

Los Angeles County Metropolitan Transportation Authority

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

(With Independent Auditor's Report Thereon)



Metro

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

Basic Financial Statements and
Required Supplementary Information

June 30, 2011

(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, 2011, 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 77%, 79%, and 72% of the assets, net position/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 the 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, 2011, 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 1 in the notes to the financial statements, the LACMTA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011 on our consideration of the 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 16, the schedules of funding progress for pension plans and other postemployment benefits on pages 85 and 86, respectively, and the budgetary comparison information on pages 87 through 93, 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 29, 2011

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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 and deferred inflows of resources as of June 30, 2011 by \$7,191,228. Of this amount, \$368,216 is reported as unrestricted net position.
- Total net position increased by \$127,729 (1.81 percent) over the previous year. Business-type activities net position decreased by \$3,858 (0.08 percent) and governmental activities net position increased by \$131,587 (5.84 percent). The decrease in the business-type activities net position is attributable to increases in operating expenses not offset by the increases in operating revenues. For governmental activities, the increase in net position was due to lower program expenses, specifically for highway projects, coupled with increases in program revenues.
- At year-end, the governmental funds reported fund balances totaling \$1,601,507. Of this amount, \$1,119,586 is restricted, \$47,550 is committed and assigned, and \$434,371 is unassigned available for spending at LACMTA's discretion.
- LACMTA's total long term debt increased by \$439,083 (10.44 percent) primarily due to issuance of Measure R Build America Bonds.

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 position (page 17) presents information on all of LACMTA's assets, liabilities, and deferred inflow of resources, with the difference reported as net position. Trends of increasing or decreasing net position may serve as useful indicators of financial health.

The statement of activities (pages 18-19) shows how net position 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 governmental 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 proprietary fund: the Bus and Rail Operations Enterprise fund. All transit-related transactions, including support services, capital, debt and the Union Station operation activities are recorded in this fund and presented in the business-type activities in the government-wide financial statements.

The Enterprise fund is used to report the type of functions presented in the business-type activities in the government-wide financial statements. The 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 financials.

LACMTA maintains eleven individual governmental funds, six 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 87-93.

Fiduciary Funds

Fiduciary funds are used to account for assets held by LACMTA in a trustee capacity. 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 Other Postemployment Benefits (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 33-84.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information starting on page 85.

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Government-wide Financial Analysis

Statement of Net Position

As mentioned earlier, net position can serve as an indicator of financial health. LACMTA's net position increased by \$127,729 (1.81 percent) compared to the previous year. The increase was primarily due to less expenditures than sales tax revenues related to Measure R projects which are still in the early stages of planning and construction activities.

The following table is a summary of the statement of net position as of June 30, 2011 and 2010:

Los Angeles County Metropolitan Transportation Authority						
Summary Statement of Net Position						
	Business-type Activities		Governmental Activities		Total	
	2011	2010*	2011	2010	2011	2010*
Current & other assets	\$2,709,334	\$2,436,942	\$1,839,945	\$1,737,260	\$4,549,279	\$4,174,202
Capital assets	7,584,016	7,366,524	772,794	772,794	8,356,810	8,139,318
Deferred outflows – derivatives	-	25,386	-	-	-	25,386
Total assets and deferred outflows	10,293,350	9,828,852	2,612,739	2,510,054	12,906,089	12,338,906
Long-term liabilities	5,068,158	4,599,102	206,469	201,872	5,274,627	4,800,974
Other liabilities	413,176	418,301	22,633	56,132	435,809	474,433
Deferred inflows - derivatives	4,425	-	-	-	4,425	-
Total liabilities and deferred inflows	5,485,759	5,017,403	229,102	258,004	5,714,861	5,275,407
Net investment in capital assets	4,497,567	4,331,064	772,794	772,794	5,270,361	5,103,858
Restricted for debt service	440,892	446,878	-	-	440,892	446,878
Restricted for other purposes	-	-	1,111,759	1,244,855	1,111,759	1,244,855
Unrestricted	(130,868)	33,507	499,084	234,401	368,216	267,908
Total net position	\$4,807,591	\$4,811,449	\$2,383,637	\$2,252,050	\$7,191,228	\$7,063,499

*Certain accounts were reclassified for comparability purposes due to adoption of Government Accounting Standards Board (GASB) 63 in fiscal year 2011.

In spite of the instability of the economy, the financial status under the business-type activities and the governmental activities have increased 1.81 percent due to minor changes in the factors affecting normal course of the business.

The increase in current and other assets in the business-type activities of \$272,392 (11.18 percent) was mainly due to the unspent proceeds from the issuance of Measure R Build America bonds.

Long-term liabilities in the business-type activities increased by \$469,056 (10.20 percent) primarily due to the issuance of Measure R Bonds to finance various Measure R capital projects.

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Statement of Activities

The following table is a summary of the statement of activities for the years ended June 30, 2011 and 2010:

Los Angeles County Metropolitan Transportation Authority Changes in Net Position						
	Business-type Activities		Governmental Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$375,168	\$342,087	\$16,302	\$15,713	\$391,470	\$357,800
Operating grants and contributions	261,068	239,835	169,261	267,306	430,329	507,141
Capital grants and contributions	182,378	411,392	-	-	182,378	411,392
General revenues:						
Sales tax	-	-	2,104,072	2,085,370	2,104,072	2,085,370
Investment income	14,680	8,811	34,500	35,068	49,180	43,879
Net appreciation (decline) in fair value of investments	(1,489)	(709)	(9,872)	4,200	(11,361)	3,491
Miscellaneous	4,872	16,346	49,218	26,979	54,090	43,325
Total program revenues	836,677	1,017,762	2,363,481	2,434,636	3,200,158	3,452,398
Program Expenses:						
Bus and rail operations	1,910,466	1,808,257	-	-	1,910,466	1,808,257
Union station operations	1,052	-	-	-	1,052	-
Transit operators programs	-	-	238,624	201,354	238,624	201,354
Local cities programs	-	-	401,957	370,177	401,957	370,177
Highway projects	-	-	108,511	247,715	108,511	247,715
Regional multimodal capital programs	-	-	80,221	102,084	80,221	102,084
Paratransit programs	-	-	16,456	25,283	16,456	25,283
Other transportation subsidies	-	-	56,504	88,180	56,504	88,180
General government	-	-	258,638	219,629	258,638	219,629
Total program expenses	1,911,518	1,808,257	1,160,911	1,254,422	3,072,429	3,062,679
Increase (decrease) in net position before transfers:	(1,074,841)	(790,495)	1,202,570	1,180,214	127,729	389,719
Transfers	1,070,983	1,069,267	(1,070,983)	(1,069,267)	-	-
Increase (decrease) in net position	(3,858)	278,772	131,587	110,947	127,729	389,719
Net position – beginning of year	4,811,449	4,532,677	2,252,050	2,141,103	7,063,499	6,673,780
Net position – end of year	\$4,807,591	\$4,811,449	\$2,383,637	\$2,252,050	\$7,191,228	\$7,063,499

Business-type activities recovered 30.01 percent of total operating expenses from operating revenues, excluding depreciation and interest, compared to 27.64 percent in the prior year. The remaining costs were covered by grants and transfers provided by LACMTA's governmental activities. Capital asset replacement costs have traditionally been funded as needed with governmental resources.

Sales tax revenues in the governmental activities increased by \$18,702 (0.90 percent) compared to FY10.

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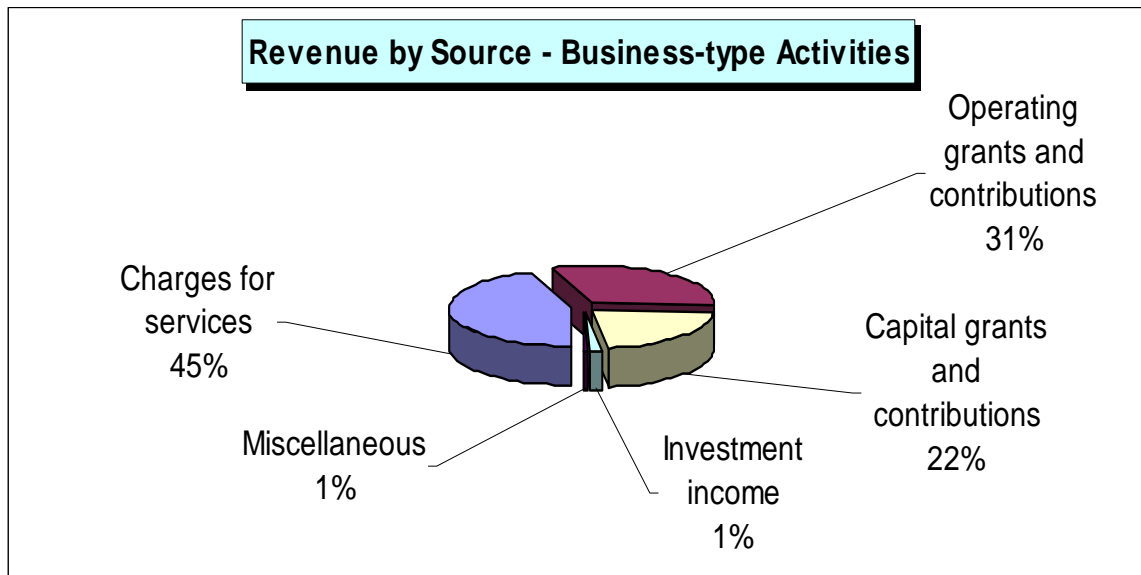
The decrease in net appreciation in fair value of investments in the governmental activities of \$14,072 (335.05 percent) is mainly due to interest rate fluctuations and other economic factors caused by the unstable worldwide financial market.

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 to other agencies totaling \$864,528 decreased 1.31% from FY10 and represented the largest governmental expenditures. Subsidies consisted of the pass-through of federal, state and local funding to other agencies in Los Angeles County for public transit, traffic system, street and road maintenance and other transit related improvements.

Highway project expenditures in the governmental activities decreased by \$139,204 (56.20 percent) primarily due to payments for design, construction mobilization, insurance and bonds, and other mobilization costs incurred last year. These expenditures were associated with the I-405 Sepulveda Pass Improvement Project which will add a 10 mile HOV lane and improve freeway ramps, bridges, retaining and sound walls in the project.

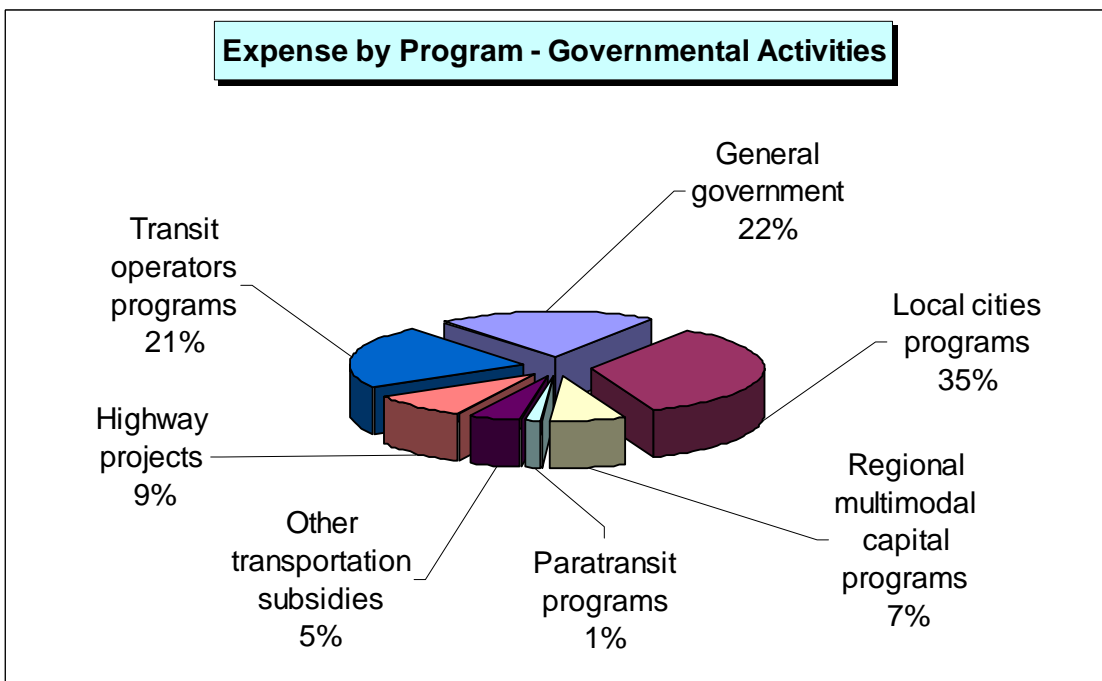
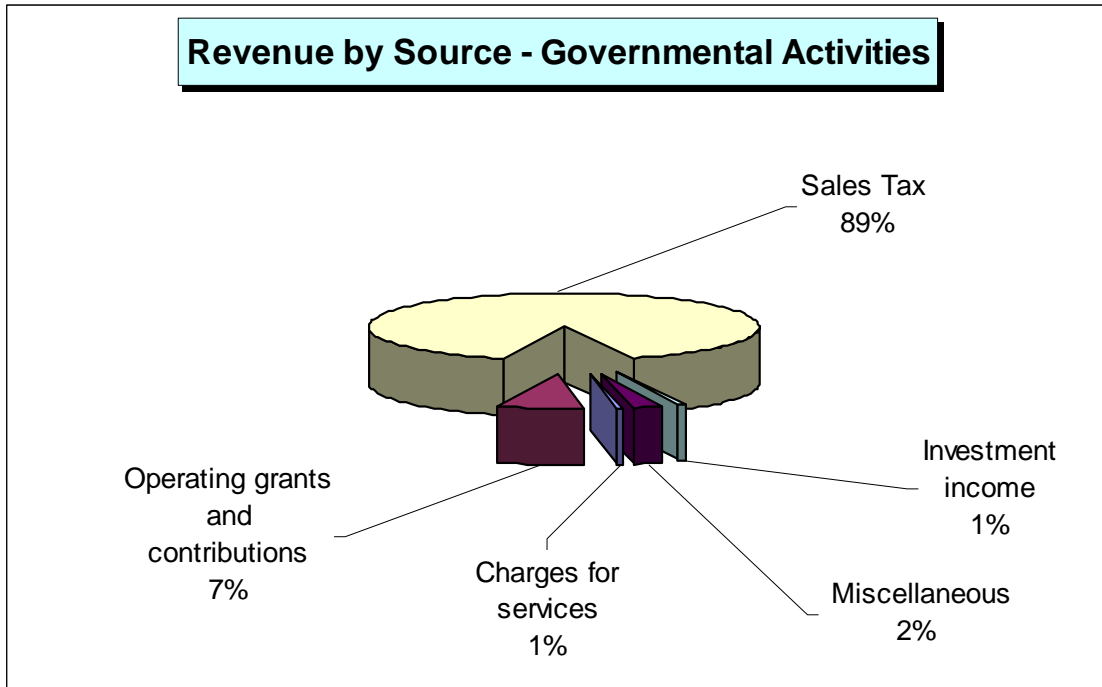
Regional multimodal capital programs expenses decreased by \$21,863 (21.42 percent) primarily due to the delays on numerous projects caused by changes to statements of work (SOW) and right of way (ROW) issues.

Below are graphical depictions of the components of business-type revenues for the year ended June 30, 2011:



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Below are graphical depictions of the components of governmental revenues and expenditures for the year ended June 30, 2011:



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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 decrease of \$3,858 in net position was primarily due to an increase in operating expenses not compensated by the increase in operating revenues.

Governmental Funds

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

LACMTA's governmental funds ended the fiscal year with \$1,601,507 in total fund balance. Approximately 70 percent of this amount has been committed for future programs. The major governmental funds are discussed below.

The General fund balance increased by \$6,129 (excluding adjustments related to the implementation of GASB 54), mainly due to the alternative fuel tax credit that was retroactively extended by the Internal Revenue Service (IRS) from January 1, 2010 to December 31, 2011. Of the \$489,748 fund balance, \$55,377 is restricted, committed, and assigned for future expenditures.

The Proposition A fund balance decreased by \$11,487 mainly due to higher subsidy payments to bus and rail related projects. The entire amount of \$69,049 fund balance is restricted as to use by the Proposition A ordinance.

The Proposition C fund balance increased by \$899 primarily due to less operating transfers to LACMTA. The Proposition C ordinance restricts the use of the fund balance of \$116,912.

The Measure R fund balance increased by \$227,799 mainly due to less allocation for the EXPO Light Rail line Phase 2 project. The restricted fund balance of \$611,464 will be used to fund future programs eligible under the Measure R ordinance.

The Transportation Development Act fund balance increased by \$122,973 primarily due to the increase in sales tax revenues and decrease in operating transfers to LACMTA. The fund balance of \$214,652 is restricted under the Transportation Development Act.

The State Transit Assistance fund balance decreased by \$118,225 due to the FY11 allocation received and recorded in FY10 and expended during FY11. The fund balance of \$49,714 is restricted under the State Transit Assistance regulation.

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General Fund Budgetary Highlights

With the implementation of GASB 54, certain special revenue funds in FY10 were reclassified to the General fund in FY11 which resulted of an adjustment of the beginning fund balance of \$303,165.

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 3.07 percent of LACMTA's total governmental fund revenues, while expenditures represent 5.01 percent of total governmental fund expenditures.

The original budget increased by \$9,876 due to additional budget allocation for the Regional Downtown Connector and the Westside Subway Extension projects.

Revenues

Total actual revenues are significantly higher than budget due to receipts of federal alternative fuel tax credit.

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.

The favorable variance in expenditures compared to budget was due to less transportation subsidies and expenditures related to transit planning and joint development projects.

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Capital Assets

As of June 30, 2011, LACMTA had \$8,356,810 (net of accumulated depreciation) invested in capital assets, as shown below, a 2.67 percent increase from the previous fiscal year.

Los Angeles County Metropolitan Authority Capital Assets (Net of accumulated depreciation)						
	Business-type Activities		Governmental Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 651,247	\$ 626,285	\$ 772,794	\$ 772,794	\$1,424,041	\$ 1,399,079
Buildings	4,585,976	4,692,688	-	-	4,585,976	4,692,688
Equipment	100,856	143,242	-	-	100,856	143,242
Vehicles	961,742	1,013,552	-	-	961,742	1,013,552
Construction in progress	1,284,195	890,757	-	-	1,284,195	890,757
Total Capital Assets	\$ 7,584,016	\$ 7,366,524	\$ 772,794	\$ 772,794	\$8,356,810	\$ 8,139,318

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 an amended budget of \$932 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 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, 2011, \$732.1 million has been expended on Phase 1. This segment of the project is expected to be operational by early 2012.

The second phase is estimated to cost \$1.5 billion, is approximately 6.6 miles and continues from Phase 1 terminus in Culver City to 4th Street and Colorado Avenue in the City of Santa Monica. It travels along the Exposition 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, two 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, 2011, \$83.2 million has been expended on Phase 2.

LACMTA entered into a \$21 million contract to enhance Transit Access Pass (TAP) operations by adding an advanced gating system and related services to improve system security, deter fare evasion, and capture ridership data. In FY11, LACMTA completed the installation of approximately 42 gates. LACMTA is conducting limited gate locking

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demonstrations to quantify the number of paper passes still present in the system and to present a migration path for locking these stations as a policy direction set for the future. As of June 30, 2011, \$13.6 million has been expended.

LACMTA has undertaken a \$291.5 million major bus acquisition project to purchase 392 compressed natural gas (CNG) transit buses and 50 additional 31-foot CNG buses for its contracted service operations. Out of the 442 buses that have been ordered, 225 buses were delivered in FY10 and 193 buses were delivered in FY11 and the remaining 24 buses are expected to be delivered in FY12. LACMTA is projected to purchase up to 700 45-foot composite buses between FY12 and FY15 at an estimated cost of between \$320 and \$350 million. As of June 30, 2011, \$273.9 million has been expended.

LACMTA entered into a \$152.9 million Light Rail Vehicle Base Contract to acquire 50 Light Rail Vehicles, which includes spare parts, special tools, and equipment. As of June 30, 2011, 44 vehicles were received and placed into service. As of June 30, 2011, \$133.3 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, 2011, \$64.2 million has been expended.

The Metro Gold Line Phase II (Foothill Extension) corridor includes the cities of Pasadena, Arcadia, Monrovia, Duarte, Irwindale, Azusa, Glendora, San Dimas, La Verne, Pomona, Claremont, and Montclair in the counties of Los Angeles and San Bernardino. The Foothill Extension will be built in two segments. The first segment (Segment 2A) is budgeted at \$735 million and extends from the Sierra Madre Villa Station in Pasadena to the City of Azusa. The second segment (Segment 2B) would include an extension from Azusa to the City of Montclair. The Project includes approximately 11.4 miles of double light rail main track, new bridges and improvements to existing bridges, retaining wall and sound walls, six at-grade passenger stations, parking structures and surface parking lots, systems to power and control train movements, grade crossings and adjacent roadway improvements, and four miles of freight rail track relocations and improvements. Revenue service along this segment is planned for the fiscal year 2015. As of June 30, 2011, \$44.5 million has been expended.

The Regional Connector Transit Corridor is a \$1.4 billion project of which \$68.2 million has been approved. This project will connect the Metro Gold, Blue and EXPO Lines and the length of this proposed route would be approximately 1.6 miles. The proposed Light Rail

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For the Fiscal Year Ended June 30, 2011

Transit (LRT) Project from the 7th/Metro Center Station would extend north along Flower Street turning east on 2nd Street. At 2nd Street, the underground tunnel would extend east with new underground stations to provide access to Bunker Hill and to the areas between Los Angeles Street and Broadway with stations at 2nd/Hope Street and 2nd/Broadway. Tracks would continue east underneath 2nd Street to Central Avenue and veer northeast to a new Little Tokyo/Arts District underground station. Tracks would continue from the station under the intersection of 1st and Alameda Streets into a new underground rail junction. The alignment would connect to the existing Gold Line east of the intersection of 1st and Alameda Streets and north of Temple Street. As of June 30, 2011, \$0.5 million has been expended.

The Crenshaw/LAX Transit Corridor project has an interim life-of-project (LOP) budget of \$51.2 million, estimated total budget of \$1.7 billion, that covers the design and construction of a new 8.5-mile double-track LRT line, including a minimum of six transit stations, the procurement of a minimum of 20 light rail vehicles, and the construction of a full service maintenance facility known as the Southwestern Yard. The Project will extend from the Exposition LRT Line (at the intersection of Exposition and Crenshaw Boulevards) that is currently under construction and the Metro Green Line LRT (near the existing Aviation/LAX Station). As of June 30, 2011, \$12.9 million has been expended.

The LACMTA Board approved the draft of the Environmental Impact Statement (EIS)/Environmental Impact Report (EIR) on the selected Locally Preferred Alternative (LPA) for the Westside Subway Extension with an interim LOP budget of \$108.8 million, estimated total budget of \$5.2 billion. The Westside Subway Extension will be a nine-mile extension of the existing Metro Purple Line Subway with seven stations to Westwood/VA Hospital Station. Currently, the final EIS/EIR is being conducted with the Preliminary Engineering (PE) phase. As of June 30, 2011, \$46.2 million has been expended.

In April 2011, LACMTA purchased Los Angeles Union Station (LA Union Station) for \$75 million. The LA Union Station was built in 1939 and is located in downtown Los Angeles. It is a national landmark and one of the great railways facilities in the United States. Its acquisition by LACMTA paved the way for the expansion of transit operations, in order to accommodate an expected surge in passengers from the proposed Westside subway extension, increased bus service, and the State's proposed high speed rail system.

Currently, the LA Union Station serves Amtrak, Metrolink, the Metro subway lines, Gold line light rail lines, LA Fly Away and numerous Metro and municipal bus lines services to Los Angeles County.

Additional information on capital assets can be found on page 51.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

Long-term Debt

At the end of the fiscal year, LACMTA had total long-term debt of \$4,643,226 of which \$3,447,870 were bonds secured by sales tax revenue and \$850,770 were lease/leaseback obligations.

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

Los Angeles County Metropolitan Transportation Authority Long-term Debt						
	Business-Type Activities		Governmental Activities		Total	
	2011	2010	2011	2010	2011	2010
Sales tax revenue bonds and refunding bonds	\$3,447,870	\$2,834,450	\$ -	\$ -	\$3,447,870	\$2,834,450
Lease/leaseback to service obligations	850,770	911,774	-	-	850,770	911,774
Commercial paper notes	143,713	143,532	-	-	143,713	143,532
General revenue bonds	165,795	184,820	-	-	165,795	184,820
Capital grant receipts revenue bonds	-	90,155	-	-	-	90,155
Other debt	11,775	15,045	23,303	24,367	35,078	39,412
Total long-term debt	\$4,619,923	\$4,179,776	\$23,303	\$24,367	\$4,643,226	\$4,204,143

In July 2010, LACMTA cancelled a portion of the General Revenue Refunding Bonds Series 2004 and re-structured the balance by issuing a \$79,620 General Revenue Refunding Bonds Series 2010A. In October 2010, LACMTA paid off outstanding Capital Grants Revenue Bonds principal of \$90,155 maturing in October 2011 and 2012. In November 2010, LACMTA issued Measure R Senior Sales Tax Revenue Bonds Series 2010-A (Taxable Build America Bonds) for \$573,950 and Series 2010-B Bonds (Tax-Exempt) for \$158,460, for the purpose of financing a portion of transportation projects authorized by Measure R. This bond was issued to fund the Goldline Foothill Extension, Exposition Line Phase II, and other related Measure R projects.

Bond Ratings

As of June 30, 2011, 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+	Aa3	AA
General Revenue Bonds	AAA	Aa2	N/A
Measure R Sales Tax Revenue Build America Bonds	AAA	Aa2	N/A

Additional information on LACMTA's long-term debt can be found on pages 66 to 74.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

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
- Fuel and labor costs
- Inflation

LACMTA uses forecasts from various governmental sources as a basis for its future funding assumptions. The budget for FY12 assumed a 2.60 percent growth in sales tax revenues from Prop A, Prop C, TDA and Measure R over the FY11 budget. Also, the FY12 budget assumed the allocation of \$96,200 of State Transit Assistance (STA) from the state. Other budget assumptions include:

- 376,982 (not in thousands) bus revenue service hours reduction by efficiently restructuring and enhancing bus services.
- Start EXPO line (Phase 1) in revenue operations in FY12.
- Increased costs to support added EXPO operations, Measure R transit and highway projects, Union Station planning and operations, and the Congestion Reduction Demonstration Project (CRDP)
- Reduction in contract United Transportation Union (UTU) full time equivalents managed through attrition.
- No wage and salary increases for Non-Contract employees

Local sales taxes, the largest revenue sources for LACMTA, comprised 49 percent of LACMTA's total FY12 estimated revenues. From this revenue base, LACMTA constructs a budget that balances anticipated revenues with area transportation needs. For details of LACMTA's FY12 budget, please visit LACMTA's website at www.metro.net.

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.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Position
June 30, 2011
(Amounts expressed in thousands)

	Business-type Activities	Governmental Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,078,380	\$ 520,060	\$ 1,598,440
Investments	496,704	840,883	1,337,587
Receivables (net of allowance for doubtful accounts)	211,400	353,553	564,953
Internal balances	(125,226)	125,226	-
Inventories	66,825	-	66,825
Derivative instruments – commodity swap	387	-	387
Prepaid and other current assets	3,308	-	3,308
Lease accounts	850,770	-	850,770
Deferred charges	126,786	223	127,009
Capital assets			
Land and construction in progress	1,935,442	772,794	2,708,236
Other capital assets, net of depreciation	5,648,574	-	5,648,574
Total capital assets	<u>7,584,016</u>	<u>772,794</u>	<u>8,356,810</u>
Total assets	<u>10,293,350</u>	<u>2,612,739</u>	<u>12,906,089</u>
LIABILITIES			
Accounts payable and accrued liabilities	181,687	177,477	359,164
Accrued interest payable	67,893	-	67,893
Pollution remediation obligations	7,675	-	7,675
Postemployment benefits payable	45,223	-	45,223
Derivative instrument liability	31,378	-	31,378
Deferred revenue and credits	154,158	27,155	181,313
Other liabilities	9,438	1,167	10,605
Long-term liabilities:			
Due within 1 year	316,911	612	317,523
Due in more than 1 year	4,666,971	22,691	4,689,662
Total liabilities	<u>5,481,334</u>	<u>229,102</u>	<u>5,710,436</u>
DEFERRED INFLOWS OF RESOURCES			
Accumulated increase in fair value of hedging derivatives – interest rate swap	4,038	-	4,038
Accumulated increase in fair value of hedging derivatives – commodity swap	387	-	387
Total deferred inflows of resources	<u>4,425</u>	<u>-</u>	<u>4,425</u>
NET POSITION			
Net investment in capital assets	4,497,567	772,794	5,270,361
Restricted for debt service	440,892	-	440,892
Restricted for other purposes	-	1,111,759	1,111,759
Unrestricted (deficit)	(130,868)	499,084	368,216
Total net position	<u>\$ 4,807,591</u>	<u>\$ 2,383,637</u>	<u>\$ 7,191,228</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Activities
For the Year Ended June 30, 2011
(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:			
Bus and Rail operations	\$ 1,910,466	\$ 373,973	\$ 261,068
Union Station operations	1,052	1,195	-
Total business-type activities	<u>1,911,518</u>	<u>375,168</u>	<u>261,068</u>
Governmental activities:			
Transit operators programs	238,624	-	-
Local cities programs	401,957	-	-
Highway project	108,511	-	114,697
Regional multimodal capital programs	80,221	-	-
Paratransit programs	16,456	-	-
Other transportation subsidies	56,504	-	1,351
General government	258,638	16,302	53,213
Total governmental activities	<u>1,160,911</u>	<u>16,302</u>	<u>169,261</u>
Total	<u>\$ 3,072,429</u>	<u>\$ 391,470</u>	<u>\$ 430,329</u>

General revenues:
Sales tax
Investment income
Net decline in fair value of investments
Miscellaneous

Transfers
Total general revenues
Change in net position

Net position – beginning of year

Net position – end of year

See accompanying notes to basic financial statements.

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net position		
	Business-type Activities	Governmental Activities	Total
\$ 182,378	\$ (1,093,047)	\$ -	\$ (1,093,047)
-	143	-	143
182,378	(1,092,904)	-	(1,092,904)
-	-	(238,624)	(238,624)
-	-	(401,957)	(401,957)
-	-	6,186	6,186
-	-	(80,221)	(80,221)
-	-	(16,456)	(16,456)
-	-	(55,153)	(55,153)
-	-	(189,123)	(189,123)
-	-	(975,348)	(975,348)
\$ 182,378	(1,092,904)	(975,348)	(2,068,252)
-	-	2,104,072	2,104,072
14,680	(1,489)	34,500	49,180
(1,489)	4,872	(9,872)	(11,361)
4,872	1,070,983	49,218	54,090
1,070,983	(1,070,983)	(1,070,983)	-
1,089,046	(3,858)	1,106,935	2,195,981
(3,858)	4,811,449	131,587	127,729
4,811,449	2,252,050	2,252,050	7,063,499
\$ 4,807,591	\$ 2,383,637	\$ 2,383,637	\$ 7,191,228

Los Angeles County Metropolitan Transportation Authority
 Balance Sheet
 Governmental Funds
 June 30, 2011
 (Amounts expressed in thousands)

	<u>Special</u>		
	<u>General Fund</u>	<u>Proposition A</u>	<u>Proposition C</u>
ASSETS			
Cash and cash equivalents	\$ 43,625	\$ 15,688	\$ 28,873
Investments	267,543	49,661	91,404
Receivables:			
Accounts	2,463	-	-
Interest	2,589	284	528
Intergovernmental	5,135	-	81,054
Sales taxes	-	53,955	53,957
Notes	4,450	-	-
Due from other funds	179,263	8,924	13,600
Restricted assets:			
Cash and cash equivalents	932	-	-
TOTAL ASSETS	\$ 506,000	\$ 128,512	\$ 269,416
LIABILITIES			
Accounts payable and accrued liabilities	\$ 5,975	\$ 21,763	\$ 95,672
Due to other funds	6,320	37,700	4,918
Deferred revenues	2,790	-	51,914
Other liabilities	1,167	-	-
TOTAL LIABILITIES	16,252	59,463	152,504
FUND BALANCES			
Restricted	7,827	69,049	116,912
Committed	46,564	-	-
Assigned	986	-	-
Unassigned	434,371	-	-
TOTAL FUND BALANCES	489,748	69,049	116,912
TOTAL LIABILITIES AND FUND BALANCES	\$ 506,000	\$ 128,512	\$ 269,416

See accompanying notes to basic financial statements.

		Revenue Funds				
Measure R	TDA	STA	Other Governmental Funds	Total Governmental Funds		
\$ 132,907	\$ 220,473	\$ 5,373	\$ 72,189	\$ 519,128		
420,693	-	-	11,582	840,883		
-	-	-	-	2,463		
2,319	386	10	150	6,266		
92	-	-	4,982	91,263		
114,853	26,346	-	-	249,111		
-	-	-	-	4,450		
3,460	-	44,331	-	249,578		
-	-	-	-	932		
\$ 674,324	\$ 247,205	\$ 49,714	\$ 88,903	\$ 1,964,074		
\$ 47,010	\$ 5,236	\$ -	\$ 1,821	\$ 177,477		
15,850	27,317	-	32,247	124,352		
-	-	-	4,867	59,571		
-	-	-	-	1,167		
62,860	32,553	-	38,935	362,567		
611,464	214,652	49,714	49,968	1,119,586		
-	-	-	-	46,564		
-	-	-	-	986		
-	-	-	-	434,371		
611,464	214,652	49,714	49,968	1,601,507		
\$ 674,324	\$ 247,205	\$ 49,714	\$ 88,903	\$ 1,964,074		

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Los Angeles County Metropolitan Transportation Authority
 Reconciliation of the Balance Sheet
 to the Statement of Net Position – Governmental Activities
 June 30, 2011
 (Amounts expressed in thousands)

Fund Balance – total governmental funds (page 21)	\$ 1,601,507
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 Position – Governmental Activities, these costs are reported as prepayments and amortized over the life of the bonds.	223
Bonds and notes payable are not due and payable in the current period. Therefore, they are not reported in the funds.	(23,303)
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.	57,068
Government funds report revenue only to the extent that it increases current financial resources. However, in the Statement of Activities, revenues are reported when earned. This is the amount of revenue pertaining to future periods.	<u>(24,652)</u>
Net position of governmental activities (page 17)	<u>\$ 2,383,637</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, 2011
(Amounts expressed in thousands)

	<u>Special</u>		
	<u>General Fund</u>	<u>Proposition A</u>	<u>Proposition C</u>
REVENUES			
Sales taxes	\$ -	\$ 601,883	\$ 601,932
Intergovernmental	12,915	-	183,085
Investment income	14,078	2,246	3,637
Net decline in fair value of investment	(3,409)	(854)	(2,735)
Lease and rental	16,206	-	-
Licenses and fines	475	-	-
Other	33,997	41	-
TOTAL REVENUES	<u>74,262</u>	<u>603,316</u>	<u>785,919</u>
EXPENDITURES			
Current:			
Administration and other transportation projects	53,679	-	150,757
Transportation subsidies	2,264	264,328	343,358
Debt and interest expenditures:			
Principal	1,065	-	-
Interest and fiscal charges	1,205	-	-
TOTAL EXPENDITURES	<u>58,213</u>	<u>264,328</u>	<u>494,115</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,049</u>	<u>338,988</u>	<u>291,804</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	57,735	-	2,200
Transfers out	(67,655)	(350,475)	(293,105)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,920)</u>	<u>(350,475)</u>	<u>(290,905)</u>
NET CHANGE IN FUND BALANCES	6,129	(11,487)	899
Fund balances – beginning of year	180,454	80,536	116,013
Adjustment due to implementation of GASB 54	303,165	-	-
FUND BALANCES – END OF YEAR	<u>\$ 489,748</u>	<u>\$ 69,049</u>	<u>\$ 116,912</u>

See accompanying notes to basic financial statements.

Funds				
Measure R	TDA	STA	Other Governmental Funds	Total Governmental Funds
\$ 598,647	\$ 301,610	\$ -	\$ -	\$ 2,104,072
176	-	-	32,293	228,469
10,372	2,265	825	1,077	34,500
(2,475)	-	-	(399)	(9,872)
-	-	-	-	16,206
-	-	-	7,548	8,023
-	-	-	33	34,071
606,720	303,875	825	40,552	2,415,469
83,765	-	-	6,938	295,139
148,077	87,463	19,038	-	864,528
-	-	-	-	1,065
-	-	-	-	1,205
231,842	87,463	19,038	6,938	1,161,937
374,878	216,412	(18,213)	33,614	1,253,532
57,379	-	-	-	117,314
(204,458)	(93,439)	(100,012)	(79,153)	(1,188,297)
(147,079)	(93,439)	(100,012)	(79,153)	(1,070,983)
227,799	122,973	(118,225)	(45,539)	182,549
383,665	91,679	167,939	398,672	1,418,958
-	-	-	(303,165)	-
\$ 611,464	\$ 214,652	\$ 49,714	\$ 49,968	\$ 1,601,507

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, 2011
 (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) \$ 182,549

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 position. Principal payments are included in the fund financials. 1,065

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 57,068

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). 7,245

Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances provide current financial resources to governmental funds. These long-term receivables are collected in the current period, and therefore recognized as revenues in the Statement of Activities in the current period. (116,295)

Governmental funds account for cost of refund bond obligation as expenditures. However, in the Statement of Net Position – Governmental Activities, these costs are reported as prepayments and amortized over the life of the bonds. This is the current year amortization amount of deferred charges. (45)

Change in net position of governmental activities (page 19) \$ 131,587

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Position
Proprietary Fund – Enterprise Fund
June 30, 2011
(Amounts expressed in thousands)

ASSETS AND DEFERRED OUTFLOWS

Current assets:

Cash and cash equivalents	\$ 88,486
Investments	43,757
Derivative instrument – commodity swap	387
Receivables (net of allowance for doubtful accounts)	208,847
Inventories	66,825
Prepaid and other current assets	3,308
Designated and restricted assets:	
Cash and cash equivalents – designated	6,433
Cash and cash equivalents – restricted	983,461
Investments – designated	279,369
Investments – restricted	50,078
Total current assets	<u>1,730,951</u>

Noncurrent assets:

Loans receivable	2,553
Investments - restricted	123,500
Lease accounts	850,770
Deferred charges	126,786
Capital assets	
Land and construction in progress	1,935,442
Other capital assets, net of depreciation	5,648,574
Total noncurrent assets	<u>8,687,625</u>
Total assets	<u>10,418,576</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	181,687
Accrued interest payable	67,893
Due to other funds	125,226
Claims payable	70,011
Compensated absences payable	61,481
Bonds and notes payable	185,419
Deferred revenue and credits	14,164
Other current liabilities	9,438
Total current liabilities	<u>715,319</u>

Noncurrent liabilities:

Claims payable	212,590
Compensated absences payable	19,062
Net pension obligation	815
Postemployment benefits payable	45,223
Pollution remediation obligations	7,675
Bonds and notes payable	4,434,504
Derivative instrument liability – interest rate swap	31,378
Deferred revenues and credits	139,994
Total noncurrent liabilities	<u>4,891,241</u>
Total liabilities	<u>5,606,560</u>

DEFERRED INFLOW OF RESOURCES

Accumulated increase in fair value of hedging derivatives - Interest rate swap	4,038
Accumulated increase in fair value of hedging derivatives - Commodity swap	387
Total deferred inflows of resources	<u>4,425</u>

NET POSITION

Net investment in capital assets	4,497,567
Restricted for debt service	440,892
Unrestricted (deficit)	(130,868)
	<u>\$ 4,807,591</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund – Enterprise Funds
For the Year Ended June 30, 2011
(Amounts expressed in thousands)

OPERATING REVENUES:

Passenger fares	\$ 345,973
Auxiliary transportation	28,000
Lease and rental	1,195
TOTAL OPERATING REVENUES	<u>375,168</u>

OPERATING EXPENSES:

Salaries and wages	443,070
Fringe benefits	369,583
Professional and technical services	136,188
Material and supplies	93,583
Casualty and liability	40,585
Fuel, lubricants, and propulsion power	79,241
Purchased transportation	42,449
Depreciation	513,069
Other	44,108
TOTAL OPERATING EXPENSES	<u>1,761,876</u>

OPERATING LOSS

(1,386,708)

NON-OPERATING REVENUES (EXPENSES):

Local grants	1,197
Federal grants	259,871
Investment income	14,680
Net decline in fair value of investments	(1,489)
Interest expense	(148,131)
Loss on disposition of capital assets	(1,511)
Other revenue	4,872
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>129,489</u>

LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS

(1,257,219)

CAPITAL GRANTS AND CONTRIBUTIONS:

Local grants	20,030
State grants	37,961
Federal grants	124,387
Transfers in – capital	516,175
TOTAL CAPITAL GRANTS AND CONTRIBUTIONS	<u>698,553</u>

TRANSFERS IN – OPERATING

554,808

CHANGE IN NET POSITION

(3,858)

Net position – beginning of year

4,811,449

NET POSITION – END OF YEAR

\$ 4,807,591

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Cash Flows
Proprietary Fund – Enterprise Funds
For the Year Ended June 30, 2011
(Amounts expressed in thousands)

Cash flows from operating activities	
Receipts from customers	\$ 371,580
Payments to suppliers	(396,211)
Payments to employees	(775,750)
Net cash used for operating activities	<u>(800,381)</u>
Cash flows from non-capital financing activities	
Transfer from other funds	702,329
Federal operating grant	135,993
Receipts from other non-operating activities	4,872
Net cash flows from non-capital financing activities	<u>843,194</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	840,530
Proceeds from disposition of capital assets	496
Capital contributions	839,048
Payments for matured bonds and notes payable	(339,379)
Acquisition and construction of capital assets	(732,568)
Interest paid	(149,767)
Net cash flows from capital and related financing activities	<u>458,360</u>
Cash flows from investing activities	
Proceeds from sales and maturity of investments	29,478,292
Purchase of investments	(29,308,596)
Investment earnings	13,849
Net cash flows from investing activities	<u>183,545</u>
Net increase in cash and cash equivalents	684,718
Cash and cash equivalents – beginning of year	393,662
Cash and cash equivalents – end of year	<u>\$ 1,078,380</u>
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (1,386,708)
Adjustment to reconcile operating loss to net cash used for operating activities	
Depreciation expense	513,069
Increase in receivables	(310)
Decrease in prepaid and other current assets	473
Decrease in inventories	1,258
Increase in accounts payable and accrued liabilities	7,768
Decrease in pollution remediation obligations	(25)
Decrease in compensated absences payable	(786)
Increase in claims payable	13,974
Decrease in net pension obligation	(53)
Increase in postemployment benefits payable	63,536
Decrease in deferred revenues and credits	(3,282)
Decrease in other current liabilities	(9,295)
Total adjustments	<u>586,327</u>
Net cash used for operating activities	<u>\$ (800,381)</u>
Non-cash investing, capital and financing transactions:	
Lease/leaseback accretion	\$ 43,779
Loss on disposition of capital assets	1,511
Net decline in fair value of investments	1,489
Capital asset write-off	2,007

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Position
Fiduciary Funds
June 30, 2011
(Amounts expressed in thousands)

	Employee Retirement Trust Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 21,457	\$ 8,646
Investments:		
Bonds/derivatives	212,130	44,821
Domestic stocks	152,855	43,993
Non-domestic stocks	6,990	15,645
Pooled investments	506,326	77,646
Receivables:		
Member contributions	1,256	267
Securities sold	34,840	-
Interest and dividends	6,988	399
Receivable from plan sponsor	556	-
Prepaid items and other assets	32	-
Total assets	<u>943,430</u>	<u>191,417</u>
LIABILITIES		
Accounts payable and other liabilities	1,767	771
Securities purchased	21,711	-
Total liabilities	<u>23,478</u>	<u>771</u>
NET POSITION		
Held in trust for pension and OPEB benefits	<u>\$ 919,952</u>	<u>\$ 190,646</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2011
(Amounts expressed in thousands)

	Employee Retirement Trust Funds	OPEB Trust Fund
ADDITIONS		
Contributions:		
Employer	\$ 45,213	\$ 17,647
Member	22,606	805
Total contributions	<u>67,819</u>	<u>18,452</u>
From investing activities:		
Net increase in fair value of investments	149,382	25,691
Investment income	28,406	9,236
Investment expense	(3,190)	(816)
Other income	278	-
Total investing activities income	<u>174,876</u>	<u>34,111</u>
Total additions	<u>242,695</u>	<u>52,563</u>
DEDUCTIONS		
Retiree benefits	64,409	17,727
Administrative expenses	1,286	-
Total deductions	<u>65,695</u>	<u>17,727</u>
Net increase	177,000	34,836
Net position – beginning of year	<u>742,952</u>	<u>155,810</u>
NET POSITION – END OF YEAR	<u><u>\$ 919,952</u></u>	<u><u>\$ 190,646</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, 2011

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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LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

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 the 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. The second phase 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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

B. Government-wide and Fund Financial Statements

LACMTA's financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No.34, as amended, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*," consist of government-wide statements, including a Statement of Net Position 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 governmental 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. Expenditures generally are

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

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.

Interest 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 are generally 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 GASB. LACMTA implemented the provisions of GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements* effective July 1, 2010. The adoption of GASB 62 did not have a material impact on LACMTA's financial statements.

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 and rental. 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.

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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

necessary or useful to provide sound financial administration. The Enterprise fund, which accounts for the bus and rail operations and the Union Station leasing program, is LACMTA's only proprietary fund.

The Bus and rail operations 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. 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 are 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.

The Union Station is a hub for rail and bus services. Amtrak, Metrolink, Metro light rail and subway, and Metro buses are the major providers of services that make up Union Station's operations. There are also small businesses providing food services and general merchandising that contribute to the operation. Union Station is used to account for activities associated with the rental of spaces.

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

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:

The 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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

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.

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 to June 30, 2039. Revenues collected are allocated to: 1) 2 percent for Metro rail capital improvements; 2) 3 percent for Metrolink capital improvements; 3) 5 percent for rail operations for new transit projects; 4) 15 percent for local return; 5) 20 percent for bus operations allocated using LACMTA’s formula allocation procedure (based on vehicle service miles and fare revenue); 6) 20 percent for highway capital projects; and 7) 35 percent for specific transit capital projects.

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 allocation of the proceeds.

The LACMTA also has the following nonmajor special revenue funds:

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 pay for projects that protect the environment and public health, conserve energy, reduce congestion, and provide alternative mobility and access choices for Californians.

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 response programs including call box operations.

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:

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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

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

D. Assets, Liabilities, and Net Position

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.

As required by California State statutes, LACMTA is required to deposit surplus cash of the STA and TDA funds with the County Treasurer. LACMTA is an involuntary participant in the County Treasurer's external investment pool.

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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

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 is 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	7 - 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 Position. Depreciation on these capital assets is included in the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Position.

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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

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 tokens, 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 Position 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.

Fund Balances

LACMTA implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* effective July 1, 2010. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

As of June 30, 2011, LACMTA classified its governmental fund balances into:

Restricted fund balances include amounts that can be spent only for specific purposes stipulated by enabling legislation, by the grants, creditors, or by regulations of other government. Proposition A, C and Measure R sales taxes are restricted by the ordinances that created the taxes. Funds received from TDA, STA, SAFE and other grants are restricted by the grants providing the funds.

Committed fund balances are amounts that can be used only for specific purposes imposed by a formal action of the LACMTA's board of directors, the primary government's highest decision-making authority. Those committed amounts cannot be used for any other purposes unless the board removes or changes the specific use of the funds.

Assigned fund balances are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the LACMTA's board policy, contracts which are \$1,000 or less can be approved and assigned by the Chief Executive Officers or his designee.

Unassigned fund balance is the residual classification for the General fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General fund.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

The details of the fund balances are included in the Governmental Funds Balance Sheet shown in pages 20-21.

E. Adjustment Due to the Implementation of GASB 54

LACMTA implemented GASB 54 “*Fund Balance Reporting and Governmental Fund Type Definitions.*” As a result of implementing this new GASB standard, certain Special Revenue Funds reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances were reclassified to the General Fund. Therefore, the beginning fund balance was restated by \$303,165 to reflect the implementation of the pronouncement.

F. 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.

G. Effects of New Pronouncements

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

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. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. LACMTA implemented the new reporting requirements of GASB 54 for fiscal year ended June 30, 2011. The fund classifications per GASB 54 can be found on pages 20 to 21.

In November 2010, GASB issued Statement No. 60, “*Accounting and Financial Reporting for Service Concession Arrangements.*” This Statement gives guidance in the application of certain rules relating to the service concession arrangements. It includes criteria for determining whether a transferor has control over the facility; how such facility is measured, recognized, and disclosed in the books; treatment of acquisition and improvements made by the operator to the facility in the books of the transferor; and recognition of liability and revenue from such arrangements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. LACMTA is not engaged in transferor-operator service concession arrangements.

In November 2010, GASB issued Statement No. 61, “*The Financial Reporting Entity: Omnibus—and amendment of GASB Statements No. 14 and No. 34.*” This Statement establishes guidelines for inclusion of and criteria for component units in the financial

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
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reporting. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. LACMTA plans to implement the new reporting requirements of GASB 61 for the fiscal year ending June 30, 2013, if applicable.

In December 2010, GASB issued Statement No. 62, *“Statement Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”* The objective of this statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. LACMTA has implemented this codification for the fiscal year ended June 30, 2011.

In June 2011, GASB issued Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”* The Statement provides guidance for reporting deferred outflows and inflows that are distinct from assets and liabilities. Application of this Statement amends the naming of the residual of all elements presented in the financial statement position from net asset to net position. The requirements of this Statement are effective for financial statements for the periods beginning after December 15, 2011. LACMTA implemented the new reporting requirements of GASB 63 for the fiscal year ended June 30, 2011.

In June 2011, GASB issued Statement No. 64, *“Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53.”* This Statement clarifies the continuity of effective hedging relationship after the replacement of a swap counterparty or a swap counterparty’s credit support provider. It also includes criteria for effective hedging relationship and application of hedge accounting. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. LACMTA plans to implement the new reporting requirements of GASB 64 for the fiscal year ending June 30, 2012, if applicable.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

In February of each year, all LACMTA departments submit requests for appropriations to management so that 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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
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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.

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 MOU commitments in the notes to the financial statements 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, 2011, the following are LACMTA's cash deposits and investments:

Cash Deposits and Investments:	Business-type Activities	Governmental Activities	Total
Cash deposits	\$ 33,216	\$ 16,710	\$ 49,926
Asset-backed securities	3,471	1,463	4,934
Commercial paper	5,862	59,523	65,385
Guaranteed investment contracts	33,656	-	33,656
State/County investment pools	42,599	264,404	307,003
Medium-term notes	43,720	128,116	171,836
Mortgage-backed securities	6,665	19,674	26,339
Pooled funds and mutual funds	829,264	244,784	1,074,048
Repurchase agreements	2,992	47,209	50,201
U.S. Agency securities	440,038	364,288	804,326
U.S. Treasury obligations	133,601	214,772	348,373
Total fair value	\$ 1,575,084	\$ 1,360,943	\$ 2,936,027

Reported in the Statement of Net Position and Balance Sheet:

Cash and cash equivalents	\$ 88,486	\$ 519,128	\$ 607,614
Investments	43,757	840,883	884,640
Cash and cash equivalents – designated	6,433	-	6,433
Cash and cash equivalents – restricted	983,461	932	984,393
Investments – designated	279,369	-	279,369
Investments – restricted	50,078	-	50,078
Investments – restricted non current	123,500	-	123,500
Total	\$ 1,575,084	\$ 1,360,943	\$ 2,936,027

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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

the internally pooled cash deposits and investment account is presented as cash and cash equivalents and investments on the Statement of Net Position 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 Position, Balance 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 January 27, 2011, 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	100%	None	None
U.S. Treasury obligations	5 years	100%	None	None
State of California obligations	5 years	25%	None	A1/P-1 short term or Aa/AA long term
Local Agency within the State of California	5 years	25%	None	A1/P-1 short term or Aa/AA long term
U.S. Agency securities	5 years	50%	15%	A
Bankers acceptance	180 days	40%	10%	Rating permitted by CGC
Commercial paper	270 days	25%	10%	A
Negotiable certificates of deposit	5 years	30%	10%	A
Repurchase agreements	90 days	20%	None	Rating permitted by CGC
Medium-term notes	5 years	30%	10%	A
Pooled funds and mutual funds	None	20%	10%	Rating permitted by CGC
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	None	None	Amount permitted by CGC	None

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

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, 2011, LACMTA's carrying amount of cash comprises of \$1,488 in cash on hand and \$48,438 in checking accounts for a combined total of \$49,926. LACMTA's total bank balance was \$76,530 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, 2011, LACMTA had the following short-term investments:

Investment Type	Fair Value	Weighted Average Duration (in years) per Investment Type	Concentration of Investments	Ratings
Asset-backed securities	\$ 4,934	0.003524	0.28%	AAA
Commercial paper	65,385	0.001990	3.75%	A-1 to A-1+
State/County investment pools	307,003	0.000000	17.62%	Not Rated
Medium-term notes*	171,836	0.138676	9.86%	BBB to AAA
Mortgage-backed securities	26,339	0.036029	1.51%	AAA
Pooled funds and mutual funds	339,348	0.257310	19.48%	Not rated to AAA
Repurchase agreements	50,201	0.000078	2.88%	Not Rated to A-1
U.S. Agency securities**	483,806	0.315951	27.77%	BBB to AAA
U.S. Treasury obligations	293,298	0.360126	16.85%	Not Rated to AAA
Total	<u>\$ 1,742,150</u>		<u>100.00%</u>	
Portfolio weighted average duration		<u>1.113684</u>		

**Medium-term notes of \$1,632 had A2 credit ratings by Moody's at the time of purchase during 2008 to 2009 and were subsequently downgraded to Baa1 credit ratings as of June 30, 2011.*

***U.S. Agency securities of \$318 had A2 credit ratings by Moody's at the time of purchase during 2009 and were subsequently downgraded to Baa1 credit ratings as of June 30, 2011.*

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

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LACMTA is a voluntary investor in the California Local Agency Investment Fund (LAIF) with a total of \$80,407. The LAIF Advisory Board, whose Chairman is the State Treasurer or designee, provides regulatory oversight for LAIF.

The net position value of involuntary participation in Los Angeles County Investment Pool (LACIP) totaled \$226,596 as of June 30, 2011. The County Board of Supervisors provides regulatory oversight for LACIP.

Bond Proceeds and Debt Service Investments

As of June 30, 2011, 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
Pooled funds and mutual funds	\$ 734,700	0.002740	64.22%	Not Rated
Guaranteed investment contracts	33,656	12.986477	2.94%	Not Rated
U.S. Agency securities	320,520	0.54805	28.02%	Not Rated to AAA
U.S. Treasury obligations	55,075	0.836601	4.81%	Not Rated to AAA
Total	<u>\$ 1,143,951</u>		<u>100.00%</u>	
Portfolio weighted average maturities		<u>0.439434</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 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 fair value of investments 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, 2011, 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 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, 2011 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. Receivables

Receivables as of June 30, 2011, 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	\$ 10,979	\$ 2,463	\$ 13,442
Interest	2,563	6,266	8,829
Intergovernmental	197,324	91,263	288,587
Sales Tax	-	249,111	249,111
Notes	2,553	4,450	7,003
Gross Receivables	213,419	353,553	566,972
Less: Allowances for doubtful accounts	(2,019)	-	(2,019)
Net Receivables	<u>\$ 211,400</u>	<u>\$ 353,553</u>	<u>\$ 564,953</u>

Receivables as of June 30, 2011 for governmental activities by individual major funds and non-major funds are as follows:

Fund Name	Receivables					
	Accounts	Interest	Intergovernmental	Sales tax	Notes	Total
General Fund	\$ 2,463	\$ 2,589	\$ 5,135	\$ -	\$ 4,450	\$ 14,637
Prop A	-	284	-	53,955	-	54,239
Prop C	-	528	81,054	53,957	-	135,539
Measure R	-	2,319	92	114,853	-	117,264
TDA	-	386	-	26,346	-	26,732
STA	-	10	-	-	-	10
Other Governmental	-	150	4,982	-	-	5,132
Total	<u>\$ 2,463</u>	<u>\$ 6,266</u>	<u>\$ 91,263</u>	<u>\$ 249,111</u>	<u>\$ 4,450</u>	<u>\$ 353,553</u>

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, 2011, the Enterprise fund is indebted to the General and Special Revenue funds in the amount of \$125,226.

Governmental Fund	Payable to / (Receivable from) Enterprise Fund
General fund	\$ 133,043
Prop A	8,924
Prop C	(4,918)
Measure R	3,409
TDA	(27,317)
STA	44,331
Other Governmental	(32,246)
Total	<u>\$ 125,226</u>

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Transfers in and out by fund are as follows:

Transfers Out	Transfers In				Total
	Enterprise Fund	General Fund	Prop C Fund	Measure R	
General Fund	\$ 10,531	\$ -	\$ 696	\$ 56,428	\$ 67,655
Prop A	314,720	35,249	-	506	350,475
Prop C	275,744	17,153	-	208	293,105
Measure R	204,458	-	-	-	204,458
TDA	87,928	5,333	178	-	93,439
STA	100,012	-	-	-	100,012
Others	77,590	-	1,326	237	79,153
Total	\$ 1,070,983	\$ 57,735	\$ 2,200	\$ 57,379	\$1,188,297

D. 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 \$56,532 of Guaranteed Investment Certificates held in LACMTA's name. As of June 30, 2011, these Lease/leaseback agreements totaled \$850,770.

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E. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 626,285	\$ 24,962	\$ -	\$ 651,247
Construction in progress	890,757	549,608	(156,170)	1,284,195
Total capital assets, not being depreciated	<u>1,517,042</u>	<u>574,570</u>	<u>(156,170)</u>	<u>1,935,442</u>
Capital assets, being depreciated:				
Buildings	7,267,725	135,011	-	7,402,736
Equipment	623,045	23,364	-	646,409
Vehicles	2,115,885	155,793	(127,651)	2,144,027
Total capital assets, being depreciated	<u>10,006,655</u>	<u>314,168</u>	<u>(127,651)</u>	<u>10,193,172</u>
Less accumulated depreciation for:				
Buildings	(2,575,037)	(241,723)	-	(2,816,760)
Equipment	(479,803)	(65,750)	-	(545,553)
Vehicles	(1,102,333)	(205,596)	125,644	(1,182,285)
Total accumulated depreciation	<u>(4,157,173)</u>	<u>(513,069)</u>	<u>125,644</u>	<u>(4,544,598)</u>
Total capital assets, being depreciated, net	<u>5,849,482</u>	<u>(198,901)</u>	<u>(2,007)</u>	<u>5,648,574</u>
Business-type Activities capital assets, net	<u>7,366,524</u>	<u>375,669</u>	<u>(158,177)</u>	<u>7,584,016</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	772,794	-	-	772,794
Capital assets, being depreciated:				
Freeway Service Patrol SAFE Vehicles	364	-	-	364
Less accumulated depreciation	(364)	-	-	(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>
Total capital assets	<u>\$ 8,139,318</u>	<u>\$ 375,669</u>	<u>\$ (158,177)</u>	<u>\$ 8,356,810</u>

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

<u>Business-type Activities</u>	
Bus operations	\$ 282,026
Rail operations	230,750
Union Station operations	293
Total depreciation expense – Business-type Activities	<u>\$ 513,069</u>

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F. Risk Management

The primary emphasis of risk management activities at LACMTA is to prevent or reduce 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, 2011 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.

The workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2011, designated investments have been set aside in the amount of \$189,287 approximately 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 greater than \$200,000.

Furthermore, LACMTA has an all-risk property insurance program that covers all of its property. The property insurance policy covers insurable values of approximately \$8.6 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, 2011, designated investments have been set aside in the amount of \$95,362 approximately 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, 2011 and 2010:

	Property and Casualty		Workers' Compensation		Total	
	2011	2010	2011	2010	2011	2010
Unpaid claims and claim adjustment reserves – beginning of year	\$84,933	\$93,185	\$ 183,694	\$ 204,568	\$ 268,627	\$ 297,753
Provisions for insured events	39,433	26,142	39,992	9,562	79,425	35,704
Interest income	1,441	3,057	3,119	6,162	4,560	9,219
Total incurred claims and claims adjustment expense	125,807	122,384	226,805	220,292	352,612	342,676
Payment attributable to insured events	(31,138)	(37,451)	(38,873)	(36,598)	(70,011)	(74,049)
Total unpaid claims and claim adjustment reserves – end of year	\$94,669	\$84,933	\$ 187,932	\$ 183,694	\$ 282,601	\$ 268,627

As of June 30, 2011, \$70,011 of the total claims liability is considered current.

G. Compensated Absences

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

Under the July 2006 to June 2011 contracts, vacation periods are not cumulative. However, ATU and TCU represented employees may carry forward vacation pay of up to 40 hours, while UTU represented employees may carry forward vacation pay to the next vacation period if notice is given by April 1st. Otherwise, unused vacation hours earned for the year is paid off on May 31st. The UTU, TCU and Teamsters represented 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 a 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

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of 55 and has five years or more service. Upon retirement, unused sick pay 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, 2011:

	Balance June 30, 2010	Earned	Used	Balance June 30, 2011	Due Within One Year
Union Employees:					
Vacation leave	\$ 25,334	\$ 25,099	\$ (25,410)	\$ 25,023	\$ 24,814
Sick leave	29,225	14,640	(14,044)	29,821	13,998
TOWP	6,113	8,144	(7,949)	6,308	6,680
Sub-total	<u>60,672</u>	<u>47,883</u>	<u>(47,403)</u>	<u>61,152</u>	<u>45,492</u>
Non-Union Employees:					
Vacation leave	685	-	(74)	611	74
Sick leave	2,807	40	(177)	2,670	177
TOWP	17,165	15,359	(16,414)	16,110	15,738
Sub-total	<u>20,657</u>	<u>15,399</u>	<u>(16,665)</u>	<u>19,391</u>	<u>15,989</u>
Total	\$ 81,329	\$ 63,282	\$ (64,068)	\$ 80,543	\$ 61,481

H. 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 2011. A special provision in the law allows an additional \$5,500 (not in thousands) for "Baby Boomers" (age 50 or greater by December 31, 2011), and employees eligible for retirement within three years can avail of the "catch up provision," totaling \$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 employee 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'

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contribution to the deferred compensation plan. As of June 30, 2011, the deferred compensation plans had assets stated (at fair value) of \$224,402.

401(k) Savings Plan

LACMTA also offers a deferred savings plan to all employees created in accordance with IRC Section 401(k). Under the 401(k) plan, employees may contribute up to the lesser of \$16,500 (not in thousands) or 100 percent of their earnings in calendar year 2011. A special provision in the law allows an additional \$5,500 (not in thousands) for “Baby Boomers” (age 50 or greater by December 31, 2011).

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 plans, 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, 2011, the 401(k) savings plan had assets (at fair value) totaling \$286,738.

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.

I. 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 (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

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plan provides for survivor and disability benefits. The benefit provisions and all other requirements are established by contract with 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, 2011, the contribution rate of covered payroll was 14.671 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, 2011, 2010, and 2009 were \$19,951, \$17,661, and \$17,286, respectively, all of which were attributable to PTSC. Such contributions were made in accordance with the latest CalPERS actuarial valuation as of June 30, 2008. These pension contributions for normal costs include the employees' portion, and for the years ended June 30, 2011, 2010, and 2009, were \$9,519, \$8,559, and \$8,328, respectively. While the required employer contribution rate for the current fiscal year is determined by the actuarial valuation two years prior and the expected dollar amounts of the annual required contribution (ARC) is determined by multiplying the rate by the expected payroll for the applicable year, the actual contributions are made using the same rate applied to the actual current payroll resulting in a net pension obligation of \$550 as of June 30, 2011 are as follows:

Annual required employer contribution	
Payment for normal cost	\$ 9,818
Payment for amortization bases	614
Total	10,432
Actual employer contributions paid	9,882
Net pension obligation	\$ 550

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 2010/2011 employer contributions. Initial unfunded liabilities are amortized over a closed period that depends on the plan's entry date into CalPERS 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 and payroll growth of 3.25 percent.

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 after its

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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 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. Plans' member contributions are recognized in the period in which the contributions are due. The Plans' 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 agreement 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, AFSCME 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, 2011, 2010, and 2009, are as follows:

Contributions	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non-Contract Employees Plan	AFSCME	Total
<u>2011</u>						
Employer	\$ 20,311	\$ 4,040	\$ 17,070	\$ 2,515	\$ 1,253	\$ 45,189
Employee	16,108	2,027	4,882	-	-	23,017
Total	\$ 36,419	\$ 6,067	\$ 21,952	\$ 2,515	\$ 1,253	\$ 68,206
<u>2010</u>						
Employer	\$ 23,230	\$ 4,639	\$ 16,752	\$ 3,620	\$ 1,581	\$ 49,822
Employee	16,541	1,910	5,137	-	-	23,588
Total	\$ 39,771	\$ 6,549	\$ 21,889	\$ 3,620	\$ 1,581	\$ 73,410
<u>2009</u>						
Employer	\$ 14,716	\$ 2,480	\$ 13,638	\$ 2,288	\$ 1,179	\$ 34,301
Employee	16,712	1,977	2,567	-	-	21,256
Total	\$ 31,428	\$ 4,457	\$ 16,205	\$ 2,288	\$ 1,179	\$ 55,557

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The annual pension cost, annual amount contributed, and net pension obligation for the years ended June 30, 2011, 2010, and 2009, are as follows:

Year Ended	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non- Contract Employees Plan	AFSCME	Total
<u>2011</u>						
Annual Pension Cost	\$ 20,278	\$ 4,040	\$ 17,098	\$ 2,515	\$ 1,253	\$ 45,184
Annual Amount Contributed	20,311	4,040	17,070	2,515	1,253	45,189
Net Pension Obligation (Asset)	835	-	(570)	-	-	265
<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

The components of the net pension obligation for UTU employees for the years ended June 30, 2011, 2010, and 2009, are as follows:

Year Ended	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 (b)+(c)+(d)+(e)
<u>2011</u>	\$ 20,311	\$ 868	\$ 65	\$ -	\$ (98)	\$ 835
<u>2010</u>	23,230	903	67	-	(102)	868
<u>2009</u>	14,716	937	75	-	(109)	903

The components of the net pension asset for ATU employees for year ended June 30, 2011 is as follows:

Year Ended	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 (b)+(c)+(d)+(e)
<u>2011</u>	\$ 17,070	\$ (598)	\$ (48)	\$ 76	\$ -	\$ (570)

LACMTA's contributions to the Plans for the year ended June 30, 2011 were made in accordance with the actuarially determined requirements computed as of December 31, 2009, except for ATU, which was made in accordance with actuarial valuation report as of January 1, 2010. 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, 2011, 2010, and 2009, were \$45,189, \$49,822, and \$34,301, respectively. Annual pension cost, which is equivalent to ARC plus interest on Net Pension Obligation (NPO) less amortization of NPO, amounted to \$45,184, \$49,812, and \$34,272, for the years ended June 30, 2011, 2010, and 2009, respectively. The net pension obligations for the UTU Plan for the years ended

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June 30, 2011, 2010, 2009, were \$835, \$868, and \$903, respectively while net pension asset for the ATU Plan as of June 30, 2011 was \$570. There was no NPO at June 30, 2011, 2010, and 2009 for the TCU, Non-Contract, and AFSCME Plans.

The required contribution rate by employees for the fiscal years ended June 30, 2011, 2010, and 2009 were between 0 and 8.47 percent, 0 and 8.58 percent, 0 and 8.86 percent, respectively, of their annual wages. The employer rate is equal to the ARC. Effective December 31, 2008, the actuarial value of assets for UTU, TCU, Non-Contract and AFSCME Plans were revised from the average of book and market values to a 5-year smoothed market value of assets restricted to a 20 percent corridor around the market value of assets. 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 include: 7.5 - 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, 2011 is presented below:

Actuarial Valuation Date	Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Actuarial Accrued Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
PTSC 06/30/2009	\$ 326,921	\$ 308,097	\$ 18,824	94.24%	\$ 131,782	14.28%
LACMTA 01/01/2011 ATU	323,366	218,179	105,187	67.47%	107,310	98.02 %
12/31/2010 UTU	534,042	379,137	154,905	70.99%	181,850	85.18 %
TCU	94,415	65,518	28,897	69.39%	26,410	109.42%
Non-Contract	134,022	110,488	23,534	82.44%	5,697	413.09%
AFSCME	52,654	45,079	7,575	85.61%	5,561	136.22%
Total	<u>\$ 1,138,499</u>	<u>\$ 818,401</u>	<u>\$ 320,098</u>	<u>71.88%</u>	<u>\$ 326,828</u>	<u>97.94 %</u>

J. 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

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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 employee's service and age. An annual stand-alone financial report is prepared for the Plan and can be obtained by requesting a copy from the Accounting Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952.

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 at 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 and 2011 (the effective dates of the biennial OPEB valuations) 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	
As of January 1, 2011					
Active Employees	1,727	2,190	695	3,840	8,452
Retirees under 65	301	376	164	1,069	1,910
Retirees over 65	652	537	132	1,125	2,446
Total Active and Retirees	<u>2,680</u>	<u>3,103</u>	<u>991</u>	<u>6,034</u>	<u>12,808</u>
As of January 1, 2009					
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 Active and Retirees	<u>2,845</u>	<u>3,172</u>	<u>997</u>	<u>5,756</u>	<u>12,770</u>

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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/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 and \$50 per month for retiree plus dependent coverage. UTU retiree contributions are \$50 per month. 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 a level of funding in excess of pay-as-you-go 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 2.8

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percent. The trend assumptions comprise 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 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.

There were no plan assets as of January 1, 2007, the date of prior valuation as LACMTA was not able to place the assets at the start of July 1, 2007. As of January 1, 2009, the actuarial value of assets is equal to the market value of assets adjusted by the recognition of gains or losses during the two prior years, but within 20 percent of the market value.

LACMTA opted to perform biennial 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 ended June 30, 2010 and 2011. 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 ended June 30, 2011 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:

Summary of Costs	
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

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 30 years. Amounts required but not set aside to pay for these benefits are accumulated as part of the Net OPEB Obligation.

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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, 2011 are as follows:

Annual Required Contribution	\$ 89,220
Interest on Net OPEB obligation	(733)
Adjustment to ARC	996
Total Annual OPEB Cost	89,483
Less Contributions made	25,947
Increase in Net OPEB Obligation	63,536
Net OPEB Obligation (Asset) – beginning of year	(18,313)
Net OPEB Obligation – end of year	\$ 45,223

LACMTA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB Obligation (Asset) for the years ended June 30, 2011, 2010, and 2009 are as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
2011	\$ 89,483	29.00%	\$ 45,223
2010	87,274	35.75%	(18,313)
2009	75,725	37.65%	(74,390)

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.

The LACMTA's funding progress information as of June 30, 2011 is illustrated as follows:

Actuarial Valuation Date	Projected Unit Credit Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Actuarial Accrued Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
January 1, 2011						
LACMTA	\$ 172,997	\$ 32,322	\$ 140,675	18.68%	\$ 159,974	87.94%
ATU	499,030	93,236	405,794	18.68%	154,401	262.82%
TCU	70,017	13,082	56,935	18.68%	38,139	149.28%
UTU	262,005	48,951	213,054	18.68%	257,023	82.89%
Total	\$ 1,004,049	\$ 187,591	\$ 816,458	18.68%	\$ 609,537	133.95%

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Healthcare Reform

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. One key provision of the PPACA is the assessment of the excise tax on high cost plans (“Cadillac Plans”) beginning in 2018. Under this act, a 40 percent excise tax applies to plans with costs exceeding certain thresholds (\$11,850 (not in thousands) – single; \$30,950 (not in thousands) – family for early retirees). Significant uncertainties exist regarding the impact of the excise tax on high cost plans without further regulatory guidance. Management’s estimated potential liability of the effect of the tax is based on unadjusted thresholds and assumes that the tax is shared between LACMTA and its participants in the same way that the current costs are shared. The estimated impact of the 40 percent excise tax provision on high cost plans beginning in 2018, under the healthcare reform, is reflected in the actuarial valuation report as of January 1, 2011. It is estimated that the financial effect of reflecting the excise tax is \$85 million representing 8.5 percent of the total accrued liability of \$1 billion as of January 1, 2011.

K. Pollution Remediation Obligations

LACMTA follows the guidance of 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. 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 expensed when a range of expected outlays is reasonably estimable. 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 include direct and indirect outlays (e.g. general overhead) associated with technical management and procurement activities.

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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, 2011 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, 2011, LACMTA has an estimated pollution remediation obligations of \$7,675 related to soil and/or groundwater pollution cleanup activities. Of this amount, approximately \$3,233 is associated with litigation or settlement costs and approximately \$509 is associated with internal administration as presented below:

The following table summarizes the pollution remediation by activity as of June 30, 2011.

Facility Name	External Remediation	Internal Administration	Litigation and Settlements	Assessment/ Remediation Spent	Total Costs
Division 1	\$ 198	\$ 30	\$ -	\$ -	\$ 228
Division 2	44	30	-	-	74
Division 3	651	80	-	-	731
Division 7	2,160	130	-	(276)	2,014
Division 10	705	70	-	(116)	659
Division 12	300	20	-	-	320
Division 11	100	-	-	-	100
Division 18	160	30	-	(93)	97
Division 30	-	85	-	-	85
Red Line	100	10	-	-	110
Oil Landfill	-	6	2,926	-	2,932
McArthur Park Remediation	-	-	100	-	100
Omega	-	6	82	-	88
Mountaineer Refinery	-	6	75	-	81
SFV/N Hollywood	-	6	50	-	56
Total	<u>\$ 4,418</u>	<u>\$ 509</u>	<u>\$ 3,233</u>	<u>\$ (485)</u>	<u>\$ 7,675</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, 2011.

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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.

L. Long-term Debt

LACMTA's bonds and notes obligation as of June 30, 2011 are as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
<u>Business-type Activities</u>					
General revenue bonds	\$ 184,820	\$ 79,620	\$ (98,645)	\$ 165,795	\$ 5,025
Capital grant receipts revenue bonds	90,155	-	(90,155)	-	-
Sales tax revenue and refunding bonds	2,834,450	732,410	(118,990)	3,447,870	156,095
Lease/leaseback to service obligations	911,774	43,779 *	(104,783)	850,770	21,114
Commercial paper notes	143,532	28,500	(28,319)	143,713	-
Notes payable	9,911	-	(957)	8,954	1,195
Capitalized lease	5,134	-	(2,313)	2,821	1,990
Business-type Activities – Long-term debts	<u>4,179,776</u>	<u>884,309</u>	<u>(444,162)</u>	<u>4,619,923</u>	<u>185,419</u>
<u>Governmental Activities</u>					
Redevelopment and housing bonds	24,367	-	(1,064)	23,303	612
Total Long-term Liabilities	<u>\$ 4,204,143</u>	<u>\$ 884,309</u>	<u>\$ (445,226)</u>	<u>\$ 4,643,226</u>	<u>\$ 186,031</u>

**Represents Lease/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, are subject to the Federal arbitrage regulation.

General Revenue Bonds

On July 1, 2010, LACMTA has made the final principal payment of the outstanding General Revenue Refunding Bonds (Workers' Compensation Funding Program) Series 2003 which were issued to refund the Certificates of Participation. Also, in July 2010, General Revenue Refunding Bonds Series 2004 (Union Station Gateway Project) which were issued to refund General Revenue Refunding Bonds Series 1996-A, and structured as auction rate securities, were partially refunded by the issuance of General Revenue Refunding Bonds Series 2010A.

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General Revenue bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Business-type Activities	3.00% - 5.00%	\$ 165,795

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	\$ 5,025	\$ 6,350
2013	5,830	6,158
2014	6,255	5,910
2015	6,715	5,644
2016	7,160	5,368
2017 - 2021	43,710	21,630
2022 - 2026	61,200	10,900
2027 - 2028	29,900	1,061
Total	\$ 165,795	\$ 63,021

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 from 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. These 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.

In fiscal year 2011, the Capital Grant Receipts Revenue Bonds were fully paid. The scheduled principal payments in October 2011 and October 2012 for an aggregate amount of \$90,155 were made in October 2010.

Sales Tax Revenue and Sales Tax Revenue Refunding Bonds

LACMTA has outstanding sales tax revenue and sales tax revenue refunding bonds, each secured by either LACMTA's Proposition A, C, or Measure R 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

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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 November 2010, LACMTA issued Measure R Senior Sales Tax Revenue Bonds Series 2010-A (taxable Build America Bonds) for \$573,950 and Series 2010-B Bonds (tax-exempt) for \$158,460, for the purpose of financing portion of transportation projects authorized by MTA Ordinance No. 08-01 - Traffic Relief and Rail Expansion Ordinance, including in particular Goldline Foothill Extension and Exposition Line Phase II. The Measure R Bonds generated \$750,000 in proceeds to fund authorized Measure R capital projects.

Sales Tax Revenue and Refunding bonds outstanding as of June 30, 2011 are as follows:

Purpose	Interest Rates	Amount
Business-type Activities	1.50% - 6.50 %	\$ 3,447,870

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2012	\$ 156,095	\$ 161,752
2013	162,795	151,436
2014	165,995	143,959
2015	178,300	135,907
2016	185,520	127,518
2017 - 2021	1,062,005	497,353
2022 - 2026	756,185	276,733
2027 - 2031	389,225	155,709
2032 - 2036	273,035	75,880
2037 - 2039	118,715	13,783
Total	\$ 3,447,870	\$ 1,740,030

As of June 30, 2011, \$516 million of the sales tax revenue refunding bonds are variable rate bonds. The variable rate bonds currently bear interest at weekly and daily rates ranging from 0.03% to 3.00% as of June 30, 2011. LACMTA can elect to change the interest rate period of the bonds with certain limitations. As of June 30, 2011, LACMTA has outstanding standby bond purchase agreements for an aggregate amount of \$427 million. LACMTA has \$166,500 of variable rate bonds secured by a standby bond purchase agreement that expires in March 2012. In August 2011, LACMTA replaced \$260,125 of expiring liquidity agreements with a standby bond purchase agreement and two index interest rate bonds, all of which expire in

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August 2014. An additional \$89,625 of variable rate bonds is secured by letter of credit agreements with two banks, which will expire in August 2012.

The variable rate bonds have been classified as long term liabilities on the balance sheets as the liquidity facilities give LACMTA the ability to refinance on a long-term basis and LACMTA intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that would be due in the next fiscal year has been included in the current portion of long-term debt and that amount was \$1.95 million as at June 30, 2011.

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 that 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 had realized \$64.7 million in net benefits after funding of the 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 were 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 Position – Enterprise Fund. These funds were placed with fiscal agents and are sufficient to cover all scheduled payments. The related liabilities are shown as long-term debt in the business-type activities. 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.

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As of June 2011, in the current market environment, most products specified in the Lease/leaseback transaction documents as acceptable replacement facilities are not available. In May 2011, LACMTA reached an agreement with one lessor to terminate a Lease/leaseback transaction with minimal settlement costs. Extensions to the deadlines to obtain acceptable replacement facilities are in place with most other lessors. LACMTA is in contact with the remaining lessors to negotiate agreements in lieu of obtaining a replacement facility or agree on minimal out-of-pocket settlement amounts. In August 2011, LACMTA reached an agreement with one lessor to post collateral in lieu of obtaining a replacement facility. LACMTA's failure to reach a solution could result in early termination of six of the leases that would require LACMTA to pay an estimated substantial penalty of \$146 million plus legal costs.

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 %	\$ 850,770

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

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 21,114	\$ 37,927
2013	(33,379)	50,423
2014	75,126	54,804
2015	254,586	48,291
2016	15,975	34,937
2017-2021	(137,904)	194,310
2022-2026	146,399	200,428
2027-2031	214,962	148,104
2032-2036	261,794	30,471
2037-2039	32,097	3,996
Total	<u>\$ 850,770</u>	<u>\$ 803,691</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.

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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 three banks for the Proposition A CPN program. All of the banks are 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 letters of credit supporting the Proposition A commercial paper program expire in August 2012 and June 2013.

As of June 30, 2011, \$143,713 of commercial paper notes were outstanding. Proposition A and Proposition C commercial paper notes were \$120,128 and \$23,585, 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, 2011 is as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type Activities	4.04%	\$ 8,954

The payment schedule to maturity is as follows:

<u>Year Ending June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,194	\$ 339
2013	1,244	291
2014	1,295	240
2015	1,348	186
2016	1,404	131
2017 - 2018	2,469	88
Total	<u>\$ 8,954</u>	<u>\$ 1,275</u>

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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:

Purpose	Interest Rates	Amount
Governmental Activities	4.13% - 5.38%	\$ 23,303

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 612	\$ 1,163
2013	1,060	1,116
2014	1,110	1,067
2015	1,160	1,014
2016	1,215	958
2017-2021	7,035	3,807
2022-2026	9,016	1,761
2027	2,095	54
Total	\$ 23,303	\$ 10,940

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

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 \$174,925 General Revenue Refunding Bonds (Union Station Gateway Projects) Series 2004 auction rate security bonds. The refunded Series 2004 Bonds were purchased through a tender offer 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 were used to (1) purchase an aggregate amount of \$83,525 outstanding Series 2004 Bonds for an aggregate amount of \$80,630, (2) pay \$6,675 million 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 net cash flow savings that resulted from this refunding is as follows:

Refunding Debt	Prior Cash Flow	Refunded Cash Flow	Net Cash Flow Savings	Present Value of Net Cash Flow Savings
General Revenue Refunding Bond Series 2004A	\$ 105,887	\$ 102,152	\$ 3,735	\$ 3,000

The Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005-A were issued as Fixed Rate Bonds with rates of 3.13 percent to 5.00 percent, of which \$90,155 was outstanding as of July, 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 2010-A Bonds mature June 1, 2021 through June 1, 2025 with rates ranging from 4.28% to 5.13%. 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 5.0%. The Measure R Bonds were issued for the purpose of financing a portion of transportation projects authorized by LACMTA's Ordinance No. 08-01 - Traffic Relief and Rail Expansion Ordinance, including in particular the Goldline Foothill Extension and Exposition Line Phase II.

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M. Derivative Instruments

As of June 30, 2011, LACMTA had the following hedging derivative instruments outstanding within business-type activities:

Type	Objective	Notional Value	Effective Date	Maturity Date	Fair Value June 30, 2011	Terms
<u>Interest Rate Swap</u>						
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of 2004 Gateway Bonds	\$ 86,175	9/22/2004	7/1/2027	\$ (3,526)	Receive 64% of LIBOR, Pays 3.501%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of Prop A Series 2008-A1 and A2	\$ 130,000	8/23/2005	7/1/2031	(7,852)	Receive 63% of LIBOR, Pays 3.373%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of Prop A Series 2008-A3 and A4	\$ 130,125	8/23/2005	7/1/2031	(7,757)	Receive 63% of LIBOR, Pays 3.358%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of Prop C Series 2009-C	\$ 89,625	7/23/2009	7/1/2025	(3,420)	Receive 68% of LIBOR, Pays 3.392%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of Prop C 2009-A	\$ 166,500	11/18/2010	7/1/2023	(8,823)	Receive 68% of LIBOR, Pays 3.454%
	Sub-total	<u>\$ 605,425</u>			<u>(31,378)</u>	
<u>Commodity Swap</u>						
Commodity Forward Contract	To reduce the risks associated with the changes in the costs of Compressed Natural Gas.	4,063	7/1/2011	6/30/2012	387	Receive California-SOCAL-BORDER-NGI, Pays 5.200 Max - 4.000 Min per MMBTU
	Grand Total				<u><u>\$ (30,991)</u></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 inspection 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.

During the fiscal year, LACMTA terminated a portion of the notional amount of Series 2004 Swap Agreement relating to \$83,525 principal amount of the General Revenue Refunding Gateway Bonds Series 2004 refunded by General Revenue Refunding bonds series 2010A, and \$6,675 swap termination payment was made to the respective swap provider from the proceeds of the Series 2010A Bonds.

As of June 30, 2011, LACMTA's outstanding interest swap fair values along with the changes in fair values for the year then ended, and the associated counterparties and its credit ratings are as follows:

Bond Series	Fair Value June 30, 2010	Change in Fair Value	Fair Value June 30, 2011	Counterparty	Counterparty Credit Ratings		
					Moody's	S&P	Fitch
2004 Gateway Bonds**	\$ (13,592)	\$ 10,066	\$ (3,526)	Bank of Montreal	Aa2	A+	AA-
Proposition A Series 2008-A1/A2	(11,399)	3,547	(7,852)	Bank of Montreal	Aa2	A+	AA-
Proposition A Series 2008-A3/A4	(11,281)	3,524	(7,757)	Deutsche Bank AG	Aa3	A+	AA-
Proposition C Series 2009-A	(13,470)	4,647	(8,823)	Wachovia Bank	Aa2	AA	AA-
Proposition C Series 2003-C/Proposition C Series 2009-C	(6,007)	2,587	(3,420)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA	AA-
Total	\$ (55,749)	\$ 24,371	\$ (31,378)				

**The 2004 Gateway Bonds interest rate swap was partially terminated. The notional amount was reduced by \$83,525 in relation to the refunded portion of the 2004 Gateway Bonds. The termination payment of \$6,675 was made to the respective swap provider. Series 2004 Swap Agreement notional amount after refunding corresponds to the principal amounts of Series 2004 Bonds that remain outstanding and unrefunded.

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The decrease in fair value of the interest rate swap is reported as a deferred inflow in the Business-type Activities on the Statement of Net Position.

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 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, 2011, LACMTA was required to post collateral for two of its counterparties: Bank of Montreal and Wachovia Bank for \$2 million and \$1.8 million, 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.

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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, 2011, LACMTA does not have any swap agreements that terminate prior to the final maturity of the hedged bonds.

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, 2011, 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, 2011, 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, 2011, LACMTA has sufficient liquidity support.

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As of June 30, 2011, 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		
2012	\$ 1,950	\$ 4,403	\$ 19,210	\$ 25,563
2013	2,050	4,379	19,147	25,576
2014	2,125	4,354	19,081	25,560
2015	22,175	4,276	18,689	45,140
2016	23,000	4,142	17,958	45,100
2017-2021	172,850	17,366	75,229	265,445
2022-2026	287,525	9,978	36,421	333,924
2027-2031	89,025	1,560	3,868	94,453
2032	1,725	13	27	1,765
Total	\$ 602,425	\$ 50,471	\$ 209,630	\$ 862,526

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 and can be found on page 69.

Commodity Swap

For fiscal years 2008 through 2011, LACMTA has entered into commodity swap agreements to hedge 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. For fiscal year 2011, about 65% of the natural gas volume was hedged.

In January 2011, the Board approved the updated CNG hedging program, adding commodity options and the use of cost stabilization reserves in addition to the continued use of commodity swaps. The addition of commodity options and the use of stabilization reserves enhance the mix of tools for use to hedge under various market conditions.

Subsequent to the update to the CNG hedging program, LACMTA has use a “costless collar” strategy to hedge 90% of the natural gas volume for fiscal year 2012 and to hedge about 40% to date of the fiscal year 2013 planned natural gas volume. Bids are periodically taken to establish the strike prices for the upper and lower limits that are referred to as the ceiling and the floor of the dollar. With the costless collar, there is no upfront cash outlay as the purchase price of the ceiling is exactly offset by the sale price of the floor. When using a costless collar, LACMTA retains exposure to the price movements between floor and ceiling.

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At June 30, 2011, the fair values of LACMTA's outstanding commodity swaps along with the changes in fair values for the year then ended and the associated counterparties and credit ratings are as follows:

Fair Value June 30, 2010	Changes in Fair Value	Fair Value June 30, 2011	Counterparty	Counterparty Ratings		
				S&P	Moody's	Fitch
\$ (2,003)	\$ 2,003	\$ -	Barclays Capital	-	-	-
(2,068)	2,068	-	Bank of America, Merrill	-	-	-
(982)	982	-	Barclays Capital	-	-	-
-	387	387	Barclays Capital	Aa3	AA-	AA-
\$ (5,053)	\$ 5,440	\$ 387				

The net changes in fair value of commodity swap are reported under the Bus and Rail operations in the Business-type Activities on the Statement of Activities.

The fair value is the theoretical cost that LACMTA will receive 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 and 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 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.

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N. 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 and 99 years. These leases are considered operating leases for accounting purposes.

The carrying value of the land held for lease as of June 30, 2011 is \$42,943 and is included under the Land caption in the capital assets section of the notes to the basic financial statements found on page 51.

The following is a schedule by years of minimum future rentals to be received on non cancellable operating leases as of June 30, 2011:

Year Ending June 30	Amount
2012	\$ 5,099
2013	5,312
2014	5,436
2015	5,352
2016	3,985
2017-2021	21,598
2022-2027	23,623
2028-2032	22,983
2033-2037	26,469
2038-2042	30,449
2043-2047	34,996
2048-2052	40,360
2053-2057	37,123
2058-2062	23,682
2063-2067	19,397
2068-2072	20,293
2073-2077	23,424
2078-2082	25,298
2083-2087	29,345
2088-2092	34,040
2093-2097	39,487
2098-2102	45,805
2103-2106	38,518
Total	\$ 562,074

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

LACMTA is committed under various leases as “lessee” to lease for building and office space. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2011, totaled \$4,228. Future minimum lease payments for these leases are as follows:

Year Ending June 30	Amount
2012	\$ 3,111
2013	1,569
2014	1,257
2015	514
2016	239
Total	\$ 6,690

Capital Leases

LACMTA has entered into a lease agreement as “lessee” to finance the construction of the compressed natural gas (CNG) fueling facilities. This lease agreement qualifies 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:

	Equipment
Cost	\$ 35,051
Less: Accumulated Depreciation	(35,051)
Net Book Value	\$ -

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 are as follows:

Purpose	Interest Rates	Amount
Business-type Activities	2.89% - 6.66%	\$ 2,821

The lease payment schedule to maturity is as follows:

Year Ending June 30	Principal	Interest
2012	\$ 1,990	\$ 55
2013	831	11
Total	\$ 2,821	\$ 66

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

O. 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, 2011, are as follows:

Project	Contract Commitments	
	Total	Remaining
Rail Projects	\$ 1,553,654	\$ 676,176
Bus Rapid Transitways	101,380	55,785
Bus Acquisition and Others	794,878	333,736
	\$ 2,449,912	\$ 1,065,697

LACMTA has entered into various Memoranda of Understanding (MOU) to fund local transportation projects. For this purpose, LACMTA has encumbered Propositions A and C, TDA, STA and Measure R funds totaling \$1,233,073 as of June 30, 2011.

P. 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, 2011, 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, 2010 (most recent data available) was as follows:

Current Assets	\$ 175,438
Capital Assets, net	970,148
Other Assets	15,550
Total Assets	1,161,136
Total Liabilities	157,165
Net Assets	\$ 1,003,971
Total Revenues	\$ 383,831
Total Expenses	(263,400)
Increase in Net Assets	\$ 120,431

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

Additional detailed financial information is available from the Office of Finance and Administration, SCRRRA, One Gateway Plaza, 12th Floor, Los Angeles, CA 90012 or visit Metrolink's website at www.metrolinktrains.com.

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 proposed regulations clarified which transactions are subject to the New Excise Tax and the 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.

R. Subsequent Events

Long Term Debt

In October 2011, LACMTA issued \$144,000 Proposition A First Tier Senior Sales Tax Revenue Bonds, Series 2011-A to refund \$9,285 Series 2001-A and \$156,105 Series 2001-B Proposition A First Tier Senior Sales Tax Revenue Bonds, for net present value savings of \$17,735. The Series 2011-A Bonds will mature on July 1, 2012 through July 1, 2018, at rates ranging from 0.20 percent to 5.0 percent. At the same time, LACMTA issued \$91,110 Proposition A First Tier Senior Sales Tax Revenue Bonds, Series 2011-B to permanently finance \$102,413 Proposition A commercial paper. The Series 2011-B Bonds will mature on July 1, 2022 and July 1, 2023, at rates ranging from 3.0 percent to 5.0 percent.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2011

In December 2011, LACMTA reached an agreement with one lessor to terminate a Lease/leaseback transaction. AIG agreed to terminate the contract at a premium above the accreted value of \$56.7 million as of June 30, 2011. LACMTA will pay the legal expenses of all parties.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Required Supplementary Schedule
Schedule of Funding Progress – Pension Plans
For the Fiscal Year Ended June 30, 2011

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 Actuarial Accrued Liability (UAAL) (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll (a)-(b)/ (c)
PTSC *						
06/30/09	\$ 326,921	\$ 308,097	\$ 18,824	94.24%	\$ 131,782	14.28%
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%
LACMTA **						
UTU						
12/31/10	534,042	379,137	154,905	70.99%	181,850	85.18%
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%
TCU						
12/31/10	94,415	65,518	28,897	69.39%	26,410	109.42%
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%
ATU						
12/31/10	323,366	218,179	105,187	67.47%	107,310	98.02%
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%
Non-Contract						
12/31/10	134,022	110,488	23,534	82.44%	5,697	413.09%
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%
AFSCME						
12/31/10	52,654	45,079	7,575	85.61%	5,561	136.19%
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%
LACMTA						
TOTAL						
12/31/10	\$ 1,138,499	\$ 818,401	\$ 320,098	71.88%	\$ 326,828	97.94%
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%

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.

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, 2011

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 Actuarial Accrued Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
January 1, 2011						
LACMTA	\$ 172,997	\$ 32,322	\$ 140,675	18.68%	\$ 159,974	87.94%
ATU	499,030	93,236	405,794	18.68%	154,401	262.82%
TCU	70,017	13,082	56,935	18.68%	38,139	149.28%
UTU	262,005	48,951	213,054	18.68%	257,023	82.89%
Total	\$ 1,004,049	\$ 187,591	\$ 816,458	18.68%	\$ 609,537	133.95%
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	\$ 1,014,707	\$ 157,082	\$ 857,625	15.48%	\$ 580,149	147.83%
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	\$ 733,442	\$ -	\$ 733,442	-%	\$ 531,567	137.98%

*On February 22, 2007, the Board adopted a resolution authorizing the establishment of an irrevocable Retiree Health Care and Welfare Benefits Trust ("Plan"). There were no plan assets as of January 1, 2007, the date of first valuation as LACMTA was not able to place the assets at the start of July 1, 2007. As of January 1, 2009, the actuarial value of assets is equal to the market value of assets adjusted by the recognition of gains or losses during the two prior years, but within 20% of the market value. Please see related notes to the basic financial statements on pages 59 to 64.

Annual Financial Report can be obtained by writing to:
Finance Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952.

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, 2011
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 20,238	\$ 20,238	\$ 12,915	\$ (7,323)
Investment income	501	501	14,078	13,577
Net decline in fair value of investments	-	-	(3,409)	(3,409)
Lease and rental	15,844	15,844	16,206	362
Licenses and fines	500	500	475	(25)
Other	1,097	1,097	33,997	32,900
TOTAL REVENUES	38,180	38,180	74,262	36,082
EXPENDITURES				
Current:				
Administration and other	70,829	72,205	53,679	18,526
Transportation subsidies	13,736	13,736	2,264	11,472
Debt and interest expenditures:				
Principal	-	-	1,065	(1,065)
Interest and fiscal charges	2,258	2,258	1,205	1,053
TOTAL EXPENDITURES	86,823	88,199	58,213	29,986
EXCESS OF REVENUES OVER EXPENDITURES	(48,643)	(50,019)	16,049	66,068
OTHER FINANCING SOURCES (USES)				
Transfers in	15,663	17,163	57,735	40,572
Transfers out	(84,781)	(94,781)	(67,655)	27,126
TOTAL OTHER FINANCING SOURCES AND USES	(69,118)	(77,618)	(9,920)	67,698
NET CHANGE IN FUND BALANCES	(117,761)	(127,637)	6,129	133,766
Fund balances – beginning of year	180,454	180,454	180,454	-
Adjustment due to implementation of GASB 54	303,165	303,165	303,165	-
FUND BALANCES – END OF YEAR	\$ 365,858	\$ 355,982	\$ 489,748	\$ 133,766

*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, 2011
(Amounts expressed in thousands)

	<u>Budgeted Amounts*</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 589,803	\$ 589,803	\$601,883	\$ 12,080
Investment income	-	-	2,246	2,246
Net decline in fair value of investments	-	-	(854)	(854)
Other	-	-	41	41
TOTAL REVENUES	<u>589,803</u>	<u>589,803</u>	<u>603,316</u>	<u>13,513</u>
EXPENDITURES				
Current:				
Transportation subsidies	<u>243,794</u>	<u>243,794</u>	<u>264,328</u>	<u>(20,534)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>346,009</u>	<u>346,009</u>	<u>338,988</u>	<u>(7,021)</u>
OTHER FINANCING USES				
Transfers out	<u>(352,448)</u>	<u>(355,050)</u>	<u>(350,475)</u>	<u>4,575</u>
NET CHANGE IN FUND BALANCES	<u>(6,439)</u>	<u>(9,041)</u>	<u>(11,487)</u>	<u>(2,446)</u>
Fund balances – beginning of year	<u>80,536</u>	<u>80,536</u>	<u>80,536</u>	<u>-</u>
FUND BALANCES – END OF YEAR	<u>\$ 74,097</u>	<u>\$ 71,495</u>	<u>\$ 69,049</u>	<u>\$ (2,446)</u>

**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, 2011
(Amounts expressed in thousands)

	<u>Budgeted Amounts *</u>		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 589,803	\$ 589,803	\$ 601,932	\$ 12,129
Intergovernmental	223,152	223,152	183,085	(40,067)
Investment income	-	-	3,637	3,637
Net decline in fair value of investments	-	-	(2,735)	(2,735)
TOTAL REVENUES	812,955	812,955	785,919	(27,036)
EXPENDITURES				
Current:				
Administration and other	250,343	250,350	150,757	99,593
Transportation subsidies	463,717	463,717	343,358	120,359
TOTAL EXPENDITURES	714,060	714,067	494,115	219,952
EXCESS OF REVENUES OVER EXPENDITURES	98,895	98,888	291,804	192,916
OTHER FINANCING SOURCES (USES)				
Transfers in	-	2,383	2,200	(183)
Transfers out	(288,692)	(312,382)	(293,105)	19,277
TOTAL OTHER FINANCING SOURCES USES	(288,692)	(309,999)	(290,905)	19,094
NET CHANGE IN FUND BALANCES	(189,797)	(211,111)	899	212,010
Fund balances – beginning of year	116,013	116,013	116,013	-
FUND BALANCES – END OF YEAR	\$ (73,784)	\$ (95,098)	\$ 116,912	\$ 212,010

**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, 2011
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 589,803	\$ 589,803	\$ 598,647	\$ 8,844
Intergovernmental	2,450	2,450	176	(2,274)
Investment income	-	-	10,372	10,372
Net decline in fair value of investments	-	-	(2,475)	(2,475)
TOTAL REVENUES	592,253	592,253	606,720	14,467
EXPENDITURES				
Current:				
Administration	271,916	289,527	83,765	205,762
Transportation subsidies	276,856	271,201	148,077	123,124
TOTAL EXPENDITURES	548,772	560,728	231,842	328,886
EXCESS OF REVENUES OVER EXPENDITURES	43,481	31,525	374,878	343,353
OTHER FINANCING SOURCES (USES)				
Transfers in	88,014	98,014	57,379	(40,635)
Transfers out	(184,869)	(197,419)	(204,458)	(7,039)
TOTAL OTHER FINANCING SOURCES AND USES	(96,855)	(99,405)	(147,079)	(47,674)
NET CHANGE IN FUND BALANCES	(53,374)	(67,880)	227,799	295,679
Fund balances – beginning of year	383,665	383,665	383,665	-
FUND BALANCES – END OF YEAR	\$ 330,291	\$ 315,785	\$ 611,464	\$ 295,679

*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, 2011
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 294,901	\$ 294,901	\$ 301,610	\$ 6,709
Investment income	-	-	2,265	2,265
TOTAL REVENUES	294,901	294,901	303,875	8,974
EXPENDITURES				
Current:				
Transportation subsidies	77,712	77,712	87,463	(9,751)
EXCESS OF REVENUES OVER EXPENDITURES	217,189	217,189	216,412	(777)
OTHER FINANCING SOURCES (USES)				
Transfers out	(87,197)	(88,076)	(93,439)	(5,363)
NET CHANGE IN FUND BALANCES	129,992	129,113	122,973	(6,140)
Fund balances – beginning of year	91,679	91,679	91,679	-
FUND BALANCES – END OF YEAR	\$ 221,671	\$ 220,792	\$ 214,652	\$ (6,140)

* 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
State Transit Assistance Fund
For the Year Ended June 30, 2011
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ -	\$ -	\$ 825	\$ 825
EXPENDITURES				
Current:				
Transportation subsidies	276	15,472	19,038	(3,566)
EXCESS OF REVENUES OVER EXPENDITURES	(276)	(15,472)	(18,213)	(2,741)
OTHER FINANCING SOURCES (USES)				
Transfers out	(99,866)	(99,866)	(100,012)	(146)
NET CHANGE IN FUND BALANCES	(100,142)	(115,338)	(118,225)	(2,887)
Fund balances – beginning of year	167,939	167,939	167,939	-
FUND BALANCES – END OF YEAR	\$ 67,797	\$ 52,601	\$ 49,714	\$ (2,887)

**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, 2011
(Amounts expressed in thousands)

	<u>Budgeted Amounts*</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 32,293	\$ 32,293
Investment income	500	500	1,077	577
Net decline in fair value of investments	-	-	(399)	(399)
Licenses and fines	7,500	7,500	7,548	48
Other	-	-	33	33
TOTAL REVENUES	8,000	8,000	40,552	32,552
EXPENDITURES				
Current:				
Administration and other	13,147	13,147	6,938	6,209
EXCESS OF REVENUES OVER EXPENDITURES	(5,147)	(5,147)	33,614	38,761
OTHER FINANCING SOURCES (USES)				
Transfers out	(106,127)	(108,127)	(79,153)	28,974
NET CHANGE IN FUND BALANCES	(111,274)	(113,274)	(45,539)	67,735
Fund balances – beginning of year	398,672	398,672	398,672	-
Adjustment due to implementation of GASB 54	(303,165)	(303,165)	(303,165)	-
FUND BALANCES – END OF YEAR	\$ (15,767)	\$ (17,767)	\$ 49,968	\$ 67,735

**Budget prepared in accordance with GAAP*

See accompanying independent auditors' report.

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