highway projects.

Highway project expenditures in the governmental activities increased by \$202,124 (443.34%) primarily due to the construction costs associated with the I-405 Sepulveda Pass Improvement Project which will add a 10-mile HOV lane and improve supporting infrastructure such as ramps, bridges and sound walls.

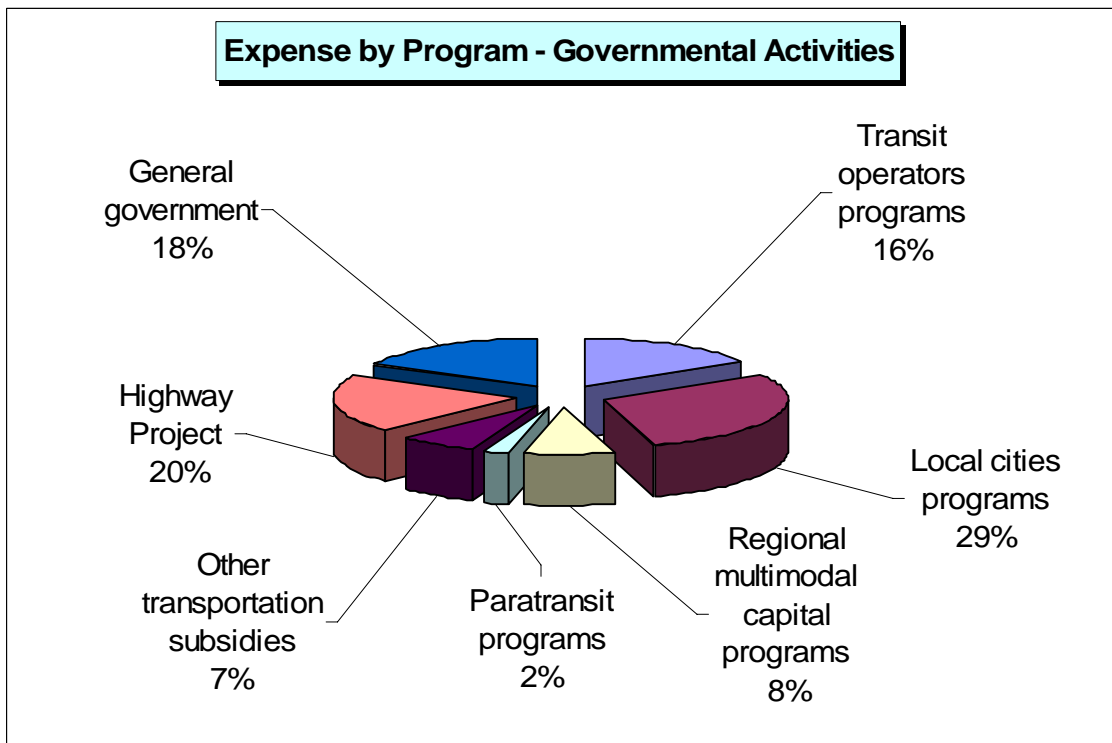
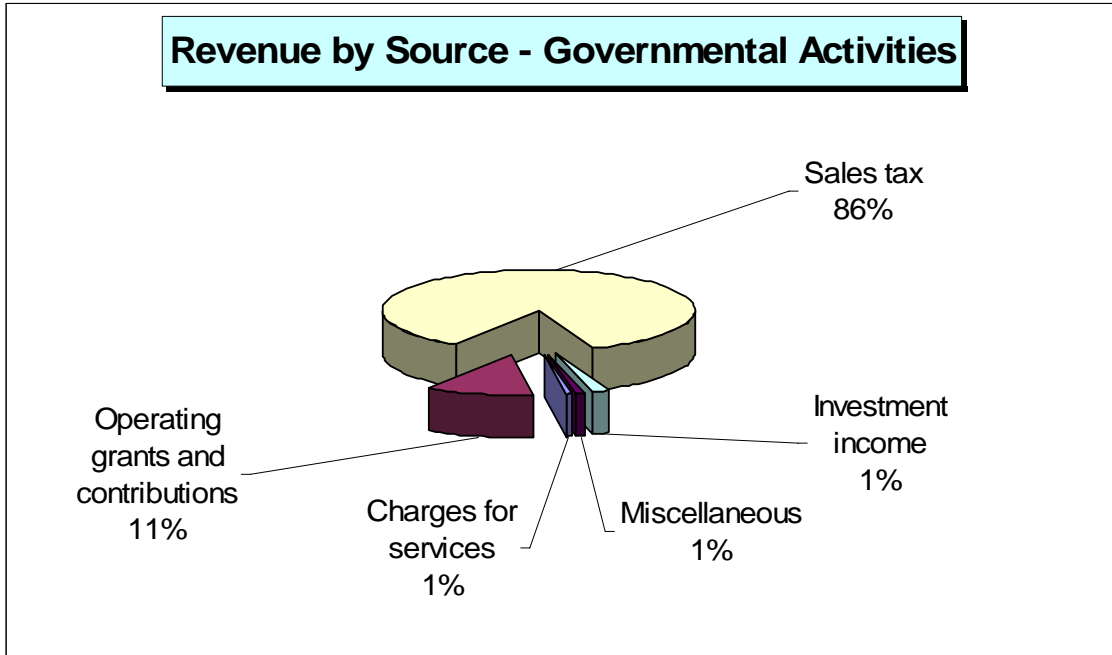
Regional multimodal capital programs decreased by \$43,270 (29.77%) primarily due to lesser reimbursements of project expenditures related to regional surface transportation, local traffic systems, and bus capital and operations.

Below are graphical depictions of the components of business-type revenues and expenses for the year ended June 30, 2010.



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Below are graphical depictions of the components of governmental revenues and expenditures for the year ended June 30, 2010.



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Proprietary Fund

The proprietary fund financial statements provide the same information found in the business-type section of the government-wide financial statements, but in more detail.

The increase of \$278,772 in net assets was mainly due to the grants received for billable capital projects such as EXPO construction and major bus acquisitions.

Governmental Funds

As previously noted, governmental funds present information about current financial (consumable) resources because they directly impact short-term financing requirements. This is particularly true to the unreserved fund balance, which represents uncommitted available resources.

LACMTA's governmental funds ended the fiscal year with \$1,418,958 in total fund balances. Approximately 85.09 percent of this amount has been committed to future programs. The major governmental funds are discussed below.

General fund balance increased by \$19,827, mainly due to fewer transfers out in FY10. Out of \$180,454 fund balance, \$1,843 is reserved for encumbrances.

Proposition A fund balance decreased by \$34,079 mainly due to lower sales tax revenues. LACMTA has reserved \$56,795 of the total fund balance of \$80,536.

Proposition C fund balance decreased by \$362,461 primarily due to lower sales tax and intergovernmental revenues. LACMTA has reserved \$987,867 for future programs, which is \$871,854 more than the fund balance of \$116,013. The negative unreserved fund balance is expected to be funded from future revenues.

Measure R has a fund balance of \$383,665 on its first year of commencement mainly due to receipts of sales tax revenues. LACMTA has reserved \$34,482 of the total fund balance for future programs.

Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) fund balance decreased by \$61,918 primarily due to transfers out during the year and no new funding from the State. The \$56,696 year-end fund balance has been reserved for specific projects.

Transportation Development Act fund balance decreased by \$25,650 primarily due to the decrease in sales tax revenues. LACMTA has reserved \$92,786 for future programs, which is \$1,107 more than the fund balance of \$91,679. The shortfall is expected to be funded from future revenues.

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State Transit Assistance fund balance increased by \$113,777 mainly due to the receipts of sales tax revenues, while no revenue allocation was made for the current fiscal year. Of the \$167,939 fund balance, \$7,142 is reserved for future programs and the remaining fund balance has been allocated as approved by the Board.

General Fund Budgetary Highlights

The general fund includes activities associated with the government that are not legally or otherwise required to be accounted for in another fund. It accounts for only 1.80 percent of LACMTA's total governmental funds revenues, while expenditures represent 1.77 percent of total governmental funds expenditures.

During the year, the original budget was decreased by \$491 due to the decrease in legal service fees for the ongoing sales-leaseback contract negotiations.

Revenues

The primary sources of revenue are the federal alternative fuel tax credit receipts, rental income from inactive rights-of-way, joint development projects, investment income, Federal, State, and local grants, and high occupancy vehicles (HOV) lane fines.

Investment income and net appreciation in fair value of investments is \$4,078 greater than budgeted levels mainly due to a higher rate of return than originally anticipated.

Expenditures

The general fund provides resources to pay for bus and rail operations, joint development administration, property management expenditures, administration of LACMTA's rideshare services, and other general expenditures.

Administration and other expenditures are \$4,233 lower than budgeted levels mainly due to less joint development and property administration expenditures than the anticipated programmed levels.

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Capital Assets

As of June 30, 2010, LACMTA had \$8,139,318 (net of accumulated depreciation) invested in capital assets, as shown below, a two percent increase compared from the previous fiscal year.

Los Angeles County Metropolitan Authority Capital Assets (Net of accumulated depreciation)						
	Business-type Activities		Governmental Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 626,285	\$ 625,915	\$ 772,794	\$ 772,794	\$ 1,399,079	\$ 1,398,709
Buildings	4,692,688	4,070,288	-	-	4,692,688	4,070,288
Equipment	143,242	154,873	-	-	143,242	154,873
Vehicles	1,013,552	960,077	-	-	1,013,552	960,077
Construction in progress	890,757	1,405,189	-	-	890,757	1,405,189
Total Capital Assets	\$ 7,366,524	\$ 7,216,342	\$ 772,794	\$ 772,794	\$8,139,318	\$ 7,989,136

Major capital asset projects in various stages of development at the end of the current fiscal year included the following:

The Exposition Light Rail Project is a \$2.4 billion project that traverses 15.2 miles between Downtown Los Angeles and Santa Monica. The line is being built in two phases:

The first phase, with a budget of \$892 million, is approximately 8.6 miles long and parallels the heavy congested I-10 freeway extending from Downtown Los Angeles to Culver City with an estimated travel time of less than 30 minutes. It will operate in a dual track configuration on Flower Street and along the Exposition Boulevard right-of-way. It will have twelve stations, consisting of two existing stations and ten new stations, three of which will be aerial. The project is electrically powered from overhead power lines. As of June 30, 2010, \$562.8 million has been expended on Phase 1.

The second phase is estimated to cost \$1.5 billion, is approximately 6.6 miles and is continuing from Phase 1 terminus in Culver City to 4th Street and Colorado Avenue in the city of Santa Monica. It travels along the Exposition Boulevard right-of-way until it reaches 17th Street in Santa Monica, and operates in street-running mode down the middle of Colorado Avenue. It will have seven new stations, one of which will be aerial. The estimated travel time between downtown Los Angeles and Santa Monica is less than 46 minutes. As of June 30, 2010, \$17.9 million has been expended on Phase 2.

The Universal Fare System (UFS) and Transit Access Pass (TAP) is a \$165.6 million project designed to improve LACMTA's fare collection on the bus and rail systems through a regional electronic smartcard fare payment system. Installation of UFS fareboxes and ticket

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vending machines has been completed. Eleven Los Angeles County municipal transit operators will operate the UFS equipment as part of TAP which utilizes non-contact smart cards to provide seamless fare collection among the region's transit operators. LACMTA entered into a contract to enhance TAP operations by adding an advanced gating system and related services to deter fare evasion, improve system security, and capture ridership data. Design and preliminary engineering work for the gating project started in February 2008. As of June 30, 2010, \$120.3 million has been expended.

LACMTA's major bus acquisition project, initiated during FY09 for the purchase of 260 CNG high capacity buses, resulted in the delivery of 225 buses with total expenditures of \$163.8 million as of June 30, 2010. The remaining buses are expected to be delivered in FY11. LACMTA also awarded a \$24 million new contract for 53 additional 30-foot CNG buses for its contract service operations. As part of the Congestion Reduction Demonstration Project for the I-10 and I-110 express lanes, \$28.4 million is earmarked for a contract option to purchase 41 additional 45-foot CNG high capacity buses. All of these buses are scheduled for delivery in FY11.

LACMTA entered into a Light Rail Vehicle Base Contract to acquire fifty Light Rail Vehicles, which includes spare parts, special tools, and equipment. As of June 30, 2010, thirty-six vehicles were received and placed into service. As of June 30, 2010, \$118.6 million has been expended.

The Metro Orange Line Extension is a \$215.6 million, four-mile extension of the Metro Orange Line extending from the Canoga park-and-ride lot to the Chatsworth Metrolink Station. The project includes: 1) busway; 2) new station platforms at the Canoga Park park-and-ride lot; 3) new stations at Sherman Way (with park-and-ride), Roscoe Boulevard, Nordhoff Street, and the Chatsworth Metrolink Station (with park-and-ride); 4) grade-separation structure over active railroad tracks at Lassen Street (Lassen/Railroad overcrossing) providing direct access into the Chatsworth Metrolink Station; 5) Los Angeles River and Santa Susana Wash bridge crossings, and 6) satellite bus parking facility. The project also includes street improvements, bicycle/pedestrian path, systems equipment, and landscaping similar to the Metro Orange Line. As of June 30, 2010, \$24.8 million has been expended.

Additional information on capital assets can be found on page 49.

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Long-term Debt Administration

At the end of the fiscal year, LACMTA had total long-term debt of \$4,204,143 of which \$2,834,450 were bonds collateralized by sales tax revenue and \$911,774 were lease/leaseback obligations.

The remainder of the long-term debt consisted of general revenue bonds, capital grant receipts revenue bonds, commercial paper, and other debt as shown below:

Los Angeles County Metropolitan Transportation Authority						
Long-term Debt						
	Business-type		Governmental		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Sales tax revenue bonds and refunding bonds	\$ 2,834,450	\$ 2,873,395	\$ -	\$ -	\$ 2,834,450	\$ 2,873,395
Lease/leaseback to service obligations	911,774	870,872	-	-	911,774	870,872
Commercial paper notes	143,532	278,741	-	-	143,532	278,741
General revenue bonds	184,820	203,120	-	-	184,820	203,120
Capital grant receipts revenue bonds	90,155	132,460	-	-	90,155	132,460
Other debt	15,045	18,750	24,367	25,392	39,412	44,142
Total long-term liabilities	\$ 4,179,776	\$ 4,377,338	\$ 24,367	\$ 25,392	\$ 4,204,143	4,402,730

During the fiscal year, LACMTA issued several refunding bonds to achieve debt service savings. In August 2009, \$202,300 in Proposition C Series 2003-C Bonds were refinanced by the \$89,625 Proposition C Series 2009-C and \$118,875 Proposition C Series 2009-D Bonds to convert auction rate securities (ARS) to uninsured variable rate demand bonds (VRDBs) and fixed rate bonds. In October 2009, the Proposition C Series 1998-A Bonds with an outstanding balance of \$81,070 and \$44,000 in Proposition C Commercial Paper Notes were redeemed and refunded by \$118,940 Proposition C Series 2009-E bonds. In October 2009, the Proposition A Series 1999-A and Series 1999-B bonds, a portion of the Series 1999-C bonds, and a portion of the Proposition A Commercial Paper Notes, in an aggregate amount of \$319,221 were refinanced by the \$320,945 Proposition A Series 2009-A bonds. Lastly, in January 2010, a portion of the Proposition C Series 1998-A bonds and the Proposition C Series 2000-A bonds in an aggregate amount of \$45,160 were defeased and refunded by the \$45,455 Proposition C Series 2010-A bonds.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010

Bond Ratings

LACMTA's bonds are rated by Standard & Poor's, Moody's, and Fitch as specified in the following schedule of ratings:

Bonds Issue Type	Standard & Poor's	Moody's	Fitch
Proposition A First Tier Senior Lien Bonds	AAA	Aa2	AA-
Proposition C Senior Sales Tax Revenue Bonds	AA+	Aa2	AA-
General Revenue Bonds	A	A1	n/a
Capital Grant Receipts Revenue Bonds	A+	A1	n/a

Additional information on LACMTA's long-term debt can be found on pages 55 to 64.

Economic Factors and Next Year's Budget

The main economic factors affecting LACMTA's financial capacity to deliver transportation programs and projects include:

- Economic conditions influencing local sales tax revenues
- Capital grant revenues availability
- Interest rate fluctuations
- Fuel and labor costs

LACMTA uses forecasts from various governmental sources as a basis of its future funding assumptions. The budget for FY11 assumed a 4.5 percent growth in sales tax revenue as a result of the economic recovery following a 9.1 percent declines in FY09 and FY10. Local sales taxes registered as the largest revenue sources for LACMTA, comprising 55 percent of LACMTA's total FY11 estimated revenues. From this revenue base, LACMTA constructs a budget that balances anticipated revenues with area transportation needs.

Further Information

This report has been designed to provide our stakeholders with a general overview of LACMTA's financial condition and related issues. Inquiries should be directed to the Chief Financial Services Officer and Treasurer, One Gateway Plaza, Mail Stop 99-25-7, Los Angeles, CA, 90012-2952 or visit LACMTA's website at www.metro.net.

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Los Angeles County Metropolitan Transportation Authority
Statement of Net Assets
June 30, 2010
(Amounts expressed in thousands)

	Business-type Activities	Governmental Activities	Total
ASSETS AND DEFERRED OUTFLOWS			
Current assets:			
Cash and cash equivalents	\$ 79,929	\$ 551,941	\$ 631,870
Investments	53,467	859,580	913,047
Receivables (net of allowance for doubtful accounts)	225,791	345,018	570,809
Internal balances	21,098	(21,098)	-
Inventories	68,083	-	68,083
Prepaid and other current assets	3,781	-	3,781
Designated and restricted assets:			
Cash and cash equivalents – designated	5,431	-	5,431
Cash and cash equivalents – restricted	308,302	1,103	309,405
Investments – designated	268,743	-	268,743
Investments – restricted	133,466	-	133,466
Total current assets	1,168,091	1,736,544	2,904,635
Noncurrent assets:			
Loans receivable	2,574	450	3,024
Investments – restricted	210,724	-	210,724
Lease accounts	911,774	-	911,774
Net OPEB assets	18,313	-	18,313
Deferred charges	125,466	266	125,732
Capital assets			
Land and construction in progress	1,517,042	772,794	2,289,836
Other capital assets, net of depreciation	5,849,482	-	5,849,482
Total noncurrent assets	8,635,375	773,510	9,408,885
Deferred outflows:			
Deferred outflow – derivatives	25,386	-	25,386
Total assets and deferred outflows	9,828,852	2,510,054	12,338,906
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	173,919	198,583	372,502
Accrued interest payable	68,209	-	68,209
Claims payable	74,049	-	74,049
Compensated absences payable	61,889	-	61,889
Bonds and notes payable	189,139	662	189,801
Deferred revenue and credits	21,649	2,158	23,807
Other liabilities	18,733	469	19,202
Total current liabilities	607,587	201,872	809,459
Noncurrent liabilities:			
Claims payable	194,578	-	194,578
Compensated absences payable	19,440	-	19,440
Net pension obligation	868	-	868
Pollution remediation obligations	7,700	-	7,700
Bonds and notes payable	3,990,637	23,705	4,014,342
Derivative instrument	60,802	-	60,802
Deferred revenues and credits	135,791	32,427	168,218
Total noncurrent liabilities	4,409,816	56,132	4,465,948
Total liabilities	5,017,403	258,004	5,275,407
NET ASSETS			
Invested in capital assets, net of related debt	4,366,480	772,794	5,139,274
Restricted for debt service	446,878	-	446,878
Restricted for other purposes	-	1,244,855	1,244,855
Unrestricted	(1,909)	234,401	232,492
Total net assets	\$ 4,811,449	\$ 2,252,050	\$ 7,063,499

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Activities
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
Business-type activities:			
Transit operations	\$ 1,808,257	\$ 342,087	\$ 239,835
Governmental activities:			
Transit operators programs	201,354		
Local cities programs	370,177	-	-
Highway project	247,715	-	192,233
Regional multimodal capital programs	102,084	-	-
Paratransit programs	25,283	-	-
Other transportation subsidies	88,180	-	1,511
General government	219,629	15,713	73,562
Total governmental activities	1,254,422	15,713	267,306
Total	\$ 3,062,679	\$ 357,800	\$ 507,141

General revenues:

 Sales taxes
 Investment income
 Net appreciation (decline) in fair value
 of investments
 Miscellaneous
Transfers
Total general revenues
Change in net assets

Net assets – beginning of year

Net assets – end of year

See accompanying notes to basic financial statements.

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Business-type Activities	Governmental Activities	Total
\$ 411,392	\$ (814,943)	\$ -	\$ (814,943)
-	-	(201,354)	(201,354)
-	-	(370,177)	(370,177)
-	-	(55,482)	(55,482)
-	-	(102,084)	(102,084)
-	-	(25,283)	(25,283)
-	-	(86,669)	(86,669)
-	-	(130,354)	(130,354)
-	-	(971,403)	(971,403)
\$ 411,392	(814,943)	(971,403)	(1,786,346)
	-	2,085,370	2,085,370
	8,811	35,068	43,879
	(709)	4,200	3,491
	16,346	26,979	43,325
	1,069,267	(1,069,267)	-
	1,093,715	1,082,350	2,176,065
	278,772	110,947	389,719
	4,532,677	2,141,103	6,673,780
\$ 4,811,449	\$ 2,252,050	\$ 7,063,499	

Los Angeles County Metropolitan Transportation Authority
Balance Sheet
Governmental Funds
June 30, 2010
(Amounts expressed in thousands)

	<u>Special</u>		
	<u>General Fund</u>	<u>Proposition A</u>	<u>Proposition C</u>
ASSETS			
Cash and cash equivalents	\$ 44,603	\$ 24,707	\$ 47,897
Investments	129,271	71,565	139,806
Receivables:			
Accounts	2,072	-	-
Interest	813	380	1,147
Intergovernmental	124	-	115,388
Sales taxes	-	43,883	43,887
Notes	-	-	-
Due from other funds	7,009	-	13,600
Restricted assets:			
Cash and cash equivalents	981	-	122
TOTAL ASSETS	\$ 184,873	\$ 140,535	\$ 361,847
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,308	\$ 21,036	\$ 130,936
Due to other funds	15	38,963	-
Deferred revenues	2,627	-	114,898
Other liabilities	469	-	-
TOTAL LIABILITIES	4,419	59,999	245,834
FUND BALANCES			
Reserved for			
Memoranda of understanding	-	56,795	987,867
Encumbrances	1,843	-	-
Unreserved, reported in:			
General fund	178,611	-	-
Special revenue funds	-	23,741	(871,854)
TOTAL FUND BALANCES	180,454	80,536	116,013
TOTAL LIABILITIES AND FUND BALANCES	\$ 184,873	\$ 140,535	\$ 361,847

See accompanying notes to basic financial statements.

Revenue Funds						
Measure R	PTMISEA	TDA	STA	Other Governmental Funds	Total Governmental Funds	
\$ 83,486	\$ 64,243	\$ 93,043	\$ 142,198	\$ 51,764	\$ 551,941	
242,078	14,842	-	-	262,018	859,580	
-	-	-	-	33	2,105	
1,381	-	292	101	2,171	6,285	
2,776	-	-	-	2,496	120,784	
106,058	-	22,016	-	-	215,844	
-	-	-	-	450	450	
-	-	-	25,640	39,915	86,164	
-	-	-	-	-	1,103	
\$ 435,779	\$ 79,085	\$ 115,351	\$ 167,939	\$ 358,847	\$ 1,844,256	
\$ 36,312	\$ -	\$ -	\$ -	\$ 8,991	\$ 198,583	
15,800	22,389	23,672	-	6,423	107,262	
2	-	-	-	1,457	118,984	
-	-	-	-	-	469	
52,114	22,389	23,672	-	16,871	425,298	
34,482	-	92,786	7,142	-	1,179,072	
-	-	-	-	22,079	23,922	
-	-	-	-	-	178,611	
349,183	56,696	(1,107)	160,797	319,897	37,353	
383,665	56,696	91,679	167,939	341,976	1,418,958	
\$ 435,779	\$ 79,085	\$ 115,351	\$ 167,939	\$ 358,847	\$ 1,844,256	

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Los Angeles County Metropolitan Transportation Authority
 Reconciliation of the Balance Sheet
 to the Statement of Net Assets – Governmental Activities
 June 30, 2010
 (Amounts expressed in thousands)

Fund Balance – total governmental funds (page 21)	\$ 1,418,958
Government capital assets are not financial resources, and therefore, are not reported in the funds.	772,794
Governmental funds account for cost of refunding bond obligation as expenditures. However, in the Statement of Net Assets, these costs are reported as prepayments and amortized over the life of the bonds.	266
Governmental funds account for revenues not available in the current period as deferred revenues. However, these accrued revenues are recognized in the Statement of Activities when earned.	116,295
Bonds and notes payable are not due and payable in the current period and, therefore, are not reported in the funds.	(24,367)
Governmental funds report revenue only to the extent that it increases current financial resources. However, in the Statement of Activities, revenues are reported when earned. The amount of revenue pertaining to future periods.	<u>(31,896)</u>
Net Assets of governmental activities (page 17)	<u>\$ 2,252,050</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	<u>Special</u>		
	<u>General Fund</u>	<u>Proposition A</u>	<u>Proposition C</u>
REVENUES			
Sales taxes	\$ -	\$ 565,746	\$ 565,787
Intergovernmental	2,525	-	130,115
Investment income	5,201	2,419	10,020
Net appreciation (decline) in fair value of investment	1,049	316	(549)
Lease and rental	15,713	-	-
Licenses and fines	446	-	-
Other	16,764	-	-
TOTAL REVENUES	<u>41,698</u>	<u>568,481</u>	<u>705,373</u>
EXPENDITURES			
Current:			
Administration and other transportation projects	19,842	-	246,657
Transportation subsidies	149	229,407	423,686
Debt and interest expenditures:			
Principal	1,025	-	-
Interest and fiscal charges	1,249	-	-
TOTAL EXPENDITURES	<u>22,265</u>	<u>229,407</u>	<u>670,343</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>19,433</u>	<u>339,074</u>	<u>35,030</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	12,878	47,744	3,942
Transfers out	(12,484)	(420,897)	(401,433)
TOTAL OTHER FINANCING SOURCES (USES)	<u>394</u>	<u>(373,153)</u>	<u>(397,491)</u>
NET CHANGE IN FUND BALANCES	19,827	(34,079)	(362,461)
Fund balances – beginning of year	160,627	114,615	478,474
FUND BALANCES – END OF YEAR	<u>\$ 180,454</u>	<u>\$ 80,536</u>	<u>\$ 116,013</u>

See accompanying notes to basic financial statements.

Revenue Funds						
Measure R	PTMISEA	TDA	STA	Other Governmental Funds	Total Governmental Funds	
\$ 551,480	\$ -	\$ 285,270	\$ 117,087	\$ -	\$ 2,085,370	
4,371	-	-	-	14,035	151,046	
2,656	121	2,240	1,246	11,165	35,068	
3,604	19	-	-	(239)	4,200	
-	-	-	-	-	15,713	
-	-	-	-	7,516	7,962	
-	-	-	-	56	16,820	
562,111	140	287,510	118,333	32,533	2,316,179	
52,306	-	-	-	58,388	377,193	
118,143	-	92,289	3,504	8,799	875,977	
-	-	-	-	-	1,025	
-	-	-	-	-	1,249	
170,449	-	92,289	3,504	67,187	1,255,444	
391,662	140	195,221	114,829	(34,654)	1,060,735	
29,353	-	-	-	39,688	133,605	
(37,350)	(62,058)	(220,871)	(1,052)	(46,727)	(1,202,872)	
(7,997)	(62,058)	(220,871)	(1,052)	(7,039)	(1,069,267)	
383,665	(61,918)	(25,650)	113,777	(41,693)	(8,532)	
-	118,614	117,329	54,162	383,669	1,427,490	
\$ 383,665	\$ 56,696	\$ 91,679	\$ 167,939	\$ 341,976	\$ 1,418,958	

Los Angeles County Metropolitan Transportation Authority
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2010
 (Amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Activities (page 19) are different because:

Net change in fund balances – total governmental funds (page 25)	\$ (8,532)
Governmental funds account for principal payment as expenditures. The payment of principal of long-term debts consumes current financial resources but has no effect on net assets. Principal payments are included in the fund financials.	1,025
Revenues accrued in the Statement of Activities but not reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances. These deferred revenues are not reported in the current period because they are not available.	116,295
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds (e.g. amortization of Lease/leaseback proceeds).	<u>2,159</u>
Change in net assets of governmental activities (page 19)	<u><u>\$ 110,947</u></u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Assets
Proprietary Fund – Enterprise Fund
June 30, 2010
(Amounts expressed in thousands)

ASSETS AND DEFERRED OUTFLOWS

Current assets:	
Cash and cash equivalents	\$ 79,929
Investments	53,467
Receivables (net of allowance for doubtful accounts)	225,791
Inventories	68,083
Due from other funds	21,098
Prepaid and other current assets	3,781
Designated and restricted assets:	
Cash and cash equivalents – designated	5,431
Cash and cash equivalents – restricted	308,302
Investments – designated	268,743
Investments – restricted	133,466
Total current assets	<u>1,168,091</u>
Noncurrent assets:	
Loans receivables	2,574
Investments-restricted	210,724
Lease accounts	911,774
Net OPEB assets	18,313
Deferred charges	125,466
Capital assets (net of accumulated depreciation)	
Land and construction in progress	1,517,042
Other capital assets, net of depreciation	5,849,482
Total noncurrent assets	<u>8,635,375</u>
Deferred outflows:	
Deferred outflow – derivatives	25,386
Total assets and deferred outflows	<u>9,828,852</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities	173,919
Accrued interest payable	68,209
Claims payable	74,049
Compensated absences payable	61,889
Bonds and notes payable	189,139
Deferred revenue and credits	21,649
Other current liabilities	18,733
Total current liabilities	<u>607,587</u>
Noncurrent liabilities:	
Claims payable	194,578
Compensated absences payable	19,440
Net pension obligation	868
Pollution remediation obligations	7,700
Bonds and notes payable	3,990,637
Derivative instruments	60,802
Deferred revenues and credits	135,791
Total noncurrent liabilities	<u>4,409,816</u>
Total liabilities	<u>5,017,403</u>

NET ASSETS

Invested in capital assets, net of related debt	4,366,480
Restricted for debt service	446,878
Unrestricted deficit	(1,909)
	<u>\$ 4,811,449</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund – Enterprise Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

OPERATING REVENUES:	
Passenger fares	\$ 316,427
Auxiliary transportation	25,660
TOTAL OPERATING REVENUES	<u>342,087</u>
OPERATING EXPENSES:	
Salaries and wages	468,310
Fringe benefits	355,833
Professional and technical services	141,531
Material and supplies	87,598
Casualty and liability	30,634
Fuel, lubricants, and propulsion power	97,852
Purchased transportation	42,013
Depreciation	432,802
Other	14,046
TOTAL OPERATING EXPENSES	<u>1,670,619</u>
OPERATING LOSS	<u>(1,328,532)</u>
NON-OPERATING REVENUES (EXPENSES):	
Local grants	854
Federal grants	238,981
Investment income	8,811
Net decline in fair value of investments	(709)
Interest expense	(137,187)
Loss on disposition of capital assets	(451)
Other revenue	16,346
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>126,645</u>
LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>(1,201,887)</u>
CAPITAL GRANTS AND CONTRIBUTIONS:	
Local grants	784
State grants	208,109
Federal grants	202,499
Transfers in – capital	450,046
TOTAL CAPITAL GRANTS AND CONTRIBUTIONS	<u>861,438</u>
TRANSFERS IN – OPERATING	<u>619,221</u>
CHANGE IN NET ASSETS	278,772
Net assets – beginning of year	<u>4,532,677</u>
NET ASSETS – END OF YEAR	<u>\$ 4,811,449</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Cash Flows
Proprietary Fund – Enterprise Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

Cash flows from operating activities	
Receipts from customers	\$ 350,836
Payments to suppliers	(319,433)
Payments to employees	(755,507)
Net cash flows used for operating activities	<u>(724,104)</u>
Cash flows from non-capital financing activities	
Transfers from other funds	571,585
Federal operating grant	238,981
Net cash flows from non-capital financing activities	<u>810,566</u>
Cash flows from capital and related financing activities	
Proceeds from the issuance of debt	693,750
Capital contributions	907,019
Payments for matured bonds and notes payable	(891,312)
Acquisition and construction of capital assets	(583,436)
Interest paid	(133,859)
Net cash flows used for capital and related financing activities	<u>(7,838)</u>
Cash flows from investing activities	
Proceeds from sales and maturity of investments	15,341,137
Purchase of investments	(15,493,062)
Investment earnings	8,721
Net cash flows used for investing activities	<u>(143,204)</u>
Net decrease in cash and cash equivalents	(64,580)
Cash and cash equivalents – beginning of year	458,242
Cash and cash equivalents – end of year	<u><u>\$ 393,662</u></u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	<u>\$ (1,328,532)</u>
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation expense	432,802
Decrease in receivables	1,854
Increase in prepaid and other current assets	(68,473)
Decrease in inventories	9,385
Decrease in due from other funds	60,354
Increase in accounts payable and accrued liabilities	15,429
Decrease in pollution remediation obligations	(2,299)
Increase in compensated absences payable	4,160
Decrease in claims payable	(29,126)
Decrease in net pension obligation	(35)
Increase in post employment benefits payable	56,078
Increase in deferred revenues and credits	114,428
Increase in other current liabilities	9,871
Total adjustments	<u>604,428</u>
Net cash used for operating activities	<u><u>\$ (724,104)</u></u>
Non-cash investing, capital and financing transactions	
Lease/leaseback accretion	\$ 104,375
Capital assets write-off	956
Net decline in fair value of investments	709

See accompanying notes to the basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Assets
Fiduciary Funds
June 30, 2010
(Amounts expressed in thousands)

	Employee Retirement Trust Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 2,689	\$ 13,250
Investments:		
Bonds and derivatives	247,479	39,960
Domestic stocks	104,230	34,545
Non-domestic stocks	7,493	10,430
Pooled investments	380,231	57,792
Receivables:		
Member contributions	1,193	214
Securities sold	694	-
Receivables from sponsors	544	-
Interest and dividends	5,433	344
Prepaid items and other assets	39	-
Total assets	<u>750,025</u>	<u>156,535</u>
LIABILITIES		
Accounts payable and other liabilities	1,223	725
Securities purchased	5,850	-
Total liabilities	<u>7,073</u>	<u>725</u>
NET ASSETS		
Held in trust for pension, OPEB benefits and other purposes	<u>\$ 742,952</u>	<u>\$ 155,810</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Employee Retirement Trust Funds	OPEB Trust Fund
ADDITIONS		
Contributions:		
Employer	\$ 49,821	\$ 22,896
Member	23,184	615
Total contributions	<u>73,005</u>	<u>23,511</u>
From investing activities:		
Net increase in fair value of investments	41,284	12,157
Investment income	47,204	2,970
Investment expense	(2,831)	(651)
Other income	373	-
Total investing activities income	<u>86,030</u>	<u>14,476</u>
Total additions	<u>159,035</u>	<u>37,987</u>
DEDUCTIONS		
Retiree benefits	55,066	18,632
Administrative expenses	1,150	-
Total deductions	<u>56,216</u>	<u>18,632</u>
Net increase	102,819	19,355
Net assets – beginning of year	<u>640,133</u>	<u>136,455</u>
NET ASSETS – END OF YEAR	<u><u>\$ 742,952</u></u>	<u><u>\$ 155,810</u></u>

See accompanying notes to basic financial statements.

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LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2010

The Notes to the Basic Financial Statements are a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying basic financial statements. Unless otherwise stated, all dollar amounts are expressed in thousands.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is governed by a 14-member Board of Directors (Board). The Board is composed of five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, three members appointed by the Mayor, 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.

Management has prepared LACMTA's financial statements and those of its blended component units. The blended component units discussed below are included as part of the reporting entity because they are financially dependent upon LACMTA and because LACMTA's approval is needed for the units to expend their budgets or charges, and issue long-term debt. Although they are legally separate entities, the blended component units are in substance part of LACMTA's operations and data from these units are combined with LACMTA's financial data.

LACMTA administers the activities of the Public Transportation Service Corporation (PTSC), the Service Authority for Freeway Emergencies (SAFE), and the Exposition Metro Line Construction Authority (EXPO) and, therefore, includes the activities of these organizations in the accompanying financial statements. PTSC and EXPO provide services exclusively to LACMTA and LACMTA shares its governing board with SAFE. These entities are presented as blended component units with PTSC and EXPO reported in the proprietary fund type and SAFE reported in the governmental fund type. Additional detailed financial information for each of these entities can be obtained from LACMTA's Accounting Department, One Gateway Plaza, Los Angeles, CA 90012-2952 or visit LACMTA's website at www.metro.net.

PTSC was created in August 1997 to conduct activities essential to the provision of public transportation in and around Los Angeles County. To achieve this goal, LACMTA entered into an Acquisition Agreement under which the planning, programming, administrative, operational management, and construction functions of LACMTA were transferred to and acquired by PTSC. Under this agreement, these functions are provided by PTSC and funded by LACMTA.

SAFE was established in 1988 under the authority of the California Legislature to provide emergency aid to motorists on freeways and expressways within Los Angeles County.

EXPO was established in February 2006 for the purpose of constructing the Exposition Light Rail Line, the newest extension of the 73-station Metro Rail system. The first phase of the project runs 8.6 miles from Metro Rail Station at 7th and Flower Streets in downtown Los Angeles to Washington and National Boulevards in Culver City.

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B. Government-wide and Fund Financial Statements

LACMTA's financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No.34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*", consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. Business-type activities, which rely to a significant extent on fees and charges for services, are reported separately from government activities, which normally are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses, including centralized expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Certain indirect costs are included in the reported program expenses.

Separate fund financial statements are provided for proprietary funds, governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and contributions are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The fiduciary fund financial statements also use the accrual basis of accounting and are reported using the economic resources measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, LACMTA considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

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Expenditures generally are recorded when a liability is incurred and a valid claim is presented. Transportation subsidies are recorded when all of the eligibility requirements have been met, including the receipt of the reimbursement request. Long-term debt is recorded only when payment is due.

Interests associated with the current fiscal period are subject to accrual and have been recognized as revenues of the current fiscal period.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict the guidance of the GASB. LACMTA also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds, subject to the same limitation. LACMTA has elected not to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. However, intra-activity billing for services provided and used are not eliminated in the process of consolidation.

Amounts reported as program revenues include: 1) charges to customers of transit services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, investment income, and miscellaneous revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of LACMTA's Enterprise fund are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is LACMTA's policy to use restricted resources first. Unrestricted resources are used as they are needed.

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: proprietary, governmental, and fiduciary, as described below.

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The **Proprietary fund** is used to account for LACMTA's ongoing operations and activities similar to those found in the private sector where the determination of net income is necessary or useful to provide sound financial administration. The Enterprise fund is LACMTA's only proprietary fund.

LACMTA's Enterprise fund is used to account for operations that are financed and operated in a manner similar to private businesses where the intent is that costs, including depreciation, of providing goods or services to the general public on a continuing basis be recovered primarily through user charges and governmental transfers.

LACMTA reports all operations-related transactions, including capital and related debt, in the Enterprise fund.

All major transit operations capital projects are partially funded by proceeds from debt secured by sales tax revenue, State and Federal grants, and contributions from the governmental funds. Sales tax secured debt is reported as liabilities in the Enterprise fund. The financial resources used to pay the debt principal and interests are reported as contributions from the governmental funds.

Governmental funds are used to account for LACMTA's governmental activities. The measurement focus is the determination of changes in financial position, rather than net income determination. LACMTA uses the following governmental fund types:

General fund is used to account for those financial resources that are not required to be accounted for in another fund. The general fund is one of LACMTA's major governmental funds.

Special revenue funds are used to account for proceeds of specific revenue sources including sales taxes that are legally restricted to expenditures for specified purposes. The following are LACMTA's other major governmental funds:

Proposition A – This fund is used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on July 1, 1982. Revenues collected are to be allocated: 1) 25 percent to local jurisdictions for local transit; 2) 35 percent to be used for construction and operation of rail rapid transit systems; and 3) 40 percent is allocated at the discretion of LACMTA.

Proposition C – The “Los Angeles County Anti-Gridlock Transit Improvement Fund” is used to account for the proceeds of the voter-approved one-half percent sales tax that became effective on April 1, 1991. Revenues collected are to be allocated: 1) 5 percent to improve and expand rail and bus security; 10 percent for Commuter Rail and construction of transit centers, park-and-ride lots and freeway bus stops; 2) 20 percent to local jurisdictions for public transit and related services; 3) 25 percent for essential county-wide transit-related improvements to freeways and state highways; and 4) 40 percent to improve and expand rail and bus transit county-wide.

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Measure R – The “Traffic Relief and Rail Expansion Ordinance” is used to account for the proceeds of the voter-approved half-cent sales tax that became effective on July 1, 2009 and continuing on for the next 30 years. Revenues collected are allocated to: 1) 2% for rail capital improvements; 2) 3% for Metrolink capital improvements; 3) 5% for rail operations for new transit projects; 4) 15% for local return; 5) 20% for bus operations allocated using LACMTA’s formula allocation procedure (based on vehicle service miles and fare revenue); 6) 20% for highway capital projects; and 7) 35% for transit capital specific projects.

Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) – This fund is part of the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. This fund is intended to fund projects, to protect the environment and public health, conserve energy, reduce congestion, and to provide alternative mobility and access choices for Californians.

Transportation Development Act (TDA) – This fund is used to account for revenues received from the State as part of the Transportation Development Act and are paid out to various transit operators, including LACMTA, for operating and capital uses.

State Transit Assistance (STA) – This fund is used to account for revenue received from the State Assistance Program of the Transportation Development Act, which provides formulas to determine the uses of the proceeds.

The LACMTA also has the following nonmajor special revenue funds:

Traffic Congestion Relief Program (TCRP) – This fund is used to account for revenue received from the State for projects that relieve congestion, provide for the safe and efficient movement of goods, and provide inter-modal connectivity of transportation systems throughout California.

Service Authority for Freeway Emergencies (SAFE) – This fund is used to account for revenues received from the State Department of Motor Vehicles, generated by a \$1 per car registration fee in Los Angeles County to improve freeway emergency responses program, including call box operations.

Propositions A and C, TDA Administration – This fund is used strictly to account for administrative activities, including planning, execution, use, and conduct of projects and programs, funded by Propositions A and C and TDA.

Other Special Revenue Funds - This fund is used to account for specific revenue sources related to funds not classified as a nonmajor special revenue funds.

Fiduciary funds are used to account for assets held by LACMTA in a trustee capacity or as an agent for individuals, other governmental units, or other funds. Fiduciary funds include the following fund types:

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Employee retirement trust funds account for the assets of the five defined benefit pension plans that LACMTA administers, and are accounted for in essentially the same manner as the proprietary funds.

Other Postemployment Benefits (OPEB) trust funds account for the resources held in trust by LACMTA for the benefits of members and beneficiaries not offered as an integral part of a pension plan.

D. Assets, Liabilities, and Net Assets

Deposits and Investments

LACMTA's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of 90 days or less at the date of acquisition. Investments include instruments or deposits beyond the 90-day original maturities. State statutes and LACMTA's policy allows LACMTA to invest in U.S. Treasury, commercial paper, repurchase agreements, and the State Treasurer's Investment pool. LACMTA's investments are reported at fair value, which is the quoted market price.

LACMTA is considered to be an involuntary participant in an external investment pool as required by the State of California statutes to maintain the cash surplus with the County Treasurer.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balance outstanding between the governmental activities is reported in the government-wide financial statements as internal balances. All receivables are shown as net of allowance for doubtful accounts.

Inventories and Prepaid Items

Inventories, consisting primarily of bus and rail vehicle parts, are valued at weighted average cost. Inventory items of governmental funds are recorded as expenditures when consumed. Certain payments to vendors applicable to future accounting periods are recorded as prepaid items.

Restricted and Designated Assets

Certain cash, cash equivalents, and investments are classified as designated or restricted assets on the Statement of Net Assets and Balance Sheets. Restricted assets are maintained in separate accounts and their use is externally restricted for debt service, construction, and asset acquisitions. Designated assets are separate unrestricted funds designated by

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management to pay for self-insurance claims related to public liability and property damages, and workers' compensation liabilities.

Capital Assets

Capital assets are reported in the applicable business-type or governmental activities in the government-wide financial statements. Capital assets are defined by LACMTA as assets with an initial individual cost of more than \$2,500 (amount not in thousands). Such assets are recorded at historical cost if purchased or constructed. If donated, capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Capital assets in the proprietary funds are recorded at cost.

Capital assets are carried at cost and depreciated using the straight-line method based on the estimated useful life of the related assets as follows:

Asset Type	Useful Life in Years
Buildings and structures	30
Rail cars	25
Buses	12 - 14
Equipment and other furnishings	5 - 10
Other vehicles	5

Proprietary fund capital assets acquired with Federal, State, and Local capital grants are included in the Statement of Net Assets. Depreciation on these capital assets is included in the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Compensated Absences

It is LACMTA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation and sick leave in the governmental fund. All vacation and sick leave pay is accrued when earned in the government-wide and proprietary fund financial statements. Accumulation and payment of vacation and sick leave is based on the collective bargaining agreements with the various unions.

Long-term Obligations

In the government-wide and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums are recorded as deferred credits. Bond issuance costs, as well as bond discounts, are recorded as deferred charges. Both deferred charges and credits are amortized over the term of the related debt.

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In the fund financial statements, governmental fund types, bond premiums, discounts, and bond issuance costs are recognized as current period expenditures.

Deferred Revenues and Credits

In the government-wide and proprietary fund type fund financial statements, deferred revenues are resource inflows that do not meet the criteria for revenue recognition. Deferred revenues arise when resources are received by LACMTA before it has a legal claim to them, such as grant monies received prior to the incurrence of the qualifying expenditures, presale of passes and tickets, and others. When revenue recognition criteria are met, or when LACMTA has a legal claim to the resources, deferred revenue is removed from the Statement of Net Assets and the revenue is recognized.

The deferred credits represent unamortized bond premiums.

In the governmental fund type fund financial statements, deferred revenues and other credits represents revenues not collected within the 90-day period at the end of the current fiscal period.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

In February of each year, all LACMTA departments submit requests for appropriations to management so that an operational and capital projects budget can be prepared. The proposed budgets are submitted to the Board in May for review. Prior to adoption, the Board conducts public hearings for discussion of the proposed annual budgets. The Board adopts the final budget at the conclusion of the hearings, which is planned to occur no later than June 30.

Enabling legislation and adopted policies and procedures provide that LACMTA's Board approve an annual budget. Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP) for all governmental and proprietary funds. The Board also approves the life of project budget whenever new capital projects are approved. All non-capital appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund, cost center, expense type, and project. 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.

LACMTA employs the noted practices and procedures in establishing budgetary data on a basis consistent with GAAP as reflected in the basic financial statements.

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B. Encumbrances

Encumbrance accounting is employed in the general and special revenue funds. Under this method, purchase orders, contracts, Memoranda of Understanding (MOU), and other commitments outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. These commitments will be recognized in subsequent years' appropriations.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

As of June 30, 2010, the following are LACMTA's cash deposits and investments:

	<u>Business-type Activities</u>	<u>Governmental Activities</u>	<u>Total</u>
Cash Deposits and Investments:			
Cash deposits	\$ 18,603	\$ 18,530	\$ 37,133
Banker's acceptance	2,503	29,069	31,572
Commercial paper	5,002	55,332	60,334
Guaranteed investment contracts	60,910	-	60,910
Investment pools	42,841	273,191	316,032
Medium-term notes	128,133	339,199	467,332
Mortgage-backed securities	12,101	31,072	43,173
Pooled funds and mutual funds	307,257	49,991	357,248
Repurchase agreements	21	279	300
U.S. Agency securities	215,619	378,259	593,878
U.S. Treasury obligations	267,072	237,702	504,774
Total fair value	<u>\$ 1,060,062</u>	<u>\$ 1,412,624</u>	<u>\$ 2,472,686</u>

Reported in the Statement of Net Assets and Balance Sheet:

Cash and cash equivalents	\$ 79,929	\$ 551,941	\$ 631,870
Investments	53,467	859,580	913,047
Cash and cash equivalents – designated	5,431	-	5,431
Cash and cash equivalents – restricted	308,302	1,103	309,405
Investments – designated	268,743	-	268,743
Investments – restricted	344,190	-	344,190
Total	<u>\$ 1,060,062</u>	<u>\$ 1,412,624</u>	<u>\$ 2,472,686</u>

LACMTA internally pools all cash deposits and investments. All proprietary and governmental funds maintain an equity interest in the pool. Each fund's positive equity in the internally pooled cash deposits and investment account is presented as cash and cash equivalents on the Statement of Net Assets and Balance Sheet. Negative equity balances have been reclassified and are reflected as interfund receivables/payables. Interest income earned and expenses incurred as a result of investing are allocated to the various funds based on their monthly equity balances. For purposes of the Statement of Net Assets, Balance

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Sheet, and Statement of Cash Flows, all highly liquid investments, including restricted/designated assets with an original maturity date of 90 days or less when purchased, are considered to be cash and cash equivalents. Otherwise, they are classified as investments.

All investments are stated at fair value. Net changes in the fair value of investments are shown in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

LACMTA's most recent investment policy, adopted by the Board on February 1, 2010, requires LACMTA's investment program to meet three criteria in the order of their importance: **Safety** – preservation of capital and the protection of investment principal; **Liquidity** – investment portfolios will remain sufficiently liquid to enable LACMTA to meet operating requirements that might be reasonably anticipated; **Return on Investments** – LACMTA will maximize yield on the portfolio consistent with the safety and liquidity objectives.

The table below briefly describes LACMTA's investment policy. This table does not address cash deposits and investments held by bond trustees that are governed by the provisions of LACMTA's bond trust agreements.

Authorized Investment Type	Maximum Effective Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer	Minimum Ratings
Bonds issued by LACMTA	5 years	No limit	No limit	None
U.S. Treasury obligations	5 years	No limit	No limit	None
State of California obligations	5 years	25%	No limit	A1/P-1 short term or Aa/AA long term
Local Agency within the State of California	5 years	25%	No limit	A1/P-1 short term or Aa/AA long term
U.S. Agency securities	5 years	50%	15%	A
Banker's acceptance	180 days	40%	10%	A1/P-1
Commercial paper	270 days	25%	10%	A
Negotiable certificates of deposit	5 years	30%	10%	A
Repurchase agreements	90 days	20%	None	None
Medium-term notes	5 years	30%	10%	A
Pooled funds and mutual funds	Not applicable	20%	10%	AAA/Aaa
Asset-backed securities	5 years	15% combined with any mortgage-backed securities	None	AAA
Mortgage-backed securities	5 years	15% combined with any asset-backed securities	None	AAA
State/County investment pool	Not applicable	No limit	Amount permitted by CGC	Not applicable

LACMTA's investment policy prohibits investing in derivatives or reverse repurchase agreements.

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The management of LACMTA's cash and investments can be categorized as follow:

- Cash deposits
- Short-term investments
- Bond proceeds and debt service investments

LACMTA's investment policy is applicable to the cash deposits and short-term investments. Bond proceeds and debt service investments accounts are governed by LACMTA's debt policy.

Cash Deposits

As of June 30, 2010, LACMTA's carrying amount of cash comprises of \$1,784 in cash on hand and \$35,349 in checking accounts for a combined total of \$37,133. LACMTA's total bank balance was \$46,259 with the difference represented primarily by outstanding checks and deposits in transit. Accounts with banks were insured by Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 (amount not in thousands) each and amounts uninsured are collateralized by securities held by the bank's trust department or its agent in LACMTA's name.

Short-term Investments

As of June 30, 2010, LACMTA had the following short-term investments:

Investment Type	Fair Value	Weighted Average Duration (in years) per Investment Type	Concentration of Investments	Ratings
Banker's acceptance	\$ 31,572	0.002348	1.76%	A to A-1+
Commercial paper	60,334	0.003069	3.36%	A-1 to A-1+
State/County investment pools	316,032	0.000482	17.63%	Not Rated
Medium-term notes	461,752	0.407305	25.74%	A to AAA
Medium-term notes*	5,580	0.008254	0.31%	BBB+
Mortgage-backed securities	43,173	0.021052	2.41%	AAA
Pooled funds and mutual funds	62,036	0.007437	3.46%	Not Rated
Repurchase agreements	300	0.000000	0.02%	Not Rated
U.S. Agency securities	491,977	0.357053	27.44%	A to AAA
U.S. Treasury obligations	320,453	0.321111	17.87%	AAA
Total	<u>\$ 1,793,209</u>		<u>100.00%</u>	
Portfolio weighted average duration		<u>1.128111</u>		

**These medium-term notes had A-rated credit ratings by S & P at the time of purchase during 2008 to 2009 and were subsequently downgraded to B-rated credit ratings as of June 30, 2010.*

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The weighted average duration is calculated using the investment's effective duration weighted by the investment's fair value.

LACMTA is a voluntary participant for its investments with the California Local Agency Investment Fund (LAIF) totaling \$80,000. The LAIF Advisory Board, whose Chairman is the State Treasurer or designee, provides regulatory oversight for LAIF.

LACMTA is an involuntary participant for its investments with the Los Angeles County Investment Pool (LACIP) totaling \$236,032. The County Board of Supervisors provides regulatory oversight for LACIP.

Bond Proceeds and Debt Service Investments

As of June 30, 2010, the following table addresses the investments held by the bond trustees for the benefit of LACMTA in accordance with the provisions of the various bond trust agreements.

Investment Type	Fair Value	Weighted Average Maturities (in years) per Investment Type	Concentration of Investments	Ratings
Guaranteed investment contracts	\$ 60,910	0.743231	9.48%	Not Rated
Pooled funds and mutual funds	295,212	0.005814	45.96%	AAA
U.S. Agency securities	101,901	0.091057	15.86%	AAA
U.S. Treasury obligations	184,321	0.275078	28.70%	AAA
Total	<u>\$ 642,344</u>		<u>100.00%</u>	
Portfolio weighted average maturities		<u>1.115180</u>		

Risk

In accordance with GASB Statement No. 40, *“Deposit and Risk Disclosure – an Amendment of GASB Statement No.3”*, certain required disclosures regarding investment policies and practices with respect to the risk associated with their credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk and are discussed in the following paragraphs:

Credit Risk

Investments are subject to credit risk, which is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause price to decline. The tables above for short-term investments and bond proceeds and debt service investments summarize the market value of investment and the related credit ratings. LACMTA maintains policies to manage credit risk, which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations for its investments.

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Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual shares. As disclosed above, LACMTA maintains investment policies that establish thresholds for holdings of individual securities. LACMTA does not have any holdings meeting or exceeding these threshold levels.

As of June 30, 2010, LACMTA does not have any investments with more than 5 percent of the total investments under one issuer except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

Custodial Credit Risk

LACMTA has no known custodial credit risk for deposits as financial institutions are required by the California Government Code to collateralize deposits of public funds by pledging government securities as collateral. Such collateralization of public funds is accomplished by pooling. The market value of pledged securities must be in accordance with the Government Code for the State of California. California law also allows financial institutions to collateralize public fund deposits by governmental securities with a value of 110 percent of the deposit or by pledging first trust deed mortgage notes having a value of 150 percent of a governmental unit's total deposits. LACMTA may waive collateral requirements for deposits that are fully insured up to \$250,000 (amount not in thousands) by the FDIC. All investment securities purchased were held and registered in LACMTA's name and maintained for the benefit of the LACMTA in the trust department or safekeeping department of a financial institution as established by a written third party safekeeping agreement between LACMTA and the financial institution.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. LACMTA measures interest rate risk on its short-term investments using the effective duration method. LACMTA maintains a policy requiring the average duration of the externally managed short-term investments not to exceed 150 percent of the benchmark duration and the average duration of the internally managed short-term investments not to exceed three years. This policy does not apply to investments of proceeds related to bond financings. LACMTA measures interest rate risk on its bond proceeds and debt service investments using the weighted average maturity method.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of the cash deposits or investments. As of June 30, 2010 there is no exposure to currency risk as all LACMTA cash deposits and investments are denominated in U.S. dollar currency.

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B. Lease Accounts

LACMTA entered into various Lease/leaseback agreements in the form of Payment Undertakings, Equity Payment Undertakings, and Guaranteed Investment Certificates with various investment providers. These were general obligations of the investment providers for the benefit of the trust except for \$53,756 of Guaranteed Investment Certificates held in LACMTA's name. As of June 30, 2010, these Lease/leaseback agreements totaled \$911,774.

C. Interfund Receivables, Payables and Transfers

Internal fund balances represent receivables/payables owed to a particular fund by another fund for temporary loans, advances, goods delivered or services rendered.

As of June 30, 2010, the special revenue funds are indebted to the Enterprise fund in the amount of \$46,738.

<u>Business-type Activities</u>	<u>Governmental Activities</u>	<u>Amount</u>
<u>Receivable Fund</u>	<u>Payable Fund</u>	
Enterprise	TDA	\$ 23,672
Enterprise	PTMISEA	18,637
Enterprise	Others	4,429
Total		<u>\$ 46,738</u>

As of June 30, 2010, the Enterprise Fund is indebted to the special revenue funds in the amount of \$25,640.

Transfers in and out by fund are as follows:

<u>Transfers In</u>							
<u>Transfers Out</u>	<u>Enterprise Fund</u>	<u>General Fund</u>	<u>Prop A Fund</u>	<u>Prop C Fund</u>	<u>Measure R</u>	<u>Other Governmental Funds</u>	<u>Total</u>
General Fund	\$ 10,955	\$ -	\$ -	\$ 226	\$ -	\$ 1,303	\$ 12,484
Prop A	385,782	3,054	-	1,562	2,697	27,802	420,897
Prop C	331,910	9,824	47,744	-	7,449	4,506	401,433
Measure R	37,350	-	-	-	-	-	37,350
PTMISEA	61,916	-	-	-	142	-	62,058
TDA	215,518	-	-	-	-	5,353	220,871
STA	1,052	-	-	-	-	-	1,052
Others	24,784	-	-	2,154	19,065	724	46,727
Total	<u>\$ 1,069,267</u>	<u>\$ 12,878</u>	<u>\$ 47,744</u>	<u>\$ 3,942</u>	<u>\$ 29,353</u>	<u>\$ 39,688</u>	<u>\$ 1,202,872</u>

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D. Receivables

Receivables as of June 30, 2010, as shown in the government-wide financial statements, in the aggregate, including the applicable allowance for doubtful accounts, are as follows:

Receivables	Business-type Activities	Governmental Activities	Total
Accounts	\$ 11,161	\$ 2,105	\$ 13,266
Interest	3,221	6,285	9,506
Intergovernmental	213,920	120,784	334,704
Sales tax	-	215,844	215,844
Gross Receivables	228,302	345,018	573,320
Less: Allowances for doubtful accounts	(2,511)	-	(2,511)
Net Receivables	<u>\$ 225,791</u>	<u>\$ 345,018</u>	<u>\$ 570,809</u>

Receivables as of June 30, 2010 for governmental activities by individual major funds and nonmajor funds are as follows:

Receivables	General Fund	Prop A Fund	Prop C Fund	Measure R Fund	TDA Fund	STA Fund	Other Governmental Funds	Total
Accounts	\$ 2,072	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33	\$ 2,105
Interest	813	380	1,147	1,381	292	101	2,171	6,285
Intergovernmental	124	-	115,388	2,776	-	-	2,496	120,784
Sales tax	-	43,883	43,887	106,058	22,016	-	-	215,844
Total	<u>\$ 3,009</u>	<u>\$ 44,263</u>	<u>\$ 160,422</u>	<u>\$ 110,215</u>	<u>\$ 22,308</u>	<u>\$ 101</u>	<u>\$ 4,700</u>	<u>\$ 345,018</u>

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E. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 625,915	\$ 370	\$ -	\$ 626,285
Construction in progress	1,405,189	449,689	(964,121)	890,757
Total capital assets, not being depreciated	<u>2,031,104</u>	<u>450,059</u>	<u>(964,121)</u>	<u>1,517,042</u>
Capital assets, being depreciated:				
Buildings	6,417,748	855,184	(5,207)	7,267,725
Equipment	585,411	48,866	(11,232)	623,045
Vehicles	2,066,311	200,615	(151,041)	2,115,885
Total capital assets, being depreciated	<u>9,069,470</u>	<u>1,104,665</u>	<u>(167,480)</u>	<u>10,006,655</u>
Less accumulated depreciation for:				
Buildings	(2,347,460)	(227,791)	214	(2,575,037)
Equipment	(430,538)	(59,479)	10,214	(479,803)
Vehicles	(1,106,234)	(145,532)	149,433	(1,102,333)
Total accumulated depreciation	<u>(3,884,232)</u>	<u>(432,802)</u>	<u>159,861</u>	<u>(4,157,173)</u>
Total capital assets, being depreciated, net	<u>5,185,238</u>	<u>671,863</u>	<u>(7,619)</u>	<u>5,849,482</u>
Business-type Activities capital assets, net	<u>\$ 7,216,342</u>	<u>\$ 1,121,922</u>	<u>\$ (971,740)</u>	<u>\$ 7,366,524</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 772,794	\$ -	\$ -	\$ 772,794
Capital assets, being depreciated:				
Freeway Service Patrol SAFE Vehicles	368	-	(4)	364
Less accumulated depreciation	(368)	-	4	(364)
Total capital assets, being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental Activities capital assets, net	<u>\$ 772,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 772,794</u>

Depreciation expense charged to functions and/or programs are as follows:

Business-type Activities	
Bus operations	\$ 189,244
Rail operations	243,558
Total – Business-type Activities	<u>\$ 432,802</u>

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F. Risk Management

The primary emphasis of risk management activities at LACMTA is to prevent or minimize the risk of injury to persons and damage to, or loss of property. Where losses cannot be prevented, LACMTA endeavors to self-insure or to assume such losses as it may deem advisable and economical, giving due consideration to the frequency and severity of probable losses. The consideration of the effect of potential self-insured or assumed losses is part of LACMTA's financial planning process.

For its construction projects, LACMTA requires contractors to maintain a contractor controlled insurance program (CCIP) to minimize LACMTA's risk of exposure to construction related losses. These policies provide property, liability, and workers' compensation insurance and cover many of the risks arising from the work of contractors and subcontractors on LACMTA construction projects.

Operations

The reserves for the workers' compensation and the public liability and property damage claims are actuarially determined and subject to periodic adjustment as conditions warrant. The reserves are discounted using an average rate of return of 3.0 percent. LACMTA believes that the estimated liability for self-insured claims as of June 30, 2010 will be sufficient to cover any costs arising from claims filed or to be filed for incidents that occurred through that date. The liability is based, in part, upon an independent actuarial estimate of reserves required for unsettled claims including losses that have been incurred but not reported and legal expenses but excluding direct administration costs both by LACMTA employees and third party administrators.

Since September 1, 2001, the workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2010, a designated investment has been set aside in the amount of \$183,694 equal to the workers' compensation liabilities.

LACMTA is partially self-insured for public liability and property damage for non-construction activities up to \$4,500 per occurrence. LACMTA has acquired outside insurance coverage for losses of \$200,000 in excess of self-insurance retentions. LACMTA is self-insured for losses less than \$200,000.

Furthermore, LACMTA has an all-risk property insurance program that covers all LACMTA property. The property insurance policy covers insurable values of approximately \$7.8 billion on a probable maximum loss basis with policy limits of \$350,000 for damages (\$150,000 for flood damages). Earthquake coverage is not included in the current program structure. LACMTA does not set aside funds to cover potential gaps in property insurance coverage in case of losses.

As of June 30, 2010, a designated investment has been set aside in the amount of \$84,933 equal to the property and casualty liabilities.

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The following table summarizes changes in the claims and judgments reserves for the years ended June 30, 2010 and 2009:

	Property and Casualty		Workers' Compensation		Total	
	2010	2009	2010	2009	2010	2009
Unpaid claims and claim adjustment						
reserve – beginning of year	\$ 93,185	\$ 98,592	\$ 204,568	\$ 220,022	\$ 297,753	\$ 318,614
Provisions for insured events	26,142	22,327	9,562	9,004	35,704	31,331
Interest income	3,057	6,317	6,162	12,644	9,219	18,961
Total incurred claims and claims						
adjustment expense	122,384	127,236	220,292	241,670	342,676	368,906
Payment attributable to insured events	(37,451)	(34,051)	(36,598)	(37,102)	(74,049)	(71,153)
Total unpaid claims and claim						
adjustment reserves – end of year	\$ 84,933	\$ 93,185	\$ 183,694	\$ 204,568	\$ 268,627	\$ 297,753

As of June 30, 2010, \$74,049 of the total claims liability is considered current.

G. Compensated Absences

LACMTA and PTSC's employees represented by the United Transportation Union (UTU), the Amalgamated Transportation Union (ATU), Transportation Communications Union (TCU), American Federation State, County, Municipal Employees (AFSCME) and the Brotherhood of Teamsters (Teamsters) accumulate vacation leave pay and sick leave pay in varying amounts based on the collective bargaining agreements with the various unions.

Under the July 2006 to June 2010 contracts, vacation periods are not cumulative, however, employees may carry forward vacation pay of up to 40 hours for TCU and ATU and 40 hours for UTU to the next vacation period if notice is given by April 1, otherwise, unused vacation hours earned for the year is paid off on May 31. UTU, TCU and Teamsters employees may request payment of a limited amount of unused sick leave each year at a rate of 75 percent of face value. Unused sick leave for contract employees is payable at the rate of 100 percent of the face value upon retirement or death.

LACMTA, PTSC and EXPO have a combined vacation and sick leave program for its non-represented and AFSCME represented employees. Under this program, vacation and sick leave are combined as time off with pay (TOWP), which accrues at varying rates throughout the year.

Accumulated vacation and sick leave prior to the implementation of TOWP policy on January 1, 1995 were considered frozen and remained on the books as a liability. Frozen vacation may be converted into TOWP once per year at the request of the employee, or will be paid at 100 percent at retirement, termination, or death. Frozen sick leave may be converted to TOWP prior to retirement at a 75 percent conversion rate when an employee reaches the age of 55 and has five years or more service. Upon retirement, unused sick pay

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is paid at 75 percent, except for those individuals who retire between the ages 50 and 55, wherein the payout rate varies from 50 to 75 percent depending on the employee's age at retirement. All employees with 30 or more years of service, regardless of age at retirement, have a payout rate at 75 percent. Upon death, payment of frozen sick leave will be at 100 percent to the employee's beneficiary.

The following is a summary of the compensated absences payable as of June 30, 2010:

	Balance			Balance	Due Within
	June 30, 2009	Earned	Used	June 30, 2010	One Year
Union Employees:					
Vacation leave	\$ 24,562	\$ 26,017	\$ (25,245)	\$ 25,334	\$ 25,175
Sick leave	26,058	16,480	(13,313)	29,225	13,271
TOWP	6,087	7,714	(7,688)	6,113	6,370
Sub-total	<u>56,707</u>	<u>50,211</u>	<u>(46,246)</u>	<u>60,672</u>	<u>44,816</u>
Non-Union Employees:					
Vacation leave	700	-	(15)	685	13
Sick leave	3,225	-	(418)	2,807	153
TOWP	16,536	17,261	(16,632)	17,165	16,907
Sub-total	<u>20,461</u>	<u>17,261</u>	<u>(17,065)</u>	<u>20,657</u>	<u>17,073</u>
Total	\$ 77,168	\$ 67,472	\$ (63,311)	\$ 81,329	\$ 61,889

H. Termination Benefits

LACMTA has two severance options which must be accounted for under GASB Statement No. 47 *Accounting for Termination Benefits*: the supplemental severance pay option and the two years additional age and service credit option (2+2 plan). Under the supplemental severance pay option, affected employees will receive supplemental severance pay based on the length of service up to a maximum of twenty four weeks. Under the 2+2 plan, the affected employees will receive two years additional age and service credit toward retirement under the LACMTA Non-Contract Employees' Retirement Income Plan. Employees who are not vested in the Non-Contract Retirement Income Plan are not eligible to receive the 2+2 plan.

Under both options, affected employees will receive two weeks basic severance pay. In addition, during the supplemental severance period, LACMTA will pay the employer contribution for the medical, dental and group life insurance costs for the last insurance plan in which the employee was enrollee during their employment with LACMTA. During fiscal year ended June 30, 2010, there were 172 non-contract employees who were terminated, of which 158 took the supplementary severance program and fourteen employees took the 2+2 plan.

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The severance pay and related benefit costs for the year ended June 30, 2010 amounted to \$6,819. The liability amounts are reflected in the Accounts Payable and Accrued Liabilities line item on the Statement of Net Assets. All termination benefits are based on average cost per employee and are shown at present cost.

I. Leases

Operating Leases

LACMTA has entered into various lease agreements as “lessor” to lease various parcels of land located within the vicinity of the Red Line stations. The majority of these leases will expire between 50 years to 99 years. These leases are considered operating leases for accounting purposes.

The carrying value of the land held for lease as of June 30, 2010 is \$48,678 and is included under the Land caption in the Capital Assets section of the Notes to the Basic Financial Statements found on page 49.

The following is a schedule by years of minimum future rentals to be received on non cancelable operating leases as of June 30, 2010:

YEAR ENDING JUNE 30	AMOUNT
2011	\$ 2,380
2012	2,756
2013	2,903
2014	2,952
2015	2,981
Thereafter	<u>579,124</u>
	<u><u>\$ 593,096</u></u>

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LACMTA is committed under various leases as “lessee” to lease for building and office space. These leases are considered to be operating leases for accounting purposes. Lease expenditures for the year ended June 30, 2010 totaled \$6,282. Future minimum lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 1,327
2012	1,058
2013	563
2014	436
2015	438
Total	<u><u>\$ 3,822</u></u>

Capital Leases

LACMTA has entered into various lease agreements as “lessee” to finance the acquisition of buses and compressed natural gas (CNG) fueling facilities. These lease agreements qualify as capital leases for accounting purposes. The related assets and liabilities have been recorded as business-type activities. The liabilities represent the present values of the future minimum lease payments, while the assets covered by the leases are shown at depreciated cost.

The assets acquired through capital leases are as follows:

	<u>Vehicles</u>	<u>Buildings</u>	<u>Total</u>
Cost	\$ 30,445	\$ 35,051	\$ 65,496
Less: Accumulated Depreciation	(20,221)	(35,051)	(55,272)
Net Book Value	<u>\$ 10,224</u>	<u>\$ -</u>	<u>\$ 10,224</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	2.89% - 6.66%	\$ 5,134

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The lease payment schedule to maturity is as follows:

Year Ending June 30	Principal	Interest
2011	\$ 2,313	\$ 124
2012	1,990	55
2013	831	11
Total	\$ 5,134	\$ 190

J. Long-term Obligations

LACMTA's bonds and notes obligation as of June 30, 2010 are as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
<u>Business-type Activities</u>					
General revenue bonds	203,120	\$ -	\$ (18,300)	\$ 184,820	\$ 15,120
Capital grant receipts revenue bonds	132,460		(42,305)	90,155	-
Sales tax revenue and refunding bonds	2,873,395	693,750	(732,695)	2,834,450	118,990
Lease/leaseback to service obligations	870,872	104,375*	(63,473)	911,774	51,569
Commercial paper notes	278,741		(135,209)	143,532	-
Notes payable	11,013		(1,102)	9,911	1,147
Capitalized lease	7,737		(2,603)	5,134	2,313
Business-type Activities – Long-term Liabilities	4,377,338	798,125	(995,687)	4,179,776	189,139
<u>Governmental Activities</u>					
Redevelopment and housing bonds	25,392	-	(1,025)	24,367	662
Total Long-term Liabilities	\$ 4,402,730	\$798,125	\$ (996,712)	\$ 4,204,143	\$ 189,801

*Represents leaseback accretion

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest rate method. All bonded indebtedness, except for the taxable commercial paper, is subject to the Federal arbitrage regulation.

In January 2010, LACMTA transferred \$18,054 to an escrow account to be used solely for both principal and interest payments for the Proposition C Sales Tax Revenue Refunding Bonds, Series 1998-A maturing on July 1, 2010. As of June 30, 2010, the outstanding principal of \$17,535 was considered defeased in substance and reported as reduction of outstanding bonds payable.

General Revenue Bonds

LACMTA has two outstanding general revenue bond issues. These are the General Revenue Refunding Bonds (Workers' Compensation Funding Program) Series 2003, which were

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issued to refund the Certificates of Participation and the General Revenue Refunding Bonds Series 2004 (Union Station Gateway Project), which refunded the General Revenue Refunding Bonds Series 1996-A.

General Revenue bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	3.50% - 4.56%	\$ 184,820

Annual debt service requirements to maturity for the General Revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 15,120	\$ 6,347
2012	5,650	5,842
2013	6,075	5,637
2014	6,525	5,417
2015	7,000	5,180
2016-2020	42,750	21,736
2021-2025	58,050	12,960
2026-2028	43,650	2,348
Total	<u>\$ 184,820</u>	<u>\$ 65,467</u>

Capital Grant Receipts Revenue Bonds

The Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005-A are fixed rate bonds with rates of 3.13 percent to 5.00 percent. The bond proceeds were used to provide funds to finance a portion of the design and construction costs of the light rail transit line from Union Station in downtown Los Angeles to certain East Los Angeles communities; to fund a debt service reserve fund; to fund capitalized interest on the bonds and to pay the bond issuance costs. The bonds are limited obligations of LACMTA, payable solely from and secured solely by grant receipts, amounts on deposit in the funds and accounts established under the Indenture (except the rebate fund), and investment earnings thereon.

Capital Grant Receipt Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	3.13% - 5.00%	\$ 90,155

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Annual debt service requirements for the Capital Grant Receipts Revenue Bonds are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2011	\$ -	\$ 4,376
2012	49,765	3,132
2013	40,390	944
Total	\$ 90,155	\$ 8,452

Sales Tax Revenue and Refunding Bonds

LACMTA has outstanding sales tax revenue and sales tax revenue refunding bonds, each secured by either LACMTA’s Proposition A or C sales tax. Proceeds from sales tax revenue bonds provide funds for the acquisition and construction of major capital facilities. Proceeds from sales tax revenue refunding bonds are used to provide funds to retire previously issued sales tax revenue bonds and commercial paper notes. Refunding bonds are generally issued to reduce LACMTA’s debt service costs when more favorable interest rates are available.

In August 2009, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2009-C, collectively referred to as “Series 2009-C Bonds” with a total par value of \$89,625. The Series 2009-C bonds consist of four subseries: (1) Subseries 2009-C1 Bonds, (2) Subseries 2009-C2 Bonds, (3) Subseries 2009-C3 Bonds and, (4) Subseries 2009-C4 Bonds. Concurrent with the issuance of the Series 2009-C Bonds, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2009-D (the “Series 2009-D Bonds”) for a total par value of \$118,785. The proceeds of the Series 2009-C Bonds and the Series 2009-D Bonds and other available funds were used to (a) refund its outstanding Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2003-C, (b) make a deposit to the Reserve Fund, (c) pay amounts due in connection with the partial termination of an interest rate swap, and (d) pay the costs of issuing the Series 2009-C Bonds and the Series 2009-D Bonds.

The Series 2009-C Bonds initially bear interest in the weekly mode. The weekly rate for each Subseries of Series 2009-C Bonds for each interest period is the rate of interest determined by the applicable remarketing agent on and as of the applicable rate determination date not to exceed 12% per annum. While the Series 2009-C Bonds are in the weekly mode, LACMTA may convert the interest rate on any Subseries of the Series 2009-C Bonds to any other interest rate mode on any interest payment date, upon not less than twenty days prior written notice from the Trustee to the registered owners of the applicable Subseries of Series 2009-C Bonds.

In October 2009, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 2009-E (the “Series 2009-E Bonds”) for a total par value of \$118,940. The proceeds from the Series 2009-E Bonds and other available funds were used to (a) refund a portion of its outstanding Proposition C Sales Tax Revenue Bonds, Second

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Senior Bonds, Series 1999-A in an aggregate principal amount of \$81,070; (b) pay the principal of the outstanding Proposition C Commercial Paper Notes in the amount of \$44,000; (c) make a deposit to the Reserve Fund; and (d) pay the costs of issuing the Series 2009-E Bonds.

In October 2009, LACMTA issued Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2009-A Bonds (the "Series 2009-A Bonds") for a total par value of \$320,945. The proceeds of the Series 2009-A Bonds, together with certain other available funds were used to (a) refund all of LACMTA's Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 1999-A, all of LACMTA's Proposition A First Tier Senior Sales Tax Revenue Bonds Series 1999-B, and the LACMTA's Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds Series 1999-C maturing on and after July 1, 2012, in an aggregate amount of \$286,205; (b) redeem \$33,016 principal of LACMTA's outstanding Proposition A Commercial Paper Notes; (c) make deposits to the Reserve Fund for the First Tier Senior Lien Bond and to the Surety Replacement Account; and (d) pay the costs associated with the issuing the Series 2009-A Bonds.

In January 2010, LACMTA issued Proposition C Sales Tax Revenue Refunding Bonds, Senior Bonds, Series 2010-A (the "Series 2010-A Bonds") for a total par value of \$45,455. The proceeds of the Series 2010-A Bonds and other available funds were used to (a) refund and defease the LACMTA's Proposition C Sales Tax Revenue Refunding Bonds, Second Senior Bonds, Series 1998-A, and Proposition C Sales Tax Revenue Bonds, Second Senior Bonds, Series 2000-A with an aggregate amount of \$45,160, (b) make a deposit to the Reserve Fund, and (c) pay the costs associated with issuing the Series 2010-A Bonds.

Sales Tax Revenue and Refunding bonds outstanding as of June 30, 2010 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	1.50% - 6.50%	\$ 2,834,450

Annual debt service requirements to maturity for the Sales Tax Revenue and Refunding bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 118,990	\$ 132,491
2012	140,895	123,281
2013	147,520	113,041
2014	150,110	106,176
2015	161,670	98,868
2016-2020	921,495	372,548
2021-2025	761,055	163,858
2026-2030	298,290	59,322
2031-2035	121,385	17,049
2036	13,040	326
Total	<u>\$ 2,834,450</u>	<u>\$ 1,186,960</u>

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Lease/Leaseback and Lease-to-service Obligations

From January 1997 through July 2003, LACMTA entered into a number of “Lease/leaseback” leveraged lease agreements for assets including heavy rail vehicles, buses, light rail vehicles, and various real property operating facilities. Under these agreements, LACMTA entered into a head-lease as lessor with an investor and simultaneously into a sublease agreement as lessee to lease the assets back. LACMTA received upfront rent prepayments which were invested in fixed income investments in an amount that, including interest income, will be sufficient to fund all scheduled payments through exercise of the early buyout option. LACMTA has realized \$64.7 million in net benefit after funding of fixed income investments and payment of transaction expenses.

For the leveraged lease transactions, LACMTA was obligated to insure and maintain the facilities, buses, and rail cars. The leveraged lease agreements provided for LACMTA’s right to continue to use and control the facilities, buses, and rail cars during the term of the sublease. LACMTA agreed to indemnify the investors against increased costs, and any new or increased taxes or fees imposed on the leased assets, and cash flows or income of the lease, other than changes to the income tax rate.

The proceeds from the various finance obligations have been recorded as Lease accounts in the Statement of Net Assets – Enterprise Fund. These funds were placed with fiscal agents and are sufficient to cover all scheduled payments. The related liabilities are shown as business-type long-term debt. These debts will be repaid from earnings on the related investments together with the principal amounts of the investments.

American International Group (AIG), provided a fixed income investment product known as “payment undertaking agreement” that was used in seven of the Lease/leaseback transactions in order to invest the proceeds to fund all the scheduled rent payments and early buy-out option payments. In addition, AIG provided credit support in the form of letters of credit for three Lease/leaseback transactions. Under the Lease/leaseback documents, AIG was required to be replaced or credit enhanced if any of its credit ratings fall below either Aa2/AA or A2/A, depending on the transactions. As for the letters of credit documents, AIG’s credit rating should not fall below either A2 or A.

In September, 2008 AIG’s credit rating was downgraded to “A-” by S&P, requiring replacement of the payment undertaking agreements and credit enhancement, as appropriate, and in two instances required AIG to post collateral.

As of June 2010, in the current market environment, most products specified in the Lease/leaseback transaction documents as acceptable replacement facilities are not available. In November 2009, LACMTA reached an agreement with one lessor to post collateral in lieu of obtaining a replacement facility. Extensions to the deadlines to obtain acceptable replacement facilities are in place with most other lessors. Failure to reach a solution could result in early termination of six of the leases that would require LACMTA to pay an estimated \$155 million plus legal costs.

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Efforts have been underway to implement a Federal legislative solution, currently, focused on implementation of an excise tax that would penalize the lessors for taking any windfall gains from termination of a leverage lease transaction. LACMTA continues to be in contact with the lessors to request extensions of the deadlines to replace the facilities and to negotiate other solutions or agree on a minimal out-of-pocket settlement amounts.

The lease obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	1.85% - 7.38%	\$ 911,774

Annual debt service requirements to maturity for the lease obligations are as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Accretion</u>	<u>Interest</u>
2011	\$ 51,569	\$ 32,008
2012	5,037	54,148
2013	(36,696)	50,670
2014	73,345	56,605
2015	252,112	50,203
2016-2020	(97,171)	198,966
2021-2025	77,420	224,867
2026-2030	185,491	182,664
2031-2035	354,365	57,786
2036-2039	46,302	7,535
Total	<u>\$ 911,774</u>	<u>\$ 915,452</u>

Commercial Paper Notes

LACMTA operates two commercial paper programs to maintain access to a low cost, flexible source of capital financing. Proposition A and Proposition C Commercial paper notes (CPN), taxable and tax-exempt, are issued by LACMTA with maturity dates ranging from 1 to 270 days at various interest rates. Under the terms of the programs, maturing principal amounts can be rolled-over by issuing new notes. It is the intention of LACMTA to pay the accrued interest and reissue the principal amounts as they mature. Therefore, the outstanding amounts have been classified as non-current liabilities. The proceeds from the CPN have been generally used to provide interim financing for construction and acquisition activities, including construction of rail capital projects and rail right-of-way acquisitions. LACMTA periodically retires CPN by issuing long-term, fixed rate bonds.

The Proposition A and Proposition C commercial paper programs are supported by direct-pay irrevocable letters of credit. The letters of credit are issued by a single bank for the Proposition C CPN program and a single bank for the Proposition A CPN program. Each

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bank is required to have a short term credit rating of at least A-1/P-1. The letters of credit are drawn upon at each note maturity to pay the principal and interest due. Principal that has been advanced by the banks and paid to the holders of the matured notes is reimbursed to the banks either by issuing new notes or by direct payment from LACMTA.

Interest is reimbursed to the banks on a current basis from sales tax revenues. In the event that the CPN dealers are unable to remarket the commercial paper and/or LACMTA is unable to repay the interest or principal, the banks will incur an unreimbursed draw on the letters of credit. Unreimbursed draws are converted to term loans following a specified period of time. The term loan for Proposition C CPN is repayable over a period of four years with equal quarterly principal payments. The term loan for Proposition A CPN is repayable beginning nine months after the commencement of the term loan, with quarterly principal payments over a period of two years and three months. Interest is charged at rates specified in the applicable Reimbursement Agreement. The letter of credit supporting the Proposition C commercial paper program expires in May 2013, while the letter of credit supporting the Proposition A commercial paper program expires in January 2012.

As of June 30, 2010, \$143,532 of commercial paper notes were outstanding. Proposition A and Proposition C commercial paper notes were \$119,046 and \$24,486, respectively.

Notes Payable

LACMTA entered into a financing, acquisition and control account agreement for the acquisition and installation of the solar energy generation and conservation equipment at the Metro Support Services Center (MSSC). The Notes Payable outstanding balance as of June 30, 2010 is as follows:

Purpose	Interest Rates	Amount
Business-type Activities	4.04%	\$ 9,911

The payment schedule to maturity is as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2011	\$ 1,147	\$ 387
2012	1,194	339
2013	1,244	291
2014	1,295	240
2015	1,348	186
2016-2018	3,683	409
Total	\$ 9,911	\$ 1,852

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Redevelopment and Housing Bonds

LACMTA entered into an agreement with the Community Redevelopment Financing Authority (CRFA) of the Community Redevelopment Agency (CRA) of the City of Los Angeles to assist in the financing of the Grand Central Square Multifamily Housing and Redevelopment Project. Under this agreement, housing and redevelopment bonds were issued by CRA.

The 2007-A multifamily housing refunding bonds were issued to redeem the 1993 Series that funded the development in a historic central location in downtown Los Angeles served by and accessible to the Metro Red Line.

The 2002-A redevelopment bonds were issued to refund the 1993-A bonds that assisted in the financing of the CRA's Redevelopment Plan for its Central Business District Redevelopment Project, also located in downtown Los Angeles, which borders the Bunker Hill Project and is in close proximity to the Metro Red Line. Both projects were undertaken with a commitment to promote the use of mass transit and reduce traffic congestion.

The projects were completed and LACMTA is making debt service payments related to these bonds. Under a reimbursement agreement collateralized by real property of the Grand Central Square Housing Project, the developer issued two promissory notes with a combined value of \$41,112 due in fiscal year 2027.

Housing and Redevelopment bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities	4.13% - 5.38%	\$ 24,367

Annual debt service requirements to maturity for the Housing and Redevelopment bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 662	\$ 1,208
2012	1,015	1,163
2013	1,060	1,116
2014	1,110	1,067
2015	1,160	1,014
2016-2020	6,705	4,147
2021-2025	8,570	2,219
2026-2027	4,085	215
Total	<u>\$ 24,367</u>	<u>\$ 12,149</u>

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Summary of Significant Changes to Long-term Bond and Note Obligations

During the fiscal year, LACMTA refunded the Proposition C 2003-C Sales Tax Revenue Refunding Bonds, which were auction rate securities (ARS). Beginning in September 2007, the financial marketplace became increasingly unstable as a result of the “subprime crisis.” ARS began falling out of favor with investors and collapsed dramatically at the beginning of calendar 2008, causing rates to more than double. In order to mitigate interest rate risk, the Series 2009-C and 2009-D Bonds were issued to significantly reduce LACMTA’s interest costs by eliminating exposure to Ambac and the auction rate securities market.

The Proposition C Series 2009-C Refunding Bonds are uninsured VRDBs backed with letters of credit with two highly rated banks, which are more attractive to the investment community under present market conditions. The Proposition C 2009-C Bonds were issued in the amount of \$89,625, to refund \$89,625 of Proposition C 2003-C ARS. Concurrently with the issuance of the Series 2009-C Bonds, LACMTA refunded the remaining outstanding Series 2003-C Bonds through the issuance of the Series 2009-D fixed rate bonds because of savings due to relatively low interest rates on fixed rate bonds and much lower on-going expenses because no bank facilities are required with fixed rate bonds. One of LACMTA’s existing Interest Rate Swap agreements was partially terminated in connection with the Series 2009-D refunding bonds, incurring a termination fee of \$6,125 that was paid from the bond proceeds.

Proposition A Series 2009 A Bonds, Proposition C Series 2009 E Bonds, and Proposition C Series 2010 A Bonds issued during FY10 were fixed rate bond issues that refunded outstanding fixed rate bond issues, for net cash flow savings. Proposition A Series 2009-A Bonds were issued in the amount of \$320,945 to refund Proposition A Series 1999-A, Proposition A Series 1999-B Bonds, and portion of Proposition A Series 1999-C Bonds with an aggregate amount of \$286,205 and pay \$33,016 principal of the outstanding Proposition A Commercial Paper Notes. Proposition C Series 2009-E Bonds were issued in the amount of \$118,940 to refund a portion of its outstanding Proposition C Series 1999-A Bonds in an aggregate principal amount of \$81,070 and pay the principal of the outstanding Proposition C Commercial Paper Notes in the amount of \$44,000. Proposition C Series 2010-A Bonds were issued in the amount of \$45,455 refund Proposition C Series 1998-A Bonds and Proposition C Series 2000-A for an aggregate amount of \$45,160.

In October 2009, LACMTA redeemed \$42,305 Capital Grant Receipts Revenue Bonds Series 2005-B from capital grant receipts. The bonds were redeemed earlier than scheduled to reduce its future debt service requirements.

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The net cash flow savings that resulted from the FY10 bond refundings are as follows:

Refunding Debt	Prior Cash Flow	Refunded Cash Flow	Net Cash Flow Savings	Present Value of Net Cash Flow Savings
Proposition A 2009-A Refunding Bonds	\$ 405,066	\$ 391,452	\$ 13,614	\$ 10,899
Proposition C 2009-C & D Refunding Bonds	283,516	253,331	30,185	11,038
Proposition C 2009-E Refunding Bonds	111,632	101,063	10,569	7,024
Proposition C 2010-A Refunding Bonds	70,819	64,973	5,846	3,807

K. Capital and MOU Commitments

Construction in Progress and Other Significant Commitments

LACMTA's commitments to vendors for capital projects which are in various phases of development as of June 30, 2010 are as follows:

<u>Project</u>	<u>Contract Commitments</u>	
	<u>Total</u>	<u>Remaining</u>
Rail Projects	\$ 1,113,213	\$ 192,107
Bus Rapid Transitways	98,752	81,225
Bus Acquisition and Others	658,876	248,422
Total	<u>\$ 1,870,841</u>	<u>\$ 521,754</u>

LACMTA has entered into various Memoranda of Understanding (MOU) to fund local transportation projects. For this purpose, LACMTA has reserved Propositions A and C, TDA, STA and Measure R funds totaling \$1,179,072 as of June 30, 2010.

L. Pensions

LACMTA provides pension benefits that cover substantially all full-time employees through five self-administered defined benefit pension plans and the California Public Employees' Retirement System (CalPERS). Four of the self-administered plans are restricted to specific union members, while the fifth provides benefits to Non-Represented employees and Teamsters.

California Public Employees' Retirement System (CalPERS)

CalPERS is an agent multiple-employer public retirement system.

Most full-time employees of PTSC are covered members under CalPERS and become fully vested in their accrued benefits after five years of credited service. Normal retirement is at age 60 with five years of credited service. The form of the normal benefit is a modified straight-line annuity equal to two percent (benefit factor) of final average compensation

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(generally the last or the highest consecutive 36 months of employment) times years of credited service. Other optional benefits are available at a reduced amount. Early retirement is available at age 50 with five years of credited service. The benefit factor is actuarially reduced for retirement prior to age 60 and actuarially increased after age 60 up to age 63. The plan provides for survivor and disability benefits. The benefit provisions and all other requirements are established by contract with the CalPERS in accordance with the provisions of the Public Employees' Retirement Law. An annual stand-alone financial report is issued and a copy can be obtained by a request from CalPERS, P.O. Box 942709, Sacramento, CA 94229-2709 or visit CalPERS's website at www.CalPERS.ca.gov.

The employer and employee contributions are a percentage of the employee's compensation. The rates are defined by law and are based on the employer's benefit formula as determined by periodic actuarial valuations. These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits. For the year ended June 30, 2010, the contribution rate of covered payroll was 14.44 percent. This rate includes the mandatory employee contribution of 7.0 percent that is currently paid by PTSC.

Total Annual Required Contributions (ARC) for the years ended June 30, 2010, 2009, and 2008 were \$17,661, \$17,286, and \$17,468, respectively, all of which were attributable to the PTSC and paid in full. Such contributions were made in accordance with the latest CalPERS actuarial valuation. These pension contributions for normal costs include the employees' portion, and for the years ended June 30, 2010, 2009, and 2008, were \$8,559, \$8,328, and \$8,353, respectively. At June 30, 2010, 2009, and 2008, there were no Net Pension Obligations (NPO).

The most recent actuarial valuation date was June 30, 2007 and the individual entry age normal cost was the actuarial cost method used to determine the ARC.

The smoothing of market value method was used to determine the actuarial value of assets, which was set to be no less than 80 percent or greater than 120 percent of actual market value for the purpose of determining 2009/2010 employer contributions. Initial unfunded liabilities are amortized over a closed period with subsequent plan amendments amortized as a level percentage of pay over a closed 20-year period. The actuarial assumptions are 7.75 percent investment rate of return; an inflation rate of 3.0 percent; and projected salary increases of 3.25 percent to 14.45 percent dependent on age, service, and type of employment.

LACMTA-administered Plans

LACMTA has a single-employer public employees retirement system that includes five defined benefit pension plans (Plans) covering substantially all employees, providing retirement, disability, and death benefits. Generally, employees' rights to retirement benefits vest after five (5) years for non-represented, Teamsters, and AFSCME employees and ten (10) years for UTU, ATU, and TCU employees. All contract and non-contract retirement benefits are based on the individual employee's years of service, age, final

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compensation, bargaining units, and disability status. The benefit provisions and all other requirements are established by state statute, ordinance, collective bargaining agreements, or Board's actions. An annual stand-alone financial report is issued for the Plans and can be obtained by requesting a copy from the Accounting Department, One Gateway Plaza, Los Angeles, CA 90012-2952.

The Plans' member contributions, benefits paid, and refunds are recorded using the accrual basis of accounting. The Plans' member contributions are recognized in the period in which the contributions are due and member benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Plans' equity securities, pooled equity trust, and the fixed income securities are reported at the fair value based on quoted market prices as of fiscal year end.

LACMTA's funding policy is to make annual contributions to the Plans in amounts that, when combined with employees' contributions, fund the actuarially computed cost as they accrue. Actuarially computed costs are determined using the projected unit credit method. The employee and employer contributions are required by the plan agreements as either a percentage of annual earnings which is applicable only to ATU pension plan or the dollar amount recommended to finance the benefits provided in the UTU, TCU, AFSME and Non-contract plans on a sound actuarial basis. LACMTA uses the level percentage of payroll method to amortize the unfunded liability or surplus of the base plan over 15 years for UTU, TCU, Non-Contract, and AFSCME, and through 2023 for ATU.

The annual required contributions (ARC), for LACMTA and employees, by plan, for the years ended June 30, 2010, 2009, and 2008, are as follows:

Contributions	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non-Contract Employees Plan	AFSCME	Total
2010						
Employer	\$ 23,230	\$ 4,639	\$ 16,752	\$ 3,620	\$ 1,581	\$ 49,822
Employee	16,541	1,910	5,137	-	-	23,588
Total	<u>\$ 39,771</u>	<u>\$ 6,549</u>	<u>\$ 21,889</u>	<u>\$ 3,620</u>	<u>\$ 1,581</u>	<u>\$ 73,410</u>
2009						
Employer	\$ 14,716	\$ 2,480	\$ 13,638	\$ 2,288	\$ 1,179	\$ 34,301
Employee	16,712	1,977	2,567	-	-	21,256
Total	<u>\$ 31,428</u>	<u>\$ 4,457</u>	<u>\$ 16,205</u>	<u>\$ 2,288</u>	<u>\$ 1,179</u>	<u>\$ 55,557</u>
2008						
Employer	\$ 14,495	\$ 2,446	\$ 14,541	\$ 2,652	\$ 1,121	\$ 35,255
Employee	15,872	1,873	3,639	-	-	21,384
Total	<u>\$ 30,367</u>	<u>\$ 4,319</u>	<u>\$ 18,180</u>	<u>\$ 2,652</u>	<u>\$ 1,121</u>	<u>\$ 56,639</u>

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The annual pension cost, annual amount contributed, and net pension obligation for the years ended June 30, 2010, 2009, and 2008 are as follows:

	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non- Contract Employees Plan	AFSCME	Total
<u>2010</u>						
Annual Pension Cost	\$ 23,195	\$ 4,639	\$ 16,777	\$ 3,620	\$ 1,581	\$ 49,812
Annual Amount Contributed	23,230	4,639	16,752	3,620	1,581	49,822
Net Pension Obligation	868	-	-	-	-	868
<u>2009</u>						
Annual Pension Cost	14,681	2,480	13,644	2,288	1,179	34,272
Annual Amount Contributed	14,716	2,480	14,406	2,288	1,179	35,069
Net Pension Obligation	903	-	-	-	-	903
<u>2008</u>						
Annual Pension Cost	14,460	2,446	14,541	2,652	1,121	35,220
Annual Amount Contributed	14,495	2,446	14,790	2,652	1,121	35,504
Net Pension Obligation	937	-	-	-	-	937

The components of the net pension obligation for UTU employees for years ended June 30, 2010, 2009, and 2008 are as follows:

	Annual Required Contribution (ARC) (a)	NPO at the beginning of the year (BOY) (b)	Interest on the NPO at the BOY (c)	Adjustment to ARC (d)	Amortization of NPO at the BOY (Decrease in NPO) (e)	NPO at the end of the year (EOY) (b)+(c)+(d)+(e)
<u>2010</u>	\$ 23,230	\$ 903	\$ 67	\$ -	\$ (102)	\$ 868
<u>2009</u>	14,716	937	75	-	(109)	903
<u>2008</u>	14,495	973	78	-	(114)	937

LACMTA's contributions to the Plans for the year ended June 30, 2010 were made in accordance with the actuarially determined requirements computed as of December 31, 2008 for the UTU, TCU, Non-Contract, and AFSCME Plans while the ATU Plan was computed as of January 1, 2009. Actuarially computed costs are determined using the projected unit credit method. The total annual required contributions (ARC) for all plans for the years ended June 30, 2010, 2009, and 2008 were \$49,822, \$34,301, and \$35,255, respectively. Annual pension cost, which is equivalent to ARC plus interest on Net Pension Obligation (NPO) less amortization of NPO, amounted to \$49,812, \$34,272, and \$35,220 for the years ended June 30, 2010, 2009, and 2008 respectively. The NPO for the UTU Plan for the years ended June 30, 2010, 2009, and 2008 were \$868, \$903, and \$937, respectively. There was no NPO at June 30, 2010, 2009, and 2008 for the TCU, ATU, Non-Contract, and AFSCME Plans.

The required contribution rate by employees for the fiscal years ended June 30, 2010, 2009, and 2008 were between 0 and 8.58 percent, 0 and 8.86 percent, 0 and 8.51 percent, respectively, of their annual wages. The employer rate is equal to the ARC. The method of ½ book value + ½ market value was used to determine the actuarial value of assets for the

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UTU, TCU, Non-Contract, and AFSCME Plans. Effective with the actuarial valuation as of December 31, 2007, the ATU Plan adopted the 4-year smoothed market value method with a 15 percent corridor to determine the actuarial value of assets. The key actuarial assumptions are: 8.0 percent investment rate of return including a 3.0 percent rate for inflation projected salary increases tied to age-based rates, and no postemployment benefit increases.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, which shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The LACMTA's funding progress information as of June 30, 2010 is presented below:

Actuarial Valuation Date	Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
PTSC						
06/30/2008	\$ 282,568	\$ 276,752	\$ 5,816	97.94%	\$ 123,548	4.71%
LACMTA						
12/31/2009						
UTU	512,887	362,222	150,665	70.62%	190,212	79.21%
TCU	90,027	61,866	28,161	68.72%	27,578	102.11%
ATU	295,021	211,174	83,847	71.58%	109,214	76.77%
Non-Contract	131,773	114,115	17,658	86.60%	6,206	284.53%
AFSCME	50,675	44,653	6,022	88.12%	6,161	97.74%
Total	\$ 1,080,383	\$ 794,030	\$ 286,353	73.50%	\$ 339,371	84.38%

M. Other Postemployment Benefits (OPEB)

Plan Description

On February 22, 2007, the Board adopted a resolution authorizing the establishment of an irrevocable Retiree Health Care and Welfare Benefits Trust ("Plan"). The Plan is a single-employer, defined benefit plan administered by LACMTA to provide OPEB benefits, such as medical, dental, vision, life insurance, and similar benefits offered by LACMTA to its active and retired employees. The Plan covers benefits administered by LACMTA to Non-contract employees and employees represented by AFSCME and the Teamsters and the contractual obligations to the respective Union Health & Welfare Trusts for employees represented by ATU, TCU, and UTU. Generally, eligibility for coverage is based on an employee's service and age. An annual stand-alone financial report is issued for the Plan and can be obtained by requesting a copy from the Accounting Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952.

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Plan Accounting Practices

Basis of Accounting – The Plan’s financial statements have been prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred.

Contributions and Benefits – Plan member contributions are recognized in the period in which the contributions are due. LACMTA contributions are on a “pay-as-you-go” basis reflecting budgeted retirees’ medical and life insurance benefits. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments – Investments are reported at fair value based on quoted market prices as of fiscal year end. Investment income is recognized on an accrual basis. Gains and losses on sales and exchange of securities are recognized on the trade date. Gains or losses on sales of securities are determined on the basis of average cost.

Enrollment

The numbers of participants (not in thousands) by employee group as of January 1, 2009 (the effective date of the bi-annual OPEB valuation) are as follows. There have been no significant changes in the number of employees covered since that date.

Participant	Union Health & Welfare Trusts				Total
	LACMTA	ATU	TCU	UTU	
Active Employees	1,927	2,178	702	4,048	8,855
Retirees under 65	301	445	162	898	1,806
Retirees over 65	617	549	133	810	2,109
Total Actives and Retirees	2,845	3,172	997	5,756	12,770

Funding Policy

Member Contribution

Contributions made by Non-contract/AFSCME/Teamsters retirees are established and approved by the Board. Generally, the contribution is calculated as a percent of the premium cost based on service. The benchmark is 25 years or more to qualify for the active employee contribution rate. For each year of service less than 25 years, the retiree pays an additional 4 percent of LACMTA’s cost. Contributions are remitted by LACMTA to the Plan. The Union Health and Welfare Trusts establish the plan member contribution rate. ATU retirees’ contributions are \$80 per month pre-65 years of age and \$60 per month post-65 years of age. TCU retiree contributions are \$35 per month for single coverage; \$50 per month for retiree plus dependent coverage. UTU retiree contributions are \$50 per month.

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Contributions made by employees represented by ATU, UTU, and TCU are directly remitted to their respective Union Health and Welfare Trusts.

LACMTA Contribution

LACMTA's funding policy is to make annual contributions to cover the pay-as-you-go costs and partial payments against the actuarially required contribution. Actuarially computed costs are determined using the projected unit credit method.

Since LACMTA is funding the pay-as-you-go cost, but less than the ARC, contributions were determined reflecting a "partial" funding approach. LACMTA elected to use a blended discount rate of 4.0 percent, which implicitly assumes the level of funding in excess of current year costs of pay-as-you-go that represents approximately one-third of the ARC in excess of the current year costs and the investment policy of the trust to support a long-term expected rate of return on assets of 7.5 percent. The ARC calculation uses an open 20-year rolling amortization that meets the requirements of GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts reflect a long-term perspective and are subject to continual revision as results are compared with past expectations, and new estimates are made about the future. The most significant actuarial assumptions include: a) 4.0 percent discount rate, compounded annually; b) increase in future payroll of 3.5 percent per year; c) mortality using RP-2000 Mortality Table (male and female with blue collar adjustments) with mortality improvements projected to year 2010; d) health care cost trend rate of 8.5 percent; and e) an inflation rate of 2.5 percent. The trend assumptions are comprised of three elements: 1) initial trend rate, 2) ultimate trend rate, and 3) the grade-down period. The trend rate assumptions exclude the expected impact of aging since this impact is explicitly reflected elsewhere in the valuation. The initial trend rate is the expected increase in health care costs into the second year of the valuation (i.e. the first assumed annual increase in starting per capita rates). The assumed ultimate trend rate and grade-down period are based on macroeconomic principles reflecting assumed long-term general information, nominal gross domestic product growth rates, and the excess of national health expenditures over other goods and services, and an adjustment for an assumed impact of population growth. LACMTA's contractual contributions, which are assumed to increase in years after the current contract, in accordance with medical trend and retirees' contributions are assumed to increase at the same rate as medical costs.

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LACMTA opted to perform biannual valuations of its liabilities under the provision of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". As such, the January 1, 2009 valuation is used to determine the Annual Required Contributions (ARC) for the fiscal years beginning July 1, 2009 and 2010. In the January 1, 2009 valuation, the ARC was determined by amortizing the unfunded liability over 20 years as a level percentage of pay equal to 14.86 percent, and aggregate payroll assumed to grow at 3.5 percent per year. The ARC for the period ending June 30, 2010 was determined using the level percentage of pay method.

The following table summarizes the valuation results applying the level percentage of pay method to the valuation date of January 1, 2009:

<u>Summary of Costs</u>	
Normal Cost	\$ 39,535
▪ Percentage of Total Payroll	6.81%
Amortization of Unfunded Actuarial Accrued Liability	\$ 46,668
▪ Percentage of Total Payroll	8.04%
ARC with 20-year Level Percent of Payroll	
Amortization	\$ 86,203
▪ Percentage of Total Payroll	14.86%

Annual OPEB Cost and Net OPEB Obligation (Asset)

The Annual Required Contributions (ARC) represents a level of funding that if paid on an ongoing basis, is projected to cover normal costs each year, and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Amounts required but not set aside to pay for these benefits are accumulated as part of the Net OPEB obligation (Assets).

LACMTA's annual OPEB cost for the year, the amount paid on behalf of the plan, and changes in the LACMTA's Net OPEB Obligation (Asset) to the plan for the year ended June 30, 2010 are as follows:

Annual Required Contribution	\$ 86,203
Interest on Net OPEB obligation	(2,977)
Adjustment to ARC	4,048
Total Annual OPEB Cost	<u>87,274</u>
Less Contributions made	<u>(31,197)</u>
Increase in Net OPEB Obligation	56,077
Net OPEB Obligation (Asset) – beginning of year	<u>(74,390)</u>
Net OPEB Obligation (Asset) – end of year	<u><u>\$ (18,313)</u></u>

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LACMTA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the Net OPEB Obligation (Asset) for the year ended June 30, 2010, 2009 and 2008 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2010	\$ 87,274	35.75%	\$ (18,313)
2009	75,725	37.65%	(74,390)
2008	72,054	268.77%	(121,602)

Funding Progress

The schedule of funding progress presents multi-year trend information on whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded to include three years as actuarial information becomes available.

The LACMTA's funding progress information as of June 30, 2010 is illustrated as follows:

<u>Actuarial Valuation Date</u>	<u>Projected Unit Credit Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>	<u>(b)/(a)</u>	<u>(c)</u>	<u>(a)-(b)/(c)</u>	
January 1, 2009						
LACMTA	\$ 148,150	\$ 22,934	\$ 125,216	15.48%	\$ 165,924	75.47%
ATU	462,109	71,537	390,572	15.48%	142,512	274.06%
TCU	90,227	13,968	76,259	15.48%	35,372	215.59%
UTU	314,221	48,643	265,578	15.48%	236,341	112.37%
Total	<u>\$ 1,014,707</u>	<u>\$ 157,082</u>	<u>\$ 857,625</u>	<u>15.48%</u>	<u>\$ 580,149</u>	<u>147.83%</u>

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N. Deferred Compensation and 401(k) Savings Plan

Deferred Compensation Plan

LACMTA has a deferred compensation plan for all employees established in accordance with IRC Section 457, which permits employees to defer a portion of their current salary to future years.

Under this plan, employees may contribute up to the lesser of \$16,500 (not in thousands) or 100 percent of their earnings in calendar year 2010. A special provision in the law allows an additional \$5,500 (not in thousands) for “Baby Boomers” (age 50 or greater by December 31, 2010), and employees eligible for retirement within three years may defer up to a total of \$33,000 (not in thousands).

The plan is managed by a third party plan administrator and trustee. Employee deferrals can be allocated among several investment options as directed by the employee. Although the employee is always 100 percent vested in the plan, withdrawals are not available to employees until termination, retirement, death, or unforeseeable emergency. In the opinion of management, LACMTA has no liability for any losses under the plans, but does have the fiduciary responsibility of due professional care that would be required from a prudent investor. Accordingly, the assets of the deferred compensation plan and the related liability to employees are not reported in the fiduciary fund. LACMTA does not match employees’ contributions to the deferred compensation plan. As of June 30, 2010, the deferred compensation plans had assets (at fair value) of \$192,604.

401 (k) Savings Plan

LACMTA also offers a deferred savings plan to all employees created in accordance with IRC Section 401(k). Under this, employees may contribute up to the lesser of \$16,500 (not in thousands) or 100 percent of their earnings in calendar year 2010. A special provision in the law allows an additional \$5,500 (not in thousands) for “Baby Boomers” (age 50 or greater by December 31, 2010).

The savings plan is managed by a third party plan administrator, and the participants can direct the plan administrator to allocate their deferral based on several investment options. Plan benefits are based solely on amounts contributed by employees to their own accounts. Withdrawals are not available to employees until termination, retirement, age 59-1/2, death, or unforeseen emergency. In the opinion of management, LACMTA has no liability for any losses under the plan, but does have the fiduciary responsibility of due professional care that would be required from a prudent investor. Accordingly, the plan’s assets and liability to employees are not reported in the fiduciary fund. LACMTA does not match employees’ contribution to the 401(k) savings plan. As of June 30, 2010, the 401(k) savings plan had assets (at fair value) of \$242,267.

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Employees may participate in both deferred compensation and 401(k) savings plan. The maximum annual combined contribution per calendar year using both plans is \$44,000 (not in thousands), or \$55,000 (not in thousands) if an employee falls within the catch up provision.

O. Joint Powers

LACMTA is a member of the Southern California Regional Rail Authority (SCRRA), which was formed as a regional Joint Powers Agency between the transportation commissions of the counties of Los Angeles, San Bernardino, Orange, Riverside, and Ventura. SCRRA's purpose is to plan, design, construct, and administer the operation of regional passenger rail lines serving the participating counties. SCRRA named the regional commuter rail system "Metrolink."

Metrolink's capital acquisition and expansion have been funded by contributions from member agencies and the State of California.

As of June 30, 2010, LACMTA provided funding for the majority of the Metrolink's operating and capital costs. Summary audited financial information for the SCRRA for the year ended June 30, 2009 (most recent data available) was as follows:

Current Assets	\$	165,077
Capital Assets, net		847,802
Other Assets		25,829
Total Assets		1,038,708
Total Liabilities		155,168
Net Assets	\$	883,540
Total Revenues	\$	323,638
Total Expenses		(252,054)
Increase in Net Assets	\$	71,584

Additional detailed financial information is available from the Office of Finance and Administration, SCRRA, 700 South Flower Street, 26th Floor, Los Angeles, CA 90017.

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P. Derivative Instruments

As of June 30, 2010, LACMTA had the following hedging derivative instruments outstanding within business-type activities:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Fair Value June 30, 2010	Terms
<u>Interest Rate Swap</u>						
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop C Series 2009-A Bonds.	\$ 166,900	10/9/2003	7/1/2023	\$ (13,470)	Receive 68% LIBOR, pay 3.44%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to 2004 Gateway Bonds.	174,925	9/22/2004	7/1/2027	(13,592)	Receive 64% LIBOR plus 0.21%, pay 3.50%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop A Series 2008-A1/A2.	130,775	8/23/2005	7/1/2031	(11,399)	Receive 63% LIBOR plus 0.14%, pay 3.37%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop A Series 2008-A3/A4.	130,850	8/23/2005	7/1/2031	(11,281)	Receive 63% LIBOR plus 0.14%, pay 3.36%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop C Series 2009-C Bonds.	89,625	7/23/2009	7/1/2025	(6,007)	Receive 68% LIBOR, pay 3.40%
	Sub-total	<u>693,075</u>			<u>(55,749)</u>	
<u>Commodity Swap</u>						
Compressed Natural Gas (CNG)	To reduce the risks associated with the changes in the cost of natural gas.	13,140	7/1/2010	6/30/2011	(2,003)	Receive variable, pay 0.6480
Compressed Natural Gas (CNG)	To reduce the risks associated with the changes in the cost of natural gas.	13,140	7/1/2010	6/30/2011	(2,068)	Receive variable, pay 0.6530
Compressed Natural Gas (CNG)	To reduce the risks associated with the changes in the cost of natural gas.	8,760	7/1/2010	6/30/2011	(982)	Receive variable, pay 0.6075
	Sub-total	<u>35,040</u>			<u>(5,053)</u>	
	Grand Total	<u>\$ 728,115</u>			<u>\$ (60,802)</u>	

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Interest Rate Swap

LACMTA entered interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. LACMTA makes a fixed rate payment to the counterparty and receives a variable rate payment in order to achieve a synthetic fixed rate for the bonds and hedge exposure to variable interest rates. LACMTA has entered into these swap agreements at a cost anticipated to be less than what LACMTA would have paid to issue fixed rate debt.

The LACMTA's Board annually adopts an Interest Rate Swap Policy that governs the use and management of interest rate swaps as they are used in conjunction with debt issues. The policy establishes guidelines to be used when considering the use of swaps, as well as in the ongoing management of existing swaps. Guidance is provided specifying appropriate uses: selection of acceptable swap products, swap providers and swap advisors, negotiation of favorable terms and conditions, and stipulating annual surveillance of the swaps and the providers.

LACMTA's Interest Rate Swap Policy specifies that interest rate swaps may be used to lock-in a fixed rate or to create additional variable rate exposure. Interest rate swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.

On July 23, 2009, the Prop C Series 2003-C interest rate swap was partially terminated with the refunding of the Prop C Series 2003-C series bonds by the Prop C Series 2009-C and Prop C Series 2009-D bonds. The Prop C Series 2009-D bonds are fixed rate securities and the underlying portion of the swap was terminated, resulting in the termination fee of \$6,125 (i.e. the deferred outflow upon termination of the swap). This amount was included in the balance of the deferral account in the net carrying amount of the old debt for the purpose of calculating the difference between that amount and the reacquisition price of the old debt. The Prop C Series 2009-C bonds are variable rate securities and maintained its portion of the swap: the Prop C Series 2009-C interest rate swap. The swap had a fair value of \$5,110 upon association with the new debt.

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At of June 30, 2010, LACMTA outstanding interest swap agreements fair value along with the changes in fair values for the year then ended, and the associated counterparty and its credit ratings are as follows:

Bond Series	Fair Value June 30, 2009	Change in Fair Value	Fair Value June 30, 2010	Counterparty	Counterparty Credit Ratings	
					Moody's	S&P
Proposition C Series 2003- C/Proposition C Series 2009-C ¹	\$ (11,372)	\$ 5,365	\$ (6,007)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA
Proposition C Series 2009-A	(9,125)	(4,345)	(13,470)	Wachovia Bank	Aa2	AA
2004 Gateway Bonds	(9,179)	(4,413)	(13,592)	Bank of Montreal	Aa2	A+
Proposition A Series 2008- A1/A2	(7,771)	(3,628)	(11,399)	Bank of Montreal	Aa2	A+
Proposition A Series 2008- A3/A4	(7,148)	(4,133)	(11,281)	Deutsche Bank AG	Aa3	A+
Total	\$ (44,595)	\$ (11,154)	\$ (55,749)			

¹The Proposition C Series 2003-C interest rate swap was partially terminated. The terms for the remaining portion were revised for the Proposition C Series 2009-C interest rate swap.

The increase in fair value of the interest rate swap is reported as a deferred outflow in the Business-type Activities on the Statement of Net Assets.

The fair value represents the theoretical cost to terminate the swap at the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon bond due on the date of each future net settlement on the swap.

LACMTA neither received nor paid any upfront amount when these swaps were initiated. Relevant market interest rates on the valuation date of the swaps reflected in the schedule above were lower than market interest rates on the effective date of the swaps and, consequently, resulted in negative fair values at valuation date.

The following risks are generally associated with swap agreements:

Credit Risk – The counterparty could experience weakening financial condition or insolvency, which could affect its ability to perform its financial obligations. In the

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event of deterioration in the credit ratings of the counterparty, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. Further ratings deterioration by either party below levels agreed-to in each swap agreement could result in a termination event requiring a cash settlement. See "Termination Risk" below. To mitigate credit risk, LACMTA monitors the credit ratings of the counterparties on a quarterly basis. In addition, if the outstanding ratings of the counterparties fall to certain levels, the counterparties must post collateral with a third-party custodian to secure their potential termination payments above certain threshold amounts. Collateral must be cash, U.S. Government securities or certain federal agency securities. As of June 30, 2010, LACMTA was required to post collateral for two of its counterparties: Bank of Montreal and Wachovia Bank for \$11.5 and \$3.5million, respectively.

Basis Risk – The variable interest rate paid by the counterparty under the swap agreement and the variable interest rate paid by LACMTA on the associated bonds may not be equal. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement would not fully reimburse LACMTA for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there would be a net benefit to LACMTA. LACMTA monitors the basis differential for its existing swaps on a monthly basis. Prior to entering into any new interest rate swaps, LACMTA and its swap advisor review the historical trading differentials between LACMTA's outstanding variable rate bonds and the proposed index. This allows LACMTA to structure its interest rate swaps to minimize basis risk.

Termination Risk – Under certain conditions, the swap agreement could be terminated and depending on current market interest rates, either LACMTA or the counterparty could be required to make a termination payment. LACMTA's swap agreements only permit the counterparty to terminate if an Event of Default or a Termination Event has occurred. Events of Default include non-payment, false or misleading representations, or the bankruptcy of LACMTA or the counterparty. Termination Events include, a downgrade of LACMTA's rating to below "BBB," an event of taxability, or conversion of bonds to fixed rate. To closely monitor the risk, LACMTA calculates its termination exposure for all existing and proposed swaps at market value monthly. A contingency plan is periodically updated identifying alternatives to finance a termination payment and/or replace or restructure the hedge.

Rollover Risk – When the notional amount under the swap agreement terminates prior to the final maturity of the hedged bonds, the governmental issuer would then be exposed to the current short-term bond interest rates, as well as to current swap pricing in order to continue the benefit of the synthetic fixed rate for the duration of the bond issue. As of June 30, 2010, LACMTA does not have any swap agreements that terminate prior to the final maturity of the hedged bonds.

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Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows. In certain circumstances a swap can have the effect of increasing the risk of loss as a result of changes in interest rates, such as a swap from a fixed rate to a variable rate. As of June 30, 2010, LACMTA does not have any swaps that have any fixed to variable rate swaps.

Market-access Risk – Market-access risk is the risk that a government will not be able to enter credit markets or that credit will become more costly. If a governmental issuer were to enter into a derivative in anticipation of entering the credit market at a later date, but was ultimately unable to do so, there is a risk that the lack of market access would frustrate the purpose of the derivative and could result in a termination payment becoming due. As of June 30, 2010, LACMTA has not entered into a derivative in anticipation of entering the credit market at a later date.

Liquidity Risk – At some point in the future, LACMTA could be unable to obtain liquidity support for its variable rate bonds that require liquidity and are currently hedged with interest rate swaps. This situation could result in LACMTA incurring additional costs to convert the bonds to a different variable rate product that does not require liquidity support or to refund the bonds to a fixed rate mode, which would require the swaps to be either canceled or terminated. LACMTA periodically evaluates the expected availability of liquidity support for hedged and unhedged variable rate debt. As of June 30, 2010, LACMTA has sufficient liquidity support.

As of June 30, 2010, the annual debt service requirements of the variable rate obligations and net swap payments for the Proposition C Series 2009-A, Proposition C Series 2009-C, Proposition A Series 2008-A, and Gateway Series 2004 are as follows:

Fiscal Year	Variable-rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2011	\$ 3,225	\$ 2,553	\$ 21,269	\$ 27,047
2012	7,600	2,506	21,044	31,150
2013	8,125	2,455	20,804	31,384
2014	8,650	2,400	20,547	31,597
2015	29,175	2,324	19,960	51,459
2016-2020	190,625	9,877	83,533	284,035
2021-2025	299,350	5,709	44,463	349,522
2026-2030	139,025	1,013	7,199	147,237
2031-2032	3,400	10	103	3,513
Total	\$ 689,175	\$ 28,847	\$ 238,922	\$ 956,944

As rates vary, variable rate bond interest payments and net swap payments will vary. The debt service requirements are reflected in the table of sales tax revenue bond debt service requirements to maturity can be found on page 58.

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Commodity Swap

In FY10, LACMTA has entered into commodity swap agreements to hedge approximately 95 percent of its annual exposure to changes in the cost of natural gas. LACMTA pays a counterparty an amount based on a fixed rate and receives an amount based on a specified variable rate index. The variable rate is intended to be, on average, equal to the rate LACMTA will pay to purchase its natural gas. If the variable rates LACMTA receives from the swap counterparty and actual payments for natural gas fully offset each other, then the fixed rate paid to the counterparty becomes the cost of purchasing natural gas.

At June 30, 2010, LACMTA outstanding commodity swaps fair value along with the changes in fair values for the year then ended, and the associated counterparty and its credit ratings are as follows:

Fair Value June 30, 2009	Changes in Fair Value	Fair Value June 30, 2010	Counterparty	Counterparty Ratings		
				S&P	Moody's	Fitch
\$ (3,290)	\$ 3,290	\$ -	Bank of America, N.A			
(4,645)	4,645	-	BP Corp. North America			
(5,088)	5,088	-	BP Corp. North America			
(4,060)	4,060	-	BP Corp. North America			
(3,094)	3,094	-	RBC Capital Market			
(2,206)	2,206	-	BP Corp. North America			
(392)	(1,611)	(2,003)	Barclays Capital	AA-	Aa3	AA-
(452)	(1,616)	(2,068)	Bank of America, Merrill	A+	Aa3	A+
-	(982)	(982)	Barclays Capital	AA-	Aa3	AA-
<u>\$ (23,227)</u>	<u>\$ 18,174</u>	<u>\$ (5,053)</u>				

The net changes in fair value of commodity swap are reported under the Transit Operations in the Business-type Activities on the Statement of Activities.

The negative fair value is the theoretical cost that LACMTA will pay to terminate the swap at the valuation date. The fair values were estimated by discounting the future monthly net cash flows that would be anticipated based on future pricing.

The following risks are generally associated with swap agreements:

Counterparty Risk – the risk that the counterparty fails to make required payments or otherwise comply with the terms of the swap agreement. This non-performance would usually result from financial difficulty, but could also occur for physical, legal, or business reasons. This risk is mitigated by establishing minimum credit quality criteria, establishing maximum credit limits, requiring collateral on counterparty downgrade. To mitigate credit risk, LACMTA monitors the credit ratings of the counterparties on a quarterly basis.

Basis Risk – The risk that there is a mismatch between the variable rate payment received from the swap counterparty and the variable rate paid for gas purchases. LACMTA mitigates this risk by conducting an extensive survey of relevant products

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and indices, and selecting one that has a strong correlation with the price changes of the cost of gas.

Termination Risk – The risk that there will be a mandatory early termination of the commodity swap that would result in LACMTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or LACMTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. LACMTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. LACMTA monitors the credit ratings of the counterparties on a quarterly basis. LACMTA calculates quarterly its termination exposure for all existing and proposed swaps at market value.

Q. Litigation and Other Contingencies

Litigation

LACMTA is named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of LACMTA.

Federal, State, and Other Governmental Funding

LACMTA receives significant funding from Federal, State, and other governmental grant funds as reimbursement for costs incurred. Such grants are subject to review and audit by the grantor agencies. These audits could result in disallowed expenditures under the terms of the grant or in reductions of future grant monies. Based on prior experience, LACMTA's management believes that costs ultimately disallowed, if any, would not materially affect the financial condition of LACMTA.

Excise Tax on Lease/Leaseback Transactions

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). Pursuant to the 2005 Tax Act, a new Section 4965 was added to the Internal Revenue Code of 1986, as amended (the "Code"). Section 4965 imposes a Federal excise tax (the "New Excise Tax") on the net income or proceeds of Sale In/Lease Out transactions entered into by tax-exempt entities, including states and their political subdivisions. On February 7, 2007, the Internal Revenue Service (IRS) released Notice 2007-18, which addresses how the provisions of new section 4965 will be applied. This provision could impact LACMTA's leveraged leasing transactions. The Internal Revenue Service recently released proposed regulations to further clarify which transactions are subject to the New Excise Tax and calculation of the New Excise Tax. Based on the proposed regulations, LACMTA believes that the New Excise Tax will not have a material adverse effect on its financial condition or results of its operation.

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R. Pollution Remediation Obligations

LACMTA adopted GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”, establishing accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

LACMTA is responsible for the pollution remediation obligations for various facilities and capital projects. In general, these facilities and projects include those with known soil and/or groundwater impacts or either current or anticipated future litigation involving contamination of soil or groundwater at locations not controlled by LACMTA.

Identification and reporting of pollution remediation obligations under GASB 49 that do not qualify for capitalization are accrued as a liability and expense when a range of expected outlays is reasonably estimable or expensed upon receipt of goods and services. LACMTA calculates expected outlays related to this pollution remediation using established potential environmental liability estimates for three different cost categories identified below:

External Remediation Costs – costs for goods and services that are provided to LACMTA and represent outlays for services, including subcontracted direct labor, overhead, profit, and fees. Examples of these goods and services include environmental site assessment activities, remedial action planning and design, remedial action implementation, and post-remediation monitoring.

LACMTA Internal Administration Costs – internal administration costs incurred by LACMTA including direct and indirect outlays (e.g. general overhead) associated with technical management and procurement activities.

Litigation and Settlement Costs – litigation and settlement costs for sites where LACMTA has been named as a responsible party and has agreed to pay all or part of the quantified financial obligations to implement environmental mitigations or environmental damages associated with the site.

The remediation obligation estimates accrued as of June 30, 2010 are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to status and regulations and other factors that could result in revisions to these estimates.

Prospective recoveries from responsible parties may reduce LACMTA’s obligation. Capital assets may be created when pollution outlays are made under specific circumstances. LACMTA is not expecting recovery from other responsible parties.

As of June 30, 2010, LACMTA has an outstanding pollution remediation liability of \$7,700 related to soil and/or groundwater pollution cleanup activities. Of this amount,

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approximately \$3,262 is associated with litigation or settlement costs and approximately \$480 is associated with LACMTA's internal administration as presented below:

The following table summarizes the pollution remediation by activity as of June 30, 2010:

Facility Name	External Remediation	Internal Administration	Litigation and Settlements	Assessment/ Remediation Spent	Total Costs
Division 1	\$ 198	\$ 30	\$ -	\$ -	\$ 228
Division 3	651	80	-	-	731
Division 7	2,160	130	-	(198)	2,092
Division 10	705	70	-	(58)	717
Division 12	300	20	-	-	320
Division 11	100	-	-	-	100
Division 30	-	100	-	-	100
Red Line	100	10	-	-	110
Oil Landfill	-	10	2,937	-	2,947
McArthur Park Remediation	-	-	100	-	100
Omega	-	10	100	-	110
Mountaineer Refinery	-	10	75	-	85
SFV/N Hollywood Former Division 15	-	10	50	-	60
Total	<u>\$ 4,214</u>	<u>\$ 480</u>	<u>\$ 3,262</u>	<u>\$ (256)</u>	<u>\$ 7,700</u>

External remediation costs noted above were estimated on a lifecycle basis through retirement of the pollution remediation obligation or a forecasted, year-by-year scope of the remaining project lifecycles to No Further Action (NFA) (i.e., closure). The scoping period for newly identified sites and for the continuance of other identified obligation at other sites was assumed to start July 1, 2010.

Internal costs noted above were estimated on a site-specific basis. A full time equivalent (FTE) basis was used to estimate the internal cost of administration and overhead. An FTE value of \$200,000 (amount not in thousands) per annum was multiplied by the annual FTE equivalent anticipated for each site and the projected duration required to retire the pollution remediation obligations.

Litigation and settlement costs are based on LACMTA's proportionate share of cleanup and remediation costs at each clean up sites identified in the table above that received LACMTA's generated hazardous waste, based on volume, ongoing remediation costs, and prior years' expenses.

LACMTA does not currently have any pollution remediation activities for liabilities not yet recognized because they are not reasonably estimable.

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S. Reclassifications

Comparative data for the prior year has been presented in selected sections of the accompanying financial statements. Also, certain accounts presented in prior year's data have been reclassified in order to be consistent with the current year's presentation.

T. Effects of New Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the financial statements:

In June 2007, GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets.*" This statement addresses how to establish accounting and financial reporting requirements for intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. LACMTA implemented the new reporting requirements of GASB 51 for the fiscal year ended June 30, 2010. The adoption of GASB 51 did not have a material impact on LACMTA's financial statements.

In June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments.*" This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by synthetically fixing prices. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swap options, forward contracts, and futures contracts. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. LACMTA implemented the new reporting requirements of GASB 53 for fiscal year ended June 30, 2010. Additional information on GASB 53 can be found on pages 75 to 81.

In March 2009, GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the fund type definitions. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Disclosure of the policies in the notes to the financial statements is required. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. LACMTA plans to implement the new reporting requirements of GASB 54 for fiscal year ending June 30, 2011.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2010

U. Subsequent Events

New LACMTA Fare Structure

Effective July 1, 2010, LACMTA changed its fare structure for bus and rail service. The increase will help LACMTA's financial stability while maintaining quality of service.

The first phase of the fare increase went into effect on July 1, 2007. Prior to the implementation of July 1, 2009 fare increase, the Measure R half-cent sales tax was approved by voters to improve mobility in the region. As a result of the November 4, 2008 ballot initiative, LACMTA was able to defer the July 1, 2009 fare increase until July 1, 2010.

Long-term Debt

As of June 30, 2010, LACMTA had one outstanding auction rate security bond issue: the \$171,025 General Revenue Refunding Bonds (Union Station Gateway Projects) Series 2004. Auctions have failed for the Series 2004 Bonds since the third quarter of 2008. This was primarily the result of deteriorating financial strength and credit ratings downgrade of virtually all of the previously AAA-rated monoline bond insurers. In July 2010, LACMTA issued \$79,620 General Revenue Refunding Bonds (Union Station Gateway Projects) Series 2010-A for the purchase and cancellation of a portion of the Series 2004 Bonds through a tender offer for purchase at a discount from the par amount of the refunded Series 2004 Bonds. The proceeds of the Series 2010-A bonds together with other funds released as stated in the Series 2010-A Official Statement were used to (1) purchase an aggregate amount of \$83,525 outstanding Series 2004 Bonds; (2) pay \$6,675 for the partial termination of the notional amount of the Series 2004 Swap Agreement related to the refunded Series 2004 Bonds; (3) make a deposit to the Reserve Account; and (4) pay for costs of issuance. Following the issuance of the Series 2010-A Bonds, the total amount of Series 2004 Bonds outstanding is \$86,175.

The Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005-A are fixed rate bonds with rates of 3.13 percent to 5.00 percent, of which \$90,155 was outstanding as of June 30, 2010. In October 2010, LACMTA redeemed the entire \$90,155 outstanding Capital Grant Receipts Revenue Bonds from capital grant receipts in order to reduce its future debt service requirements.

In November 2010, LACMTA issued \$732,410 Measure R Senior Sales Tax Revenue Bonds, composed of \$573,950 Series 2010-A Taxable Build America Bonds and \$158,460 Series 2010-B Tax-Exempt Bonds. The Series A Bonds mature June 1, 2021 through June 1, 2039 with rates ranging from 4.28% to 5.74%. LACMTA expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Bonds. The Series 2010-B Bonds mature June 1, 2012 through June 1, 2020 at rates ranging from 0.50% to 5.00%.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2010

Commercial Paper Notes

In August 2010, LACMTA entered into two direct-pay irrevocable letters of credit for \$50,000 for each bank, to support the Proposition A commercial paper program. Each bank is required to have a short term credit rating of at least A-1/P-1. The letters of credit are drawn upon at each note maturity to pay the principal and interest due. Principal that has been advanced by the banks and paid to the holders of the matured notes is reimbursed to the banks either by issuing new notes or by direct payment from LACMTA. Interest is reimbursed to the banks on a current basis from sales tax revenues. In the event that the CPN dealers are unable to remarket the commercial paper and/or LACMTA is unable to repay the interest or principal, the banks will incur an unreimbursed draw on the letters of credit. Unreimbursed draws are converted to term loans following a specified period of time. The term loan for Proposition A CPN is repayable beginning nine months after the commencement of the term loan, with quarterly principal payments over a period of two years and three months. Interest is charged at rates specified in the applicable Reimbursement Agreement. The letters of credit supporting the Proposition A commercial paper program will expire in January 2012.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Required Supplementary Schedule
Schedule of Funding Progress – Pension Plans
For the Fiscal Year Ended June 30, 2010

The schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for the pension funds contributed to by:

Valuation Date	Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll (a)-(b)/ (c)
PTSC *						
06/30/08	\$ 282,568	\$ 276,752	\$ 5,816	97.94%	\$ 123,548	4.71%
06/30/07	247,609	246,342	1,267	99.49%	115,303	1.10%
06/30/06	215,195	213,556	1,639	99.24%	108,085	1.52%
LACMTA **						
UTU						
12/31/09	512,887	362,222	150,665	70.62%	190,212	79.21%
12/31/08	488,327	306,525	181,802	62.77%	192,718	94.34%
12/31/07	439,532	310,067	129,465	70.54%	188,648	68.63%
TCU						
12/31/09	90,027	61,866	28,161	68.72%	27,578	102.11%
12/31/08	86,148	53,052	33,096	61.58%	27,057	122.32%
12/31/07	72,981	53,142	19,839	72.82%	26,735	74.21%
ATU						
12/31/09	295,021	211,174	83,847	71.58%	109,214	76.77%
12/31/08	275,021	174,733	100,288	63.53%	115,504	86.83%
12/31/07	257,642	181,305	76,337	70.37%	100,643	75.85%
Non-Contract						
12/31/09	131,773	114,115	17,658	86.60%	6,206	284.53%
12/31/08	129,195	101,878	27,317	78.86%	6,855	398.50%
12/31/07	121,427	105,987	15,440	87.28%	7,291	211.77%
AFSCME						
12/31/09	50,675	44,653	6,022	88.12%	6,161	97.74%
12/31/08	48,528	40,120	8,408	82.67%	6,951	120.96%
12/31/07	46,482	41,364	5,118	88.99%	7,095	72.14%
LACMTA						
TOTAL						
12/31/09	\$ 1,080,383	\$ 794,030	\$ 286,353	73.50%	\$ 339,371	84.38%
12/31/08	1,027,219	676,308	350,911	65.84%	349,085	100.52%
12/31/07	938,064	691,865	246,199	73.75%	330,412	74.51%

Annual Financial Report can be obtained by writing to:

* CalPERS, PO BOX 942709, Sacramento, CA 94229-2709 or visit CalPERS's website at www.calpers.ca.gov

** Finance Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952 or visit LACMTA's website at www.metro.net.

See accompanying independent auditors' report.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Required Supplementary Schedule
Schedule of Funding Progress – OPEB
For the Fiscal Year Ended June 30, 2010

The schedule of Funding Progress below shows the recent history of actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for the OPEB fund established by LACMTA:

Actuarial Valuation Date	Projected Unit Credit Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
January 1, 2009						
LACMTA	\$ 148,150	\$ 22,934	\$ 125,216	15.48%	\$ 165,924	75.47%
ATU	462,109	71,537	390,572	15.48%	142,512	274.06%
TCU	90,227	13,968	76,259	15.48%	35,372	215.59%
UTU	314,221	48,643	265,578	15.48%	236,341	112.37%
Total	<u>\$ 1,014,707</u>	<u>\$ 157,082</u>	<u>\$ 857,625</u>	<u>15.48%</u>	<u>\$ 580,149</u>	<u>147.83%</u>
January 1, 2007						
LACMTA	\$ 104,433	\$ -	\$ 104,433	-%	\$ 144,609	72.22%
ATU	351,541	-	351,541	-%	122,385	287.24%
TCU	62,883	-	62,883	-%	31,242	201.28%
UTU	214,585	-	214,585	-%	233,331	91.97%
Total	<u>\$ 733,442</u>	<u>\$ -</u>	<u>\$ 733,442</u>	<u>-%</u>	<u>\$ 531,567</u>	<u>137.98%</u>

*Annual Financial Report can be obtained by writing to:
Finance Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952 or visit LACMTA's website at
www.metro.net.*

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 3,335	\$ 3,234	\$ 2,525	\$ (709)
Investment income	2,172	2,172	5,201	3,029
Net appreciation in fair value of investments	-	-	1,049	1,049
Lease and rental	16,563	16,563	15,713	(850)
Licenses and fines	500	500	446	(54)
Other	11,243	11,423	16,764	5,341
TOTAL REVENUES	33,813	33,892	41,698	7,806
EXPENDITURES				
Current:				
Administration and other	24,075	24,075	19,842	4,233
Transportation subsidies	-	-	149	(149)
Debt and interest expenditures:				
Principal	-	-	1,025	(1,025)
Interest and fiscal charges	2,262	2,262	1,249	1,013
TOTAL EXPENDITURES	26,337	26,337	22,265	4,072
EXCESS OF REVENUES OVER EXPENDITURES	7,476	7,555	19,433	11,878
OTHER FINANCING SOURCES (USES)				
Transfers in	12,111	12,261	12,878	617
Transfers out	(10,700)	(11,420)	(12,484)	(1,064)
TOTAL OTHER FINANCING SOURCES AND USES	1,411	841	394	(447)
NET CHANGE IN FUND BALANCES	8,887	8,396	19,827	11,431
Fund balances – beginning of year	160,627	160,627	160,627	-
FUND BALANCES – END OF YEAR	\$ 169,514	\$ 169,023	\$ 180,454	\$ 11,431

*Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Proposition A Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 616,725	\$ 616,725	\$565,746	\$ (50,979)
Investment income	600	600	2,419	1,819
Net appreciation in fair value of investments	-	-	316	316
TOTAL REVENUES	617,325	617,325	568,481	(48,844)
EXPENDITURES				
Current:				
Transportation subsidies	248,060	248,060	229,407	18,653
TOTAL EXPENDITURES	248,060	248,060	229,407	18,653
EXCESS OF REVENUES OVER EXPENDITURES	369,265	369,265	339,074	(30,191)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	19,900	47,744	27,844
Transfers out	(437,443)	(450,297)	(420,897)	29,400
TOTAL OTHER FINANCING SOURCES AND USES	(437,443)	(430,397)	(373,153)	57,244
NET CHANGE IN FUND BALANCES	(68,178)	(61,132)	(34,079)	27,053
Fund balances – beginning of year	114,615	114,615	114,615	-
FUND BALANCES – END OF YEAR	\$ 46,437	\$ 53,483	\$ 80,536	\$ 27,053

*Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Proposition C Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts *		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 616,886	\$ 616,886	\$ 565,787	\$ (51,099)
Intergovernmental	326,959	310,704	130,115	(180,589)
Investment income	1,171	1,171	10,020	8,849
Net decline in fair value of investments	-	-	(549)	(549)
TOTAL REVENUES	945,016	928,761	705,373	(223,388)
EXPENDITURES				
Current:				
Administration and other	350,568	351,318	246,657	104,661
Transportation subsidies	516,291	516,291	423,686	92,605
TOTAL EXPENDITURES	866,859	867,609	670,343	197,266
EXCESS OF REVENUES OVER EXPENDITURES	78,157	61,152	35,030	26,122
OTHER FINANCING SOURCES (USES)				
Transfers in	500	26,628	3,942	(22,686)
Transfers out	(408,273)	(413,781)	(401,433)	12,348
TOTAL OTHER FINANCING SOURCES USES	(407,773)	(387,153)	(397,491)	(10,338)
NET CHANGE IN FUND BALANCES	(329,616)	(326,001)	(362,461)	(36,460)
Fund balances – beginning of year	478,474	478,474	478,474	-
FUND BALANCES – END OF YEAR	\$ 148,858	\$ 152,473	\$ 116,013	\$ (36,460)

*Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Measure R Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 361,248	\$ 361,248	\$ 551,480	\$ 190,232
Intergovernmental	24,679	3,283	4,371	1,088
Investment income	-	-	2,656	2,656
Net appreciation in fair value of investments	-	-	3,604	3,604
TOTAL REVENUES	385,927	364,531	562,111	197,580
EXPENDITURES				
Current:				
Administration	53,196	62,446	52,306	10,140
Transportation subsidies	97,266	114,939	118,143	(3,204)
TOTAL EXPENDITURES	150,462	177,385	170,449	6,936
EXCESS OF REVENUES OVER EXPENDITURES	235,465	187,146	391,662	204,516
OTHER FINANCING SOURCES (USES)				
Transfers in	1,009	25,436	29,353	3,917
Transfers out	(32,000)	(38,687)	(37,350)	1,337
TOTAL OTHER FINANCING SOURCES AND USES	(30,991)	(13,251)	(7,997)	5,254
NET CHANGE IN FUND BALANCES	204,474	173,895	383,665	209,770
Fund balances – beginning of year	-	-	-	-
FUND BALANCES – END OF YEAR	\$ 204,474	\$ 173,895	\$ 383,665	\$ 209,770

*Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
PTMISEA Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts *		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ 1,400	\$ -	\$ (1,400)
Investment income	-	-	121	121
Net appreciation in fair value of investment	-	-	19	19
TOTAL REVENUES	-	1,400	140	(1,260)
OTHER FINANCING SOURCES AND (USES)				
Transfers out	-	(113,950)	(62,058)	51,892
TOTAL OTHER FINANCING SOURCES AND USES	-	(113,950)	(62,058)	51,892
NET CHANGE IN FUND BALANCES	-	(112,550)	(61,918)	50,632
Fund balances – beginning of year	118,614	118,614	118,614	-
FUND BALANCES – END OF YEAR	\$ 118,614	\$ 6,064	\$ 56,696	\$ 50,632

* Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Transportation Development Act Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 307,345	\$ 307,345	\$ 285,270	\$ (22,075)
Investment income	-	-	2,240	2,240
TOTAL REVENUES	307,345	307,345	287,510	(19,835)
EXPENDITURES				
Current:				
Transportation subsidies	89,757	82,178	92,289	(10,111)
TOTAL EXPENDITURES	89,757	82,178	92,289	(10,111)
EXCESS OF REVENUES OVER EXPENDITURES	217,588	225,167	195,221	(29,946)
OTHER FINANCING SOURCES (USES)				
Transfers out	(261,502)	(251,143)	(220,871)	30,272
TOTAL OTHER FINANCING SOURCES AND USES	(261,502)	(251,143)	(220,871)	30,272
NET CHANGE IN FUND BALANCES	(43,914)	(25,976)	(25,650)	(326)
Fund balances – beginning of year	117,329	117,329	117,329	-
FUND BALANCES – END OF YEAR	\$ 73,415	\$ 91,353	\$ 91,679	\$ (326)

* Budget prepared in accordance with GAAP

** Budget deficiency explained on page 22

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
State Transit Assistance Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ -	\$115,161	\$ 117,087	\$ 1,926
Investment income	-	-	1,246	1,246
TOTAL REVENUES	-	115,161	118,333	3,172
EXPENDITURES				
Current:				
Transportation subsidies	-	-	3,504	(3,504)
TOTAL EXPENDITURES	-	-	3,504	(3,504)
EXCESS OF REVENUES OVER EXPENDITURES	-	115,161	114,829	(332)
OTHER FINANCING SOURCES (USES)				
Transfers out	(280)	(280)	(1,052)	(772)
TOTAL OTHER FINANCING SOURCES AND USES	(280)	(280)	(1,052)	(772)
NET CHANGE IN FUND BALANCES	(280)	114,881	113,777	(1,104)
Fund balances – beginning of year	54,162	54,162	54,162	-
FUND BALANCES – END OF YEAR	\$ 53,882	\$169,043	\$ 167,939	\$ (1,104)

**Budget prepared in accordance with GAAP*

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Other Governmental Funds
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 25,594	\$ 26,065	\$ 14,035	\$ (12,030)
Investment income	580	580	11,165	10,585
Net decline in fair value of investments	-	-	(239)	(239)
Licenses and fines	6,000	8,000	7,516	(484)
Other	-	-	56	56
TOTAL REVENUES	32,174	34,645	32,533	(2,112)
EXPENDITURES				
Current:				
Administration and other	79,133	79,133	58,388	20,745
Transportation subsidies	19,053	19,053	8,799	10,254
TOTAL EXPENDITURES	98,186	98,186	67,187	30,999
EXCESS OF REVENUES OVER EXPENDITURES	(66,012)	(63,541)	(34,654)	28,887
OTHER FINANCING SOURCES (USES)				
Transfers in	57,043	53,255	39,688	(13,567)
Transfers out	-	(75,480)	(46,727)	28,753
TOTAL OTHER FINANCING SOURCES AND USES	57,043	(22,225)	(7,039)	15,186
NET CHANGE IN FUND BALANCES	(8,969)	(85,766)	(41,693)	44,073
Fund balances – beginning of year	383,669	383,669	383,669	-
FUND BALANCES – END OF YEAR	\$ 374,700	\$ 297,903	\$ 341,976	\$ 44,073

*Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

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