

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

(With Independent Auditor's Report Thereon)



**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY**

Financial Statements and
Required Supplementary Information

June 30, 2012

(With Independent Auditors' Report Thereon)



MetroTM



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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, 2012, which collectively comprise the 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 Employee Retirement Trust Funds, which and represent 77%, 77%, and 47%, respectively, of the assets, net position/fund balances, and revenues/additions of the aggregate remaining fund opinion unit. 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 the Employee Retirement Trust Funds, are based solely on the report of the other auditor. The Employee Retirement Trust Funds represent fiduciary activities and are excluded from LACMTA's government-wide statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LACMTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, 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 LACMTA, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of LACMTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over



financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of funding progress, and budgetary comparison information on pages 3-16, 87-88 and 89-96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

January 8, 2013

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

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LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

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 major 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 and deferred outflows of resources exceed its liabilities and deferred inflows of resources as of June 30, 2012 by \$7,863,814. Of this amount, \$455,915 is reported as unrestricted net position.
- Total net position increased by \$672,586 (9.35 percent) over the previous year. Business-type activities net position increased by \$154,925 (3.22 percent) and governmental activities net position increased by \$517,661 (21.72 percent). The increase in the business-type activities net position is due to increases in capital and operating grants and reduction in bus and rail operating expenses. For governmental activities, the increase in net position is primary due to the increases in program revenues and sales tax.
- At year-end, the governmental funds reported fund balances totaling \$2,117,697. Of this amount, \$1,651,124 is restricted, \$10,310 is committed and assigned, and \$456,263 is unassigned available for spending at LACMTA's discretion.
- LACMTA consistently paid its principal and interest when due thereby decreasing its long-term debt by \$254,658 (5.40 percent). Additionally, LACMTA did not issue new long-term debt in FY12.

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, deferred outflows of resources, liabilities and deferred inflows 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.

These two 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 Exposition Metro Line Construction Authority (EXPO), Crenshaw Project Corporation (CPC), and the Service Authority for Freeway Emergencies (SAFE).

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 and other services, capital, debt and the Union Station operating 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, seven of which are considered major funds. Individual fund data for the major funds are presented in the governmental funds' balance sheet and governmental funds' statement of revenues, expenditures, and changes in fund balances.

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

Fiduciary Funds

Fiduciary funds are used to account for assets held by LACMTA in a trustee capacity. 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 33-86.

Other Information

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

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Government-wide Financial Analysis

Statement of Net Position

As the economy continued to recover, LACMTA's net position increased by \$672,586 (9.35 percent) compared to the previous year. The increase was primarily due to higher sales tax revenues and operating and capital grants.

The following table is a summary of the statement of net position as of June 30, 2012 and 2011:

Los Angeles County Metropolitan Transportation Authority						
Summary Statement of Net Position						
	Business-type Activities		Governmental Activities		Total	
	2012	2011	2012	2011	2012	2011
Current & other assets	\$2,295,600	\$2,709,334	\$2,346,745	\$1,839,945	\$4,642,345	\$4,549,279
Capital assets	7,881,728	7,584,016	772,794	772,794	8,654,522	8,356,810
Deferred outflows – derivatives	2,004	-	-	-	2,004	-
Total assets and deferred outflows	<u>10,179,332</u>	<u>10,293,350</u>	<u>3,119,539</u>	<u>2,612,739</u>	<u>13,298,871</u>	<u>12,906,089</u>
Long-term liabilities	4,933,054	5,215,027	22,267	23,303	4,955,321	5,238,330
Other liabilities	277,985	266,307	195,974	205,799	473,959	472,106
Deferred inflows – derivatives	5,777	4,425	-	-	5,777	4,425
Total liabilities and deferred inflows	<u>5,216,816</u>	<u>5,485,759</u>	<u>218,241</u>	<u>229,102</u>	<u>5,435,057</u>	<u>5,714,861</u>
Net investment in capital assets	4,561,995	4,497,567	772,794	772,794	5,334,789	5,270,361
Restricted for debt service	431,009	440,892	-	-	431,009	440,892
Restricted for other purposes	-	-	1,642,101	1,111,759	1,642,101	1,111,759
Unrestricted	(30,488)	(130,868)	486,403	499,084	455,915	368,216
Total net position	<u>\$4,962,516</u>	<u>\$4,807,591</u>	<u>\$2,901,298</u>	<u>\$2,383,637</u>	<u>\$7,863,814</u>	<u>\$7,191,228</u>

Current and other assets in the business-type activities decreased by \$413,734 (15.27 percent) mainly due to payment of capital expenditures using the proceeds of bonds issued in previous years.

Long-term liabilities in the business-type activities decreased by \$281,973 (5.41 percent) mainly due to payment of principal on long-term debt. In addition, LACMTA did not issue new debt in FY12.

Current and other assets in the governmental activities increased by \$506,800 (27.54 percent) mainly due to higher collection of sales tax and grants.

LACMTA's net position in the governmental activities grew by \$517,661 (21.72 percent). The increase was mainly due to receipt of Public Transportation Modernization Improvement, and Service Enhancement Account (PTMISEA) funds from the State and

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higher collection of sales tax compared to the previous year. Consequently, the business-type activities contribute an increase of 3.22 percent to the net position.

Statement of Activities

The following table is a summary of the statement of activities for the years ended June 30, 2012 and 2011:

Los Angeles County Metropolitan Transportation Authority Changes in Net Position						
	Business-type Activities		Governmental Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$375,917	\$375,168	\$15,740	\$16,302	\$391,657	\$391,470
Operating grants and contributions	289,517	261,068	401,651	169,261	691,168	430,329
Capital grants and contributions	207,509	182,378	-	-	207,509	182,378
General revenues:						
Sales tax	-	-	2,386,439	2,104,072	2,386,439	2,104,072
Investment income	13,785	14,680	19,055	34,500	32,840	49,180
Net appreciation (decline) in fair value of investments	1,695	(1,489)	(1,226)	(9,872)	469	(11,361)
Miscellaneous	6,653	4,872	32,205	49,218	38,858	54,090
Total program revenues	895,076	836,677	2,853,864	2,363,481	3,748,940	3,200,158
Program Expenses:						
Bus and rail operations	1,835,735	1,910,466	-	-	1,835,735	1,910,466
Union station operations	4,167	1,052	-	-	4,167	1,052
Transit operators programs	-	-	220,782	238,624	220,782	238,624
Local cities programs	-	-	442,409	401,957	442,409	401,957
Highway projects	-	-	234,690	123,960	234,690	123,960
Regional multimodal capital programs	-	-	96,174	156,435	96,174	156,435
Paratransit programs	-	-	10,227	16,456	10,227	16,456
Other transportation subsidies	-	-	63,875	56,687	63,875	56,687
General government	-	-	168,295	166,792	168,295	166,792
Total program expenses	1,839,902	1,911,518	1,236,452	1,160,911	3,076,354	3,072,429
Increase (decrease) in net position before transfers:	(944,826)	(1,074,841)	1,617,412	1,202,570	672,586	127,729
Transfers	1,099,751	1,070,983	(1,099,751)	(1,070,983)	-	-
Increase (decrease) in net position	154,925	(3,858)	517,661	131,587	672,586	127,729
Net position – beginning of year	4,807,591	4,811,449	2,383,637	2,252,050	7,191,228	7,063,499
Net position – end of year	\$4,962,516	\$4,807,591	\$2,901,298	\$2,383,637	\$7,863,814	\$7,191,228

Business-type activities recovered 30.21 percent of total operating expenses from operating revenues, excluding depreciation and interest, compared to 30.01 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 and grants.

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Operating grants and contributions in the governmental activities increased by \$232,390 (137.30 percent) mainly due to receipts of PTMISEA funds and increased grants reimbursement received for the I-405 project.

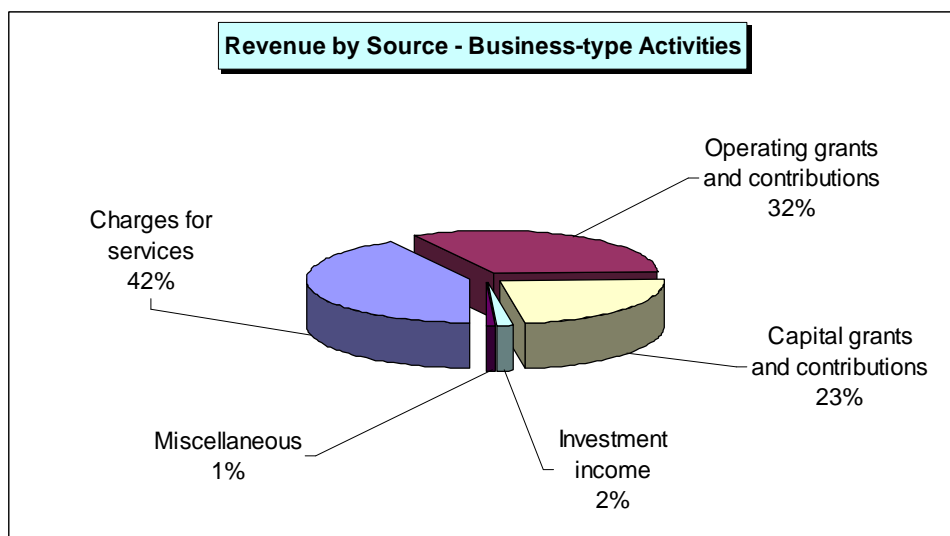
Sales tax revenues in the governmental activities increased by \$282,367 (13.42 percent) compared to FY11 due to increase in Prop A, Prop C, TDA and Measure R sales tax revenue and receipts of State Transit Assistance Fund (STA) sales tax allocation from the State. There was no STA sales tax received in FY11.

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 \$878,796 increased 1.65% from FY11 and represented the largest governmental expenditures. Subsidies consisted of local sales tax and federal pass-through provided 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 increased by \$110,730 (89.33 percent) primarily due to higher expenditures to improve the I-405 freeway through the Sepulveda Pass in West Los Angeles, including improvements of freeway ramps, bridges, retaining and sound walls constructions.

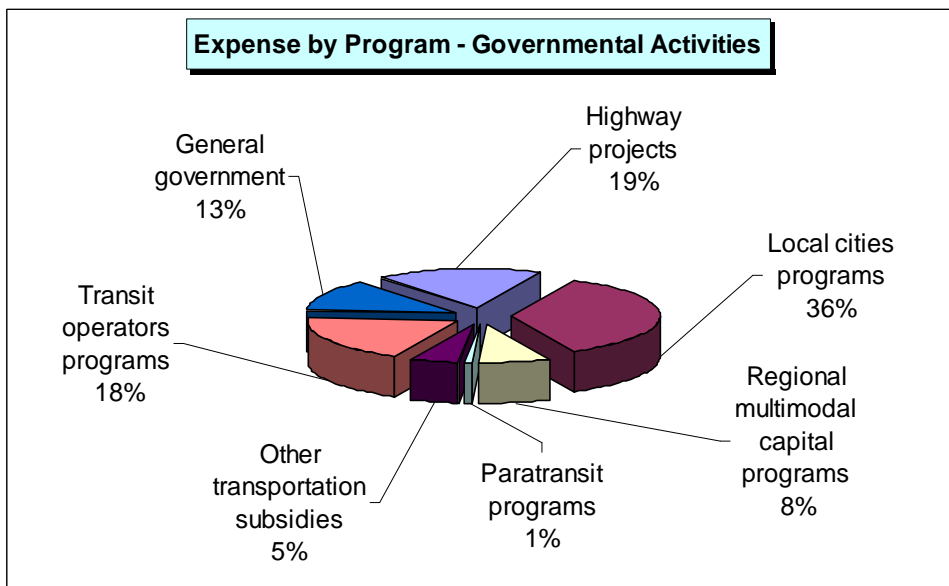
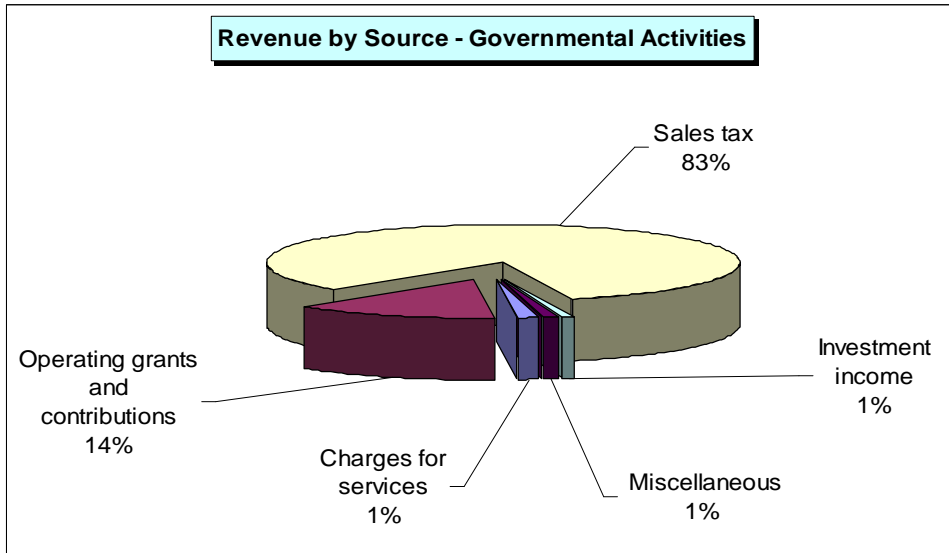
Regional multimodal capital program expenditures decreased by \$60,261 (38.52 percent) primarily due to substantial subsidies provided to fund the Metrolink rail cars acquisitions and to improve the I-5 freeway from the Orange County line to the I-605 freeway in the prior year.

Below are graphical depictions of the components of business-type revenues for the year ended June 30, 2012:



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Below are graphical depictions of the components of governmental revenues and expenditures for the year ended June 30, 2012:



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Proprietary Fund

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

The increase of \$154,925 (3.22 percent) in net position was primarily due to increase in capital and operating grants and decrease in bus and rail operating expenses.

Governmental Funds

As previously stated, governmental funds present information about current financial (consumable) resources because they directly impact short-term flow of resources and financing requirements. This situation is particularly true in regard to the different categories of fund balances. The Unassigned fund balance of \$456,263 represents uncommitted available resources as of the end of the fiscal year.

LACMTA's governmental funds ended the fiscal year with \$2,117,697 in total fund balance. Approximately 78 percent of this amount has been committed for future programs. The major governmental funds are discussed below:

The General fund balance decreased by \$14,152, mainly due to the expiration of the Federal alternative fuel tax credits program in December 2011. Of the \$475,596 fund balance, \$19,333 is restricted, committed, and assigned for future expenditures.

The Proposition A fund balance increased by \$92,109 mainly due to increase in sales tax receipts and lower subsidy payments to bus and rail operations. The entire amount of \$161,158 fund balance is restricted as to use by the Proposition A ordinance.

The Proposition C fund balance increased by \$17,740 primarily due to higher sales tax received in FY12 partially offset by an increase subsidies provided to other operators. The Proposition C ordinance restricts the use of the fund balance of \$134,652.

The Measure R fund balance increased by \$303,893 mainly due to increase in sales tax revenue coupled with the decrease in expenditures related to rail operations and funding the Gold Line Foothill Extension project. The restricted fund balance of \$915,357 will be used to fund future programs eligible under the Measure R ordinance.

The PTMISEA fund balance increased by \$41,556 mainly due to grant receipts of Prop 1B State allocations which was offset by an increase in expenditures for Bus Rehabilitation, Mid City/Exposition Light Rail, Metro Orange Line Extension and Crenshaw/LAX Transit Corridor projects. The PTMISEA fund has a restricted fund balance of \$32,182.

The Transportation Development Act fund balance increased by \$82,412 primarily due to an increase in sales tax revenue. The fund balance of \$297,064 is restricted under the Transportation Development Act's regulation.

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The State Transit Assistance fund balance decreased by \$22,768 mainly due to an increase in operating transfers to LACMTA. The fund balance of \$26,946 is restricted under the State Transit Assistance regulation.

General Fund Budgetary Highlights

The General Fund includes activities associated with the government that are not legally or otherwise required to be accounted for in another fund. It accounts for only 1.95 percent of LACMTA's total governmental fund revenues, while expenditures represent 5.33 percent of total governmental fund expenditures.

The original budget increased by \$40,997 due to additional budget for the Westside Subway Extension projects. This was not included in the original budget.

Revenues

The General Fund's main sources of revenues were expected from lease and rental income from LACMTA's owned properties and receipts of federal alternative fuel tax credits. The federal alternative fuel tax credit program expired in December 2011.

Total actual revenues are lower than budget by \$31,642 due to higher revenue projections for the Federal alternative fuel tax credits that expired in December 2011.

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 of \$39,101 compared to budget was mainly due to lesser payment of subsidies and expenditures related to governmental and oversight activities, transit planning, and other programming and planning activities.

The favorable variance in the other financing sources of \$30,530 compared to budget was mainly due to higher administration fees transferred from Proposition A and C administration funds to the General Fund.

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Capital Assets

As of June 30, 2012, LACMTA had \$8,654,522 (net of accumulated depreciation) invested in capital assets, as shown below, a 3.56 percent increase from the previous fiscal year.

Los Angeles County Metropolitan Authority Capital Assets (Net of accumulated depreciation)						
	Business-type Activities		Governmental Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 760,232	\$ 651,247	\$ 772,794	\$ 772,794	\$1,533,026	\$ 1,424,041
Buildings	5,339,603	4,585,976	-	-	5,339,603	4,585,976
Equipment	90,085	100,856	-	-	90,085	100,856
Vehicles	861,868	961,742	-	-	861,868	961,742
Construction in progress	829,940	1,284,195	-	-	829,940	1,284,195
Total Capital Assets	\$ 7,881,728	\$ 7,584,016	\$ 772,794	\$ 772,794	\$8,654,522	\$ 8,356,810

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 the City of Santa Monica. The line is being built in two phases:

The first phase of the EXPO line, with an amended budget of \$932,000, is approximately 8.6 miles long and parallels the heavily congested I-10 freeway extending from Downtown Los Angeles to Culver City with an estimated travel time of less than 30 minutes. It operates in a dual track configuration on Flower Street and along the Exposition right-of-way. It has twelve stations, including three aerial stations. The project is electrically powered from overhead power lines. As of June 30, 2012, \$843,700 has been expended on Phase 1. The Phase 1 of the EXPO Light Rail line commenced revenue operations in April 2012.

The second phase, estimated to cost \$1.5 billion, is approximately 6.6 miles and continues from the 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, 2012, \$260,600 has been expended on Phase 2 project.

The Metro Orange Line Extension is budgeted to cost \$154,000 (as amended), and is a 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

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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. As of June 30, 2012, \$128,200 of expenditures has been expended. The Metro Orange Line Extension commenced revenue operations in June 2012.

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 \$741,000 and extends from the Sierra Madre Villa Station in Pasadena to the City of Azusa. The second segment (Segment 2B) is budgeted at \$95,100 and 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 2016. As of June 30, 2012, \$155,300 has been expended.

The Regional Connector Transit Corridor is a \$1.4 billion project of which \$169,700 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 Transit (LRT) Project from the 7th/Metro Center Station will 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 will connect to the existing Gold Line east of the intersection of 1st and Alameda Streets and north of Temple Street. As of June 30, 2012, \$47,000 has been expended.

The Crenshaw/LAX Transit Corridor project has an interim life-of-project (LOP) budget of \$1.75 billion, with \$91,300 in commitments, 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) which opened this year for revenue operations to Culver City and the Metro Green Line LRT

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

(near the existing Aviation/LAX Station). As of June 30, 2012, \$60,700 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 \$108,800 and with an estimated total budget of \$5.6 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, 2012, \$91,200 has been expended.

The Metro Los Angeles Congestion Reduction Demonstration (ExpressLanes) program, budgeted at \$120,600 will introduce congestion pricing by converting High Occupancy Vehicle (HOV or carpool) lanes to High Occupancy Toll (HOT) lanes, improve transit service and other alternatives to driving, improve transit facilities, and implement an intelligent parking management system in Los Angeles County. Consequently, this will also allow drivers of single occupant vehicles (SOV) to use the high occupancy lane. The minimum toll per mile is \$0.25 with a maximum of \$1.40 per mile. The projected start of revenue operations on the I-110 and I-10 HOT lanes are November 2012 and February 2013, respectively. As of June 30, 2012, \$89,600 has been expended.

Additional information on capital assets can be found on page 52.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Long-term Debt

As of June 30, 2012, LACMTA had a total of \$4,464,340 long-term debt outstanding. Of this amount, \$3,361,495 relates to bonds secured by sales tax revenue and \$784,983 relates to lease/leaseback obligations. The remaining balance consists 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	
	2012	2011	2012	2011	2012	2011
Sales tax revenue bonds and refunding bonds	\$ 3,361,495	\$3,447,870	\$ -	\$ -	3,361,495	\$3,447,870
Lease/lease to service-obligations	784,983	850,770	-	-	784,983	850,770
General revenue bonds	160,770	165,795	-	-	160,770	165,795
Commercial paper notes	33,551	143,713	-	-	33,551	143,713
Other debt	8,590	11,775	22,267	23,302	30,857	35,077
Total long-term debt	\$ 4,349,389	\$ 4,619,923	\$ 22,267	\$ 23,302	4,371,656	\$4,643,225
Unamortized bond premium	158,633	146,849	-	-	158,633	146,849
Unamortized bond discount and deferred charge on refunding	(65,949)	(71,076)	-	-	(65,949)	(71,076)
Adjusted long-term debt	\$ 4,442,073	\$4,695,696	\$ 22,267	\$ 23,302	\$ 4,464,340	\$ 4,718,998

The decrease in long-term debt is due to scheduled principal payments made and the retirement of a portion of the outstanding commercial paper notes during the fiscal year.

In October 2011, LACMTA issued Proposition A Series 2011A and Series 2011B Refunding Bonds, for an aggregate amount of \$235,110, to achieve debt service savings associated with more favorable financing terms. These bonds were issued at a premium and the proceeds were used to refinance outstanding Proposition A Series 2001A and Series 2001 B Bonds totaling \$165,390, and to retire \$102,413 Proposition A Commercial Paper Notes.

LACMTA's bonds are rated by Standard & Poor's, Moody's, and Fitch. As of June 30, 2012, the ratings are as follows:

Bond 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	A	A1	N/A
Measure R Sales Tax Revenue Bonds	AAA	Aa2	N/A

Additional information on LACMTA's long-term debt can be found on pages 67 to 76.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

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 FY13 assumed a 4.0 percent growth in sales tax revenues from Prop A, Prop C, TDA and Measure R over the FY12 budget. Also, the FY13 budget assumed the allocation of \$123,683 of STA from the state. Other budget assumptions include:

- Increase of 20,703 (not in thousands) in bus revenue service hours due to full year operations of the Canoga Extension of the Orange Line and minor service modifications to existing bus lines.
- Increase of 131,268 (not in thousands) in rail revenue service hours due to full year operation of EXPO Line Phase 1, improved peak headways, and more late night operations.
- Congestion Reduction Demonstration Project completes construction and begins operations in the second quarter of FY13.
- Full Time Equivalents (FTEs) are added for full year of EXPO operations, Orange Line Canoga Extension and late night service hours.
- Wage and salary increases based on Board adopted contracts.

Local sales taxes, the largest revenue sources for LACMTA, comprised 42.72 percent of LACMTA's total FY13 estimated revenues. From this revenue base, LACMTA constructs a budget that balances anticipated revenues with area transportation needs. For details of LACMTA's FY13 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, 2012
(Amounts expressed in thousands)

	Business-type Activities	Governmental Activities	Total
ASSETS			
Cash and cash equivalents - unrestricted	\$ 92,423	\$ 1,080,425	\$ 1,172,848
Cash and cash equivalents - restricted	703,598	-	703,598
Investments – unrestricted	292,733	718,324	1,011,057
Investments – restricted	183,677	-	183,677
Receivables (net of allowance for doubtful accounts)	240,583	413,335	653,918
Internal balances	(134,453)	134,453	-
Inventories	61,544	-	61,544
Prepaid and other current assets	3,981	-	3,981
Lease accounts	784,983	-	784,983
Deferred charges	66,531	208	66,739
Capital assets:			
Land and construction in progress	1,590,172	772,794	2,362,966
Other capital assets, net of depreciation	6,291,556	-	6,291,556
Total capital assets	7,881,728	772,794	8,654,522
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow on derivatives - commodity swap	2,004	-	2,004
Total assets and deferred outflows of resources	10,179,332	3,119,539	13,298,871
LIABILITIES			
Accounts payable and accrued liabilities	188,768	162,207	350,975
Accrued interest payable	65,422	-	65,422
Pollution remediation obligations	7,631	-	7,631
Postemployment benefits payable	85,420	-	85,420
Derivative instrument liability – interest rate swap	29,638	-	29,638
Derivative instrument liability – commodity swap	2,004	-	2,004
Deferred revenue and credits	6,446	15,810	22,256
Other liabilities	17,349	17,957	35,306
Long-term liabilities:			
Due within 1 year	280,394	637	281,031
Due in more than 1 year	4,527,967	21,630	4,549,597
Total liabilities	5,211,039	218,241	5,429,280
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow on derivatives – interest rate swap	5,777	-	5,777
NET POSITION			
Net investment in capital assets	4,561,995	772,794	5,334,789
Restricted for debt service	431,009	-	431,009
Restricted for other purposes	-	1,642,101	1,642,101
Unrestricted (deficit)	(30,488)	486,403	455,915
Total net position	\$ 4,962,516	\$ 2,901,298	\$ 7,863,814

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Activities
For the Year Ended June 30, 2012
(Amounts expressed in thousands)

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Business-type activities:			
Bus and Rail operations	\$ 1,835,735	\$ 371,829	\$ 289,517
Union Station operations	4,167	4,088	-
Total business-type activities	1,839,902	375,917	289,517
Governmental activities:			
Transit operators programs	220,782	-	-
Local cities programs	442,409	-	-
Highway project	234,690	-	134,823
Regional multimodal capital programs	96,174	-	-
Paratransit programs	10,227	-	-
Other transportation subsidies	63,875	-	1,101
General government	168,295	15,740	265,727
Total governmental activities	1,236,452	15,740	401,651
Total	\$ 3,076,354	\$ 391,657	\$ 691,168
General revenues:			
Sales tax			
Investment income			
Net appreciation (decline) in fair value of investments			
Gain on disposition of capital assets			
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
\$ 207,509	\$ (966,880)	\$ -	\$ (966,880)
-	(79)	-	(79)
207,509	(966,959)	-	(966,959)
-	-	(220,782)	(220,782)
-	-	(442,409)	(442,409)
-	-	(99,867)	(99,867)
-	-	(96,174)	(96,174)
-	-	(10,227)	(10,227)
-	-	(62,774)	(62,774)
-	-	113,172	113,172
-	-	(819,061)	(819,061)
\$ 207,509	(966,959)	(819,061)	(1,786,020)
-	-	2,386,439	2,386,439
13,785	-	19,055	32,840
1,695	-	(1,226)	469
294	-	-	294
6,359	-	32,205	38,564
1,099,751	-	(1,099,751)	-
1,121,884	-	1,336,722	2,458,606
154,925	-	517,661	672,586
4,807,591	-	2,383,637	7,191,228
\$ 4,962,516	\$ -	\$ 2,901,298	\$ 7,863,814

Los Angeles County Metropolitan Transportation Authority
Balance Sheet
Governmental Funds
June 30, 2012
(Amounts expressed in thousands)

	<u>Special</u>		
	<u>General Fund</u>	<u>Proposition A</u>	<u>Proposition C</u>
ASSETS			
Cash and cash equivalents	\$ 128,715	\$ 79,467	\$ 60,266
Investments	132,013	83,829	63,649
Receivables:			
Accounts	2,610	-	-
Interest	882	163	326
Intergovernmental	5,672	-	77,891
Sales taxes	-	60,221	60,226
Notes	4,000	-	-
Due from other funds	218,146	-	14,840
Restricted assets:			
Cash and cash equivalents	873	-	-
TOTAL ASSETS	\$ 492,911	\$ 223,680	\$ 277,198
LIABILITIES			
Accounts payable and accrued liabilities	\$ 7,937	\$ 24,822	\$ 96,134
Due to other funds	4,070	37,700	1,715
Deferred revenues	3,851	-	44,697
Other liabilities	1,457	-	-
TOTAL LIABILITIES	17,315	62,522	142,546
FUND BALANCES			
Restricted	9,023	161,158	134,652
Committed	3,492	-	-
Assigned	6,818	-	-
Unassigned	456,263	-	-
TOTAL FUND BALANCES	475,596	161,158	134,652
TOTAL LIABILITIES AND FUND BALANCES	\$ 492,911	\$ 223,680	\$ 277,198

See accompanying notes to basic financial statements.

Revenue Funds						
Measure R	PTMISEA	TDA	STA	Other Governmental Funds	Total Governmental Funds	
\$ 398,221	\$ 43,186	\$ 273,230	\$ 19,636	\$ 76,831	\$ 1,079,552	
420,344	300	-	-	18,189	718,324	
-	-	-	-	88	2,698	
1,881	-	129	9	68	3,458	
474	-	-	-	-	84,037	
121,619	-	29,672	29,404	-	301,142	
18,000	-	-	-	-	22,000	
2,498	-	-	-	-	235,484	
-	-	-	-	-	873	
\$ 963,037	\$ 43,486	\$ 303,031	\$ 49,049	\$ 95,176	\$ 2,447,568	
\$ 31,752	\$ -	\$ -	\$ -	\$ 1,562	\$ 162,207	
15,800	11,304	5,967	22,103	2,372	101,031	
128	-	-	-	-	48,676	
-	-	-	-	16,500	17,957	
47,680	11,304	5,967	22,103	20,434	329,871	
915,357	32,182	297,064	26,946	74,742	1,651,124	
-	-	-	-	-	3,492	
-	-	-	-	-	6,818	
-	-	-	-	-	456,263	
915,357	32,182	297,064	26,946	74,742	2,117,697	
\$ 963,037	\$ 43,486	\$ 303,031	\$ 49,049	\$ 95,176	\$ 2,447,568	

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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, 2012
 (Amounts expressed in thousands)

Fund Balance – total governmental funds (page 21)	\$ 2,117,697
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 obligations 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.	208
Bonds and notes payable are not due and payable in the current period. Therefore, they are not reported in the funds.	(22,267)
Governmental funds accounts for intergovernmental revenues not available in the current period as deferred revenues. However, these accrued revenues are recognized in the Statement of Activities when earned.	45,439
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>(12,573)</u>
Net Position of governmental activities (page 17)	<u>\$ 2,901,298</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, 2012
(Amounts expressed in thousands)

	<u>Special</u>		
	<u>General Fund</u>	<u>Proposition A</u>	<u>Proposition C</u>
REVENUES			
Sales taxes	\$ -	\$ 648,692	\$ 648,776
Intergovernmental	20,909	-	210,322
Investment income	5,700	843	1,298
Net decline in fair value of investment	(347)	(82)	(145)
Lease and rental	15,740	-	-
Licenses and fines	512	-	-
Other	13,095	-	-
TOTAL REVENUES	<u>55,609</u>	<u>649,453</u>	<u>860,251</u>
EXPENDITURES			
Current:			
Administration and other transportation projects	58,871	-	237,755
Transportation subsidies	5,627	259,569	347,767
Debt and interest expenditures:			
Principal	1,035	-	-
Interest and fiscal charges	1,161	-	-
TOTAL EXPENDITURES	<u>66,694</u>	<u>259,569</u>	<u>585,522</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,085)</u>	<u>389,884</u>	<u>274,729</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	56,217	28,794	2,821
Transfers out	(59,284)	(326,569)	(259,810)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,067)</u>	<u>(297,775)</u>	<u>(256,989)</u>
NET CHANGE IN FUND BALANCES	(14,152)	92,109	17,740
Fund balances – beginning of year	489,748	69,049	116,912
FUND BALANCES – END OF YEAR	<u>\$ 475,596</u>	<u>\$ 161,158</u>	<u>\$ 134,652</u>

See accompanying notes to basic financial statements.

Funds						
Measure R	PTMISEA	TDA	STA	Other Governmental Funds	Total Governmental Funds	
\$ 645,026	\$ -	\$ 326,883	\$ 117,062	\$ -	\$ 2,386,439	
1,804	145,410	-	-	34,817	413,262	
7,403	10	2,268	118	398	18,038	
(601)	(2)	-	-	(49)	(1,226)	
-	-	-	-	-	15,740	
-	-	-	-	7,553	8,065	
-	-	-	-	-	13,095	
653,632	145,418	329,151	117,180	42,719	2,853,413	
51,768	-	-	-	8,086	356,480	
152,742	-	102,654	10,437	-	878,796	
-	-	-	-	-	1,035	
-	-	-	-	-	1,161	
204,510	-	102,654	10,437	8,086	1,237,472	
449,122	145,418	226,497	106,743	34,633	1,615,941	
12,047	-	-	254	-	100,133	
(157,276)	(103,862)	(144,085)	(129,765)	(19,233)	(1,199,884)	
(145,229)	(103,862)	(144,085)	(129,511)	(19,233)	(1,099,751)	
303,893	41,556	82,412	(22,768)	15,400	516,190	
611,464	(9,374)	214,652	49,714	59,342	1,601,507	
\$ 915,357	\$ 32,182	\$ 297,064	\$ 26,946	\$ 74,742	\$ 2,117,697	

**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, 2012
(Amounts expressed in thousands)**

Net change in fund balances – total governmental funds (page 25)	\$ 516,190
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.	1,035
Investment income 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.	1,017
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.	45,439
Miscellaneous 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/others).	11,063
Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances provide current financial resources to governmental funds. However, these are reported as revenues in the Statement of Activities in the prior period.	(57,068)
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. This is the current amount of deferred charges.	<u>(15)</u>
Change in net position of governmental activities (page 19)	<u>\$ 517,661</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Position
Proprietary Fund – Enterprise Fund
June 30, 2012
(Amounts expressed in thousands)

ASSETS AND DEFERRED OUTFLOWS

Current assets:	
Cash and cash equivalents – unrestricted	\$ 92,423
Cash and cash equivalents – restricted	155,317
Investments – unrestricted	292,733
Investments – restricted	79,798
Receivables (net of allowance for doubtful accounts)	238,050
Inventories	61,544
Prepaid and other current assets	3,981
Total current assets	923,846
Noncurrent assets:	
Cash and cash equivalents – restricted	548,281
Investments – restricted	103,879
Notes receivable	2,533
Lease accounts	784,983
Deferred charges	66,531
Capital assets	
Land and construction in progress	1,590,172
Other capital assets, net of depreciation	6,291,556
Total noncurrent assets	9,387,935
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow on derivatives – commodity swap	2,004
Total assets and deferred outflows	10,313,785

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities	188,768
Accrued interest payable	65,422
Due to other funds	134,453
Claims payable	77,584
Compensated absences payable	61,538
Bonds and notes payable	141,272
Other current liabilities	17,349
Total current liabilities	686,386
Noncurrent liabilities:	
Claims payable	204,998
Compensated absences payable	20,460
Net pension obligation	1,708
Pollution remediation obligations	7,631
Postemployment benefits payable	85,420
Bonds and notes payable	4,300,801
Derivative instrument liability – interest rate swap	29,638
Derivative instrument liability – commodity swap	2,004
Deferred revenues and credits	6,446
Total noncurrent liabilities	4,659,106
Total liabilities	5,345,492
DEFERRED INFLOW OF RESOURCES	
Deferred inflow on derivatives – interest rate swap	5,777

NET POSITION

Net investment in capital assets	4,561,995
Restricted for debt service	431,009
Unrestricted deficit	(30,488)
	\$ 4,962,516

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 Fund
For the Year Ended June 30, 2012
(Amounts expressed in thousands)

OPERATING REVENUES:	
Passenger fares	\$ 344,014
Auxiliary transportation	27,815
Lease and rental	4,088
TOTAL OPERATING REVENUES	<u>375,917</u>
OPERATING EXPENSES:	
Salaries and wages	440,036
Fringe benefits	360,877
Professional and technical services	156,413
Material and supplies	89,065
Casualty and liability	41,622
Fuel, lubricants, and propulsion power	69,486
Purchased transportation	36,072
Depreciation	437,423
Other	50,966
TOTAL OPERATING EXPENSES	<u>1,681,960</u>
OPERATING LOSS	<u>(1,306,043)</u>
NON-OPERATING REVENUES (EXPENSES):	
Local grants	1,359
State grants	181
Federal grants	287,977
Investment income	13,785
Net appreciation in fair value of investments	1,695
Interest expense	(157,942)
Gain on disposition of capital assets	294
Other revenue	6,359
TOTAL NET NON-OPERATING REVENUES	<u>153,708</u>
LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>(1,152,335)</u>
CAPITAL GRANTS AND CONTRIBUTIONS:	
Local grants	17,052
State grants	46,708
Federal grants	143,749
Transfers in – capital	576,753
TOTAL CAPITAL GRANTS AND CONTRIBUTIONS	<u>784,262</u>
TRANSFERS IN – OPERATING	<u>522,998</u>
CHANGE IN NET POSITION	154,925
Net position – beginning of year	4,807,591
NET POSITION – END OF YEAR	<u>\$ 4,962,516</u>

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Cash Flows
Proprietary Fund – Enterprise Fund
For the Year Ended June 30, 2012
(Amounts expressed in thousands)

Cash flows from operating activities	
Receipts from customers	\$ 373,558
Payments to suppliers	(423,170)
Payments to employees	(759,284)
Net cash used for operating activities	<u>(808,896)</u>
Cash flows from non-capital financing activities	
Transfer from other funds	532,225
Federal operating grant	327,342
Receipts from other non-operating activities	6,359
Net cash flows from non-capital financing activities	<u>865,926</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of debt	235,110
Proceeds from disposition of capital assets	884
Capital contributions	717,563
Payments for matured bonds and notes payable	(439,857)
Acquisition and construction of capital assets	(735,725)
Interest paid	(154,324)
Net cash used for capital and related financing activities	<u>(376,349)</u>
Cash flows from investing activities	
Proceeds from sales and maturity of investments	20,590,727
Purchase of investments	(20,568,739)
Investment earnings	14,972
Net cash flows from investing activities	<u>36,960</u>
Net decrease in cash and cash equivalents	(282,359)
Cash and cash equivalents – beginning of year	<u>1,078,380</u>
Cash and cash equivalents – end of year	<u>\$ 796,021</u>
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (1,306,043)
Adjustment to reconcile operating loss to net cash used for operating activities	
Depreciation expense	437,423
Increase in receivables	(1,516)
Increase in notes receivables	20
Increase in prepaid and other current assets	(673)
Decrease in inventories	5,281
Increase in accounts payable and accrued liabilities	7,081
Decrease in claims payable	(19)
Increase in compensated absences payable	1,455
Decrease in pollution remediation obligations	(44)
Increase in net pension obligation	893
Increase in postemployment benefits payable	40,197
Increase in deferred revenues and credits	(862)
Increase in other current liabilities	7,911
Total adjustments	<u>497,147</u>
Net cash used for operating activities	<u>\$ (808,896)</u>
Non-cash investing, capital and financing transactions:	
Lease/leaseback accretion	\$ 31,363
Gain on disposition of capital assets	294
Net appreciation in fair value of investments	1,695
Capital assets write-off	590

See accompanying notes to basic financial statements.

Los Angeles County Metropolitan Transportation Authority
Statement of Net Position
Fiduciary Funds
June 30, 2012
(Amounts expressed in thousands)

	Employee Retirement Trust Funds	OPEB Trust Fund
ASSETS		
Cash and cash equivalents	\$ 11,463	\$ 11,545
Investments:		
Bonds/derivatives	238,207	48,162
Domestic stocks	134,824	40,643
Non-domestic stocks	5,142	11,533
Pooled investments	538,687	87,325
Receivables:		
Member contributions	453	196
Securities sold	33,313	-
Interest and dividends	7,111	363
Receivable from plan sponsor	595	-
Prepaid items and other assets	32	-
Total assets	969,827	199,767
LIABILITIES		
Accounts payable and other liabilities	1,363	804
Securities purchased	49,421	-
Total liabilities	50,784	804
NET POSITION		
Held in trust for pension and OPEB benefits	\$ 919,043	\$ 198,963

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, 2012
(Amounts expressed in thousands)

	Employee Retirement Trust Funds	OPEB Trust Fund
ADDITIONS		
Contributions:		
Employer	\$ 45,709	\$ 23,777
Member	19,036	875
Total contributions	<u>64,745</u>	<u>24,652</u>
From investing activities:		
Net appreciation (decline) in fair value of investments	(12,242)	911
Investment income	12,929	1,931
Investment expense	(3,135)	(795)
Other income	369	-
Total investing activities	<u>(2,079)</u>	<u>2,047</u>
Total additions	<u>62,666</u>	<u>26,699</u>
DEDUCTIONS		
Retiree benefits	62,110	18,382
Administrative expenses	1,465	-
Total deductions	<u>63,575</u>	<u>18,382</u>
Net increase (decrease)	(909)	8,317
Net position – beginning of year	<u>919,952</u>	<u>190,646</u>
NET POSITION – END OF YEAR	<u>\$ 919,043</u>	<u>\$ 198,963</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, 2012

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, 2012

I. 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 comprised 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 Exposition Metro Line Construction Authority (EXPO), Crenshaw Project Corporation (CPC), and the Service Authority for Freeway Emergencies (SAFE) and includes the activities of these organizations in the accompanying financial statements. PTSC and EXPO provide services exclusively to LACMTA. LACMTA shares its governing board with CPC and SAFE. PTSC, EXPO and CPC are presented and reported in the business activity type funds and SAFE is 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.

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. The first phase of the project commenced revenue operations in April 2012.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

CPC was established in March 2012 for the purpose of securing a Transportation Infrastructure Finance and Innovation Act (“TIFIA”) loan to be used for the Crenshaw/LAX Corridor project. This project covers the design and construction of a new 8.5-mile double-track light rail lines with a minimum of six transit stations and a full service maintenance facility known as “Southwestern Yard”. The Crenshaw/LAX Corridor project will extend from the EXPO Light Rail line at the intersection of Exposition and Crenshaw Boulevards and the Green Light Rail line near the existing Aviation/LAX station.

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.

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 within 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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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 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 income associated with the current fiscal period is subject to accrual and has been recognized as revenues of the current fiscal period.

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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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 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.

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 interest 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 operates within the Union Station's facilities. There are also private businesses providing food services and general merchandising within the Union Station facilities. 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:

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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 to county-wide operators at the discretion of LACMTA.

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

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.

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.

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:

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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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.

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 balance outstanding between the governmental activities is reported in the government-wide financial statements as internal balances. All receivables are shown as net of allowance for doubtful accounts.

Inventories and Prepaid Items

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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

Restricted Cash and Investments

Certain cash, cash equivalents, and investments are classified as restricted assets on the Statement of Net Position and Balance Sheet. Restricted assets are maintained in separate accounts and their use is externally restricted for debt service, construction, and asset acquisitions.

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 \$5,000 (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 are carried at cost and depreciated using the straight-line method based on the estimated useful life of the related assets as follows:

<u>Asset Type</u>	<u>Useful Life in Years</u>
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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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.

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 represent 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, 2012, 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, Proposition 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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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.

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

E. 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.

F. Effects of New Pronouncements

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

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 reporting. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. LACMTA implemented the additional guidelines of GASB No.61 for the fiscal year ended June 30, 2012. The implementation did not affect the classification and presentation of the Public Transportation Service Corporation (PTSC), the Crenshaw Project Corporation (CPC), the Service Authority for Freeway Emergencies (SAFE), and the Exposition Metro Line Construction Authority (EXPO) as component units of LACMTA.

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 had 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. The 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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
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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 implemented the new reporting requirements of GASB 64 for the fiscal year ended June 30, 2012. The adoption of GASB 64 did not have an impact on LACMTA’s financial statements.

In March 2012, GASB issued Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* The objective of this Statement is to reclassify items appropriately as deferred outflow of resources and deferred inflow of resources for consistency in the financial reporting. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2012. LACMTA plans to implement the new reporting requirements of GASB 65 for the fiscal year ending June 30, 2013.

In March 2012, GASB issued Statement No. 66, *“Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62.”* This statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. It amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government’s risk financing activities to the general fund and the internal service fund type. It also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. LACMTA plans to implement the new reporting requirements of GASB 66 for the fiscal year ending June 30, 2014.

In June 2012, GASB issued Statement No. 67, *“Financial Reporting for Pension Plans”*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. LACMTA plans to implement the new reporting requirements of GASB 67 for the fiscal year ending June 30, 2014.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
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In June 2012, GASB issued Statement No. 68, “*Accounting and Financial Reporting for Pensions*”. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This statement establishes standards for governmental employer recognition, measurement, and presentation of information about pensions provided through pension plans that are within the scope of this Statement. It also establishes requirements for reporting information about pension-related financial support provided by entities that make contributions to pension plans that are used to provide pensions to the employees of other entities. The requirement of this Statement is effective for fiscal years beginning after June 15, 2014. LACMTA plans to implement the new reporting requirements of GASB 68 for the fiscal year ending June 30, 2015.

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 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.

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III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

As of June 30, 2012, the following are LACMTA's cash deposits and investments:

Cash Deposits and Investments:	Business-type Activities	Governmental Activities	Total
Cash deposits	\$ 40,304	\$ 47,604	\$ 87,908
Asset-backed securities	6,708	4,555	11,263
Commercial paper	5,097	180,161	185,258
Guaranteed investment contracts	33,653	-	33,653
State/County investment pools	303,879	293,639	597,518
Medium-term notes	35,835	61,717	97,552
Mortgage-backed securities	233	16,663	16,896
Pooled funds and mutual funds	404,037	218,440	622,477
Repurchase agreements	1,102	77,798	78,900
U.S. Agency securities	166,511	524,184	690,695
U.S. Treasury obligations	275,072	373,988	649,060
Total fair value	<u>\$ 1,272,431</u>	<u>\$ 1,798,749</u>	<u>\$ 3,071,180</u>

**Reported in the Fund Statements of Net Position
and Balance Sheet:**

Cash and cash equivalents – unrestricted	\$ 92,423	\$ 1,079,552	\$ 1,171,975
Cash and cash equivalents – restricted	155,317	873	156,190
Investments – unrestricted	292,733	718,324	1,011,057
Investments – restricted	79,798	-	79,798
Cash and cash equivalents – restricted noncurrent	548,281	-	548,281
Investments – restricted noncurrent	103,879	-	103,879
Total	<u>\$ 1,272,431</u>	<u>\$ 1,798,749</u>	<u>\$ 3,071,180</u>

LACMTA internally pools all cash deposits and investments. All proprietary and governmental funds maintain an equity interest in the pool. Each fund's positive equity in the internally pooled cash deposits and investment account is presented as cash and cash equivalents and investments on the Statement of Net Position and Balance Sheet. Negative equity balances have been reclassified and are reflected as interfund 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 reflected 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 26, 2012, requires LACMTA's investment program to meet three criteria in the order of their

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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%	None
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 of California Local Agency Investment Fund (LAIF)	None	None	Limit set by the State Treasurer's Office	None
Local Government Investment Pools (LGIP)	None	None	Limit set by Public California entities	None

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

The management of LACMTA’s cash and investments can be categorized as follows:

- 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.

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Cash Deposits

As of June 30, 2012, LACMTA's carrying amount of cash is comprised of \$56,577 in cash on hand and \$31,331 in checking accounts for a combined total of \$87,908. LACMTA's total bank balance was \$48,875 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, 2012, 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	\$ 11,263	0.003391	0.53%	AAA
Commercial paper	185,258	0.010791	8.65%	A-1+
State/County investment pools	343,026	0.000000	16.01%	Not Rated
Medium-term notes*	97,552	0.080844	4.55%	BBB to AA+
Mortgage-backed securities	16,896	0.023364	0.79%	AAA
Pooled funds and mutual funds**	269,614	0.124216	12.58%	Not rated to AAA
Repurchase agreements	78,900	0.000183	3.68%	Not Rated to A-1
U.S. Agency securities***	652,207	0.220286	30.45%	BBB to AAA
U.S. Treasury obligations	487,667	0.451308	22.76%	Not Rated to AAA
Total	<u>\$ 2,142,383</u>		<u>100.00%</u>	
Portfolio weighted average duration		<u>0.914383</u>		

*Medium-term notes of \$9,420 had A2 credit ratings by Moody's at the time of purchase during 2008 to 2011 and were subsequently downgraded to Baa2 credit ratings as of June 30, 2012.

**Pooled funds and mutual fund of \$18,225 had A2 credit ratings by Moody's at the time of purchase during 2008 to 2011 and were subsequently downgraded to Baa2 credit ratings as of June 30, 2012.

*** U.S. Agency securities of \$314 had A2 credit ratings by Moody's at the time of purchase during 2009 and were subsequently downgraded to Baa2 credit ratings as of June 30, 2012.

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

LACMTA is a voluntary investor in the California Local Agency Investment Fund (LAIF) with a total of \$98,774. 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 Local Government Investment Pools (LGIP) totaled \$244,252 as of June 30, 2012. The County Board of Supervisors provides regulatory oversight for LGIP.

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Bond Proceeds and Debt Service Investments

As of June 30, 2012, the following table addresses the investments held by the bond trustees for the benefit of LACMTA in accordance with the provisions of the various bond trust agreements:

Investment Type	Fair Value	Weighted Average Maturities (in years) per Investment Type	Concentration of Investments	Ratings
Guaranteed investment contracts	\$ 33,653	0.4796000	4.00%	Not Rated
Pooled funds and mutual funds	352,863	0.0011500	41.96%	Not Rated
Local Government Investment Pools	254,492	0.0008290	30.26%	Not Rated
U.S. Agency securities	38,488	0.0027030	4.58%	Not Rated to P1
U.S. Treasury obligations	161,393	0.1211087	19.20%	Not Rated to AAA
Total	<u>\$ 840,889</u>		<u>100.00%</u>	
Portfolio weighted average maturities		<u>0.6053907</u>		

The net position value of involuntary participation of debt service investments in LGIP totaled \$254,492 as of June 30, 2012. The County Board of Supervisors provides regulatory oversight for LGIP.

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 policy that establishes thresholds for holdings of individual securities. LACMTA does not have any holdings meeting or exceeding these threshold levels.

As of June 30, 2012, 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, 2012, 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, 2012, as shown in the government-wide financial statements, in the aggregate, including the applicable allowance for doubtful accounts, are as follows:

Receivables	Business-type Activities	Governmental Activities	Total
Accounts	\$ 11,526	\$ 2,698	\$ 14,224
Interest	1,377	3,458	4,835
Intergovernmental	226,197	84,037	310,234
Leases and other	77	-	77
Sales Tax	-	301,142	301,142
Notes	2,533	22,000	24,533
Gross Receivables	241,710	413,335	655,045
Less: Allowances for doubtful accounts	(1,127)	-	(1,127)
Net Receivables	\$ 240,583	\$ 413,335	\$ 653,918

Receivables as of June 30, 2012 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	\$ 2,610	\$ 882	\$ 5,672	\$ -	\$ 4,000	\$ 13,164
Prop A	-	163	-	60,221	-	60,384
Prop C	-	326	77,891	60,226	-	138,443
Measure R	-	1,881	474	121,619	18,000	141,974
TDA	-	129	-	29,672	-	29,801
STA	-	9	-	29,404	-	29,413
Other Governmental	88	68	-	-	-	156
Total	\$ 2,698	\$ 3,458	\$ 84,037	\$ 301,142	\$ 22,000	\$ 413,335

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, 2012, the Enterprise fund is indebted to the Special Revenue funds in the amount of \$134,453.

Governmental Fund	Payable (Receivable) from/to Enterprise Fund
General fund	\$ 174,176
TDA	(5,967)
Measure R	783
PTMISEA	(11,304)
STA	(22,103)
Other Governmental	(1,132)
Total	\$ 134,453

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Transfers in and out by fund are as follows:

Transfers Out	Transfers In						Total
	Enterprise Fund	General Fund	Prop A Fund	Prop C Fund	Measure R	STA	
General Fund	\$ 45,597	\$ 60	\$ -	\$ 1,580	\$ 12,047	\$ -	\$ 59,284
Prop A	293,848	32,721	-	-	-	-	326,569
Prop C	213,502	17,260	28,794	-	-	254	259,810
Measure R	157,276	-	-	-	-	-	157,276
PTMISEA	103,862	-	-	-	-	-	103,862
TDA	137,909	6,176	-	-	-	-	144,085
STA	129,765	-	-	-	-	-	129,765
Others	17,992	-	-	1,241	-	-	19,233
Total	\$ 1,099,751	\$ 56,217	\$ 28,794	\$ 2,821	\$ 12,047	\$ 254	\$1,199,884

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 \$59,451 of Guaranteed Investment Certificates held in LACMTA's name. As of June 30, 2012, these Lease/leaseback agreements totaled \$784,983.

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E. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 651,247	\$ 108,985	\$ -	\$ 760,232
Construction in progress	1,284,195	624,100	(1,078,355)	829,940
Total capital assets, not being depreciated	1,935,442	733,085	(1,078,355)	1,590,172
Capital assets, being depreciated:				
Buildings	7,402,736	1,031,311	(29,644)	8,404,403
Equipment	646,409	37,556	(3,115)	680,850
Vehicles	2,144,027	42,470	(57,441)	2,129,056
Total capital assets, being depreciated	10,193,172	1,111,337	(90,200)	11,214,309
Less accumulated depreciation for:				
Buildings	(2,816,760)	(248,040)	-	(3,064,800)
Equipment	(545,553)	(47,514)	2,302	(590,765)
Vehicles	(1,182,285)	(141,869)	56,966	(1,267,188)
Total accumulated depreciation	(4,544,598)	(437,423)	59,268	(4,922,753)
Total capital assets, being depreciated, net	5,648,574	673,914	(30,932)	6,291,556
Business-type Activities capital assets, net	7,584,016	1,406,999	(1,109,287)	7,881,728
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	772,794	-	-	772,794
Governmental Activities capital assets, net	772,794	-	-	772,794
Total capital assets	\$ 8,356,810	\$ 1,406,999	\$ (1,109,287)	\$ 8,654,522

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

<u>Business-type Activities</u>	
Bus operations	\$ 191,892
Rail operations	244,929
Union Station operation	602
Total depreciation expense – Business-type Activities	<u>\$ 437,423</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 public liability and property damage and workers' compensation claims are actuarially determined and subject to periodic adjustment as conditions warrant. The reserves are discounted using an average discount rate of 3.0 percent. LACMTA believes that the estimated liability for self-insured claims as of June 30, 2012 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.

LACMTA is partially self-insured for public liability and property damage for non-construction activities up to \$5,000 per occurrence. LACMTA has acquired outside insurance coverage for losses of \$250,000 in excess of self-insurance retentions. LACMTA is self-insured for losses greater than \$250,000.

Furthermore, LACMTA has an all-risk property insurance program that covers all of its property. The property insurance policy covers insurable values of approximately \$9.3 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, 2012, a designated investment has been set aside in the amount of \$93,907 equal to the property and casualty liabilities.

The workers' compensation program is both self-insured and self-administered by LACMTA. As of June 30, 2012, a designated investment has been set aside in the amount of \$188,675 equal to the workers' compensation liabilities.

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The following table summarizes changes in the claims and judgments reserves for the years ended June 30, 2012 and 2011:

	Property and Casualty		Workers' Compensation		Total	
	2012	2011	2012	2011	2012	2011
Unpaid claims and claim adjustment reserves – beginning of year	\$ 94,669	\$ 84,933	\$ 187,932	\$ 183,694	\$ 282,601	\$268,627
Provisions for insured events	36,962	39,433	37,770	39,992	74,732	79,425
Interest income	1,026	1,441	1,807	3,119	2,833	4,560
Total incurred claims and claims adjustment expense	132,657	125,807	227,509	226,805	360,166	352,612
Payment attributable to insured events	(38,750)	(31,138)	(38,834)	(38,873)	(77,584)	(70,011)
Total unpaid claims and claim adjustment reserves – end of year	\$ 93,907	\$ 94,669	\$ 188,675	\$ 187,932	\$ 282,582	\$ 282,601

As of June 30, 2012, \$77,584 of the total claims liability is considered current and reported in the Statement of Net Position in the Enterprise Fund.

G. Compensated Absences

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

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

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

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

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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, 2012:

	Balance			Balance	Due Within
	June 30, 2011	Earned	Used	June 30, 2012	One Year
Union Employees:					
Vacation leave	\$ 25,022	\$ 25,487	\$ (25,522)	\$ 24,987	\$ 24,820
Sick leave	29,821	14,173	(14,001)	29,993	14,001
TOWP	6,309	8,119	(7,714)	6,714	7,656
Sub-total	<u>61,152</u>	<u>47,779</u>	<u>(47,237)</u>	<u>61,694</u>	<u>46,477</u>
Non-Union Employees:					
Vacation leave	611	-	(12)	599	11
Sick leave	2,670	86	(100)	2,656	100
TOWP	16,110	16,077	(15,138)	17,049	14,950
Sub-total	<u>19,391</u>	<u>16,163</u>	<u>(15,250)</u>	<u>20,304</u>	<u>15,061</u>
Total	<u><u>\$ 80,543</u></u>	<u><u>\$ 63,942</u></u>	<u><u>\$ (62,487)</u></u>	<u><u>\$ 81,998</u></u>	<u><u>\$ 61,538</u></u>

As of June 30, 2012, \$61,538 of the total compensated absences payable is considered current and reported in the Statement of Net Position in the Enterprise Fund.

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 \$17,000 (not in thousands) or 100 percent of their earnings in calendar year 2012. A special provision in the law allows an additional \$5,500 (not in thousands) if an employee is a "Baby Boomer" (age 50 or older by December 31, 2012), and employees eligible for retirement within three years can avail of the "catch up provision", totaling \$34,000 (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, age 59-1/2, death, or unforeseeable emergency. In the opinion of management, LACMTA has no liability for any losses under the plans, but does have the

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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 accompanying financial statements. LACMTA does not match employees' contribution to the deferred compensation plan. As of June 30, 2012, the deferred compensation plans had assets stated at fair value of \$233,116.

401 (k) Savings Plan

LACMTA also offers a deferred savings plan to all employees created in accordance with IRC Section 401(k). Under this, employees may contribute up to the lesser of \$17,000 (not in thousands) or 100 percent of their earnings in calendar year 2012. A special provision in the law allows an additional \$5,500 (not in thousands) if an employee is a "Baby Boomer" (age 50 or older by December 31, 2012).

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 accompanying financial statements. LACMTA does not match employees' contribution to the 401(k) savings plan. As of June 30, 2012, the 401(k) savings plan had assets at fair value totaling \$296,453.

Employees may participate in both deferred compensation and 401(k) savings plan. The maximum annual combined contribution per calendar year using both plans is \$45,000 (not in thousands), or \$56,500 (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

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benefits are available at a reduced amount. Early retirement is available at age 50 with five years of credited service. The benefit factor is actuarially reduced for retirement prior to age 60 and actuarially increased after age 60 up to age 63. The plan provides for survivor and disability benefits. The benefit provisions and all other requirements are established by contract with 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, 2012, the contribution rate of covered payroll was 15.619 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, 2012, 2011, and 2010 were \$22,656, \$19,951, and \$17,661, respectively, all of which were attributable to PTSC. Such contributions were made in accordance with the latest CalPERS actuarial valuation as of June 30, 2009. These pension contributions for normal costs include the employees' portion, and for the years ended June 30, 2012, 2011, and 2010 were \$10,153, \$9,519, and \$8,559, 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 \$1,263 as of June 30, 2012.

Annual required employer contribution	
Payment for normal cost	\$ 10,763
Payment for amortization bases	1,740
Total	12,503
Actual employer contributions paid	(11,240)
Net Pension Obligation	\$ 1,263

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 2011/2012 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 compounded annually.

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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 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.

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The ARC, for LACMTA and employees, by plan, for the years ended June 30, 2012, 2011, and 2010, are as follows:

Contributions	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non-Contract Employees Plan	AFSCME	Total
<u>2012</u>						
Employer	\$ 20,379	\$ 4,145	\$ 16,906	\$ 3,114	\$ 1,350	\$ 45,894
Employee	13,948	1,632	4,089	-	-	19,669
Total	<u>\$ 34,327</u>	<u>\$ 5,777</u>	<u>\$ 20,995</u>	<u>\$ 3,114</u>	<u>\$ 1,350</u>	<u>\$ 65,563</u>
<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	<u>\$ 36,419</u>	<u>\$ 6,067</u>	<u>\$ 21,952</u>	<u>\$ 2,515</u>	<u>\$ 1,253</u>	<u>\$ 68,206</u>
<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	<u>\$ 39,771</u>	<u>\$ 6,549</u>	<u>\$ 21,889</u>	<u>\$ 3,620</u>	<u>\$ 1,581</u>	<u>\$ 73,410</u>

The annual pension cost, annual amount contributed, and net pension obligation for the years ended June 30, 2012, 2011, and 2010 are as follows:

Year Ended	United Transportation Union Plan	Transportation Communication Union Plan	Amalgamated Transit Union Plan	Non- Contract Employees Plan	AFSCME	Total
<u>2012</u>						
Annual Pension Cost	\$ 20,347	\$ 4,145	\$ 16,934	\$ 3,114	\$ 1,350	45,890
Annual Amount Contributed	20,379	4,145	16,722	3,114	1,350	45,710
Net Pension Obligation (Asset)	803	-	(358)	-	-	445
<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

The components of the net pension obligation for UTU employees for the years ended June 30, 2012, 2011, and 2010 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)	Amortization of NPO at the BOY (Decrease in NPO) (d)	Amount Contributed (e)	NPO at the end of the year (a)+(b)+(c)+(d)-(e)
<u>2012</u>	\$ 20,379	\$ 835	\$ 63	\$ (95)	\$ 20,379	\$ 803
<u>2011</u>	20,311	868	65	(98)	20,311	835
<u>2010</u>	23,230	903	67	(102)	23,230	868

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The components of the net pension asset for ATU employees for years ended June 30, 2012 and 2011 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)	Amount Contributed (e)	NPO at the end of the year (a)+(b)+(c)+(d)-(e)
<u>2012</u>	\$ 16,906	\$ (570)	\$ (48)	\$ 76	\$ 16,722	\$ (358)
<u>2011</u>	17,070	(598)	(48)	76	17,070	(570)

LACMTA's contributions to the Plans for the year ended June 30, 2012 were made in accordance with the actuarially determined requirements computed as of December 31, 2010, except for ATU, which was made in accordance with actuarial valuation report as of January 1, 2011. Actuarially computed costs are determined using the projected unit credit method. The ARC for all plans for the years ended June 30, 2012, 2011, and 2010 were \$45,894, \$45,189, and \$49,822, respectively. Annual pension cost, which is equivalent to ARC plus interest on Net Pension Obligation (NPO) less amortization of NPO, amounted to \$45,890, \$45,184, and \$49,812, for the years ended June 30, 2012, 2011, and 2010, respectively. The net pension obligations for the UTU Plan for the years ended June 30, 2012, 2011, 2010 were \$803, \$835, and \$868, respectively while net pension asset for the ATU Plan as of June 30, 2012 and 2011 were \$358 and \$570, respectively. There was no NPO at June 30, 2012, 2011, and 2010, for the TCU, Non-Contract, and AFSCME Plans.

The required contribution rate by employees for the fiscal years ended June 30, 2012, 2011, and 2010 were between 0 and 7.67 percent, 0 and 8.47 percent, and 0 and 8.58 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 percent investment rate of return including a 3.0 percent rate for inflation on ATU Plan, 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.

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The LACMTA's funding progress information as of June 30, 2012 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 06/30/2010	\$ 360,072	\$ 339,282	\$ 20,790	94.23%	\$ 132,749	15.66%
LACMTA 01/01/2012 ATU	339,989	224,261	115,728	65.96%	111,164	104.11%
12/31/2011 UTU	586,643	386,459	200,184	65.88%	181,993	110.00%
TCU	105,148	67,668	37,480	64.36%	26,975	138.94%
Non-Contract	144,895	103,653	41,242	71.54%	4,856	849.30%
AFSCME	55,847	43,597	12,250	78.07%	5,213	234.99%

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 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

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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>

Funding Policy

Member Contribution

Contributions made by Non-Contract, AFSCME, and 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 (not in thousands). ATU retirees' contributions are \$80 per month pre-65 years of age and \$60 per month post-65 years of age. TCU retiree contributions are \$45 per month with an additional \$15 per month contribution for dependent coverage. UTU retiree contributions are \$50 per month with no additional contribution for dependent coverage. 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 contribute the ARC as determined by GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." unless budgetary constraints require lower contribution. In no event will the annual contribution be less than the MTA's direct "pay-as-you-go" costs as determined by required premium payments and contracted contributions to the union healthcare trusts. In

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the near-term, MTA expects that contributions will be approximately \$5,000 above pay-as-you-go costs. Actuarially computed costs are determined using the projected unit credit method.

Since LACMTA has committed to fund in excess of 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 4.5 percent, which implicitly assumes a level of funding in excess of pay-as-you-go costs and the investment policy of the trust to support a long-term expected rate of return on assets of 7.5 percent. The ARC calculation uses an open 20-year rolling amortization that meets the requirements of GASB Statement No. 45.

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) 4.5 percent discount rate, compounded annually; b) increase in future payroll of 3.5 percent per year, compounded annually; c) mortality using RP-2000 Mortality Table (male and female with blue collar adjustments) with mortality improvements projected to year 2020; d) health care cost trend rate of 9.25 percent; and e) included an inflation rate of 2.8 percent.

The healthcare cost trend assumptions comprised 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) which is established separately for pre-Medicare medical claims, Medicare-eligible medical claims, prescription drug claims, and administrative expenses. These expected trend rates, which are based on market assessments and surveys and take into account actual historical experience, expected unit cost information, changes in utilization, plan design leveraging, cost shifting, and new technology, are blended together based on a cost-weighted average basis. 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. The healthcare cost trend rate were adjusted to reflect the impact from the 40 percent excise tax provision on high cost plans beginning in 2018 under the healthcare reform.

LACMTA’s contractual contributions are assumed to increase in years after the current contract in accordance with medical trend, while MTA plan retirees and dependent

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contributions are assumed to increase at the same rate as medical costs. Retiree contributions for ATU, TCU, and UTU participants are not assumed to increase.

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, 2011, the actuarial value of assets is based on a five-year moving average of expected and market values adjusted by the recognition of gains or losses and limited to be no more than 120% and no less than 80% of market value.

LACMTA opted to perform biennial valuations of its liabilities under the provision of GASB Statement No. 45. As such, the January 1, 2011 valuation is used to determine the ARC for the fiscal years ending June 30, 2012 and 2013. In the January 1, 2011 valuation, the ARC is equal to normal cost plus amortization of the unfunded actuarial accrued liability determined under the projected credit method. The amortization period is an open 20-year period as a level percentage of expected payroll equal to 13.41%. The aggregate payroll is assumed to grow at 3.5 percent per year.

The following table summarizes the valuation results applying the level percentage of pay method to the valuation date of January 1, 2011:

Summary of Costs	
Normal Cost	\$ 34,043
▪ Percentage of Total Payroll	5.59%
Amortization of Unfunded Actuarial Accrued Liability	\$ 47,707
▪ Percentage of Total Payroll	7.82%
ARC with 20-year Level Percent of Payroll Amortization	\$ 81,750
▪ Percentage of Total Payroll	13.41%

Annual OPEB Cost and Net OPEB Obligation

The 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 to the plan for the year ended June 30, 2012 are as follows:

Annual Required Contribution	\$ 81,750
Interest on Net OPEB obligation	2,035
Adjustment to ARC	(2,642)
Total Annual OPEB Cost	81,143
Less Contributions made	(40,946)
Increase in Net OPEB Obligation	40,197
Net OPEB Obligation – beginning of year	45,223
Net OPEB Obligation – end of year	\$ 85,420

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, 2012, 2011, and 2010 are as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
2012	\$ 81,143	50.46%	\$ 85,420
2011	89,483	29.00%	45,223
2010	87,274	35.75%	(18,313)

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, 2012 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%

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

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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 \$85,000 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.

LACMTA calculates expected outlays related to this pollution remediation using established potential environmental liability estimates for three different cost categories namely: External Remediation Costs, Internal Administration, and Litigation and Settlement Costs each of which has a different way to estimate the costs.

External remediation costs are estimated on a lifecycle basis through retirement of the pollution remediation obligations 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, 2012.

Internal administration costs use a full time equivalent (FTE) basis. 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 period 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 that received LACMTA’s generated hazardous waste, based on volume, ongoing remediation costs, and prior years’ expenses.

The remediation obligation estimates as of June 30, 2012 are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential

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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.

LACMTA does not currently have any pollution remediation activities for liabilities not yet recognized because they are not reasonably estimable. As of June 30, 2012, LACMTA has an estimated pollution remediation obligations of \$7,631 related to soil and/or groundwater pollution cleanup activities.

L. Long-term Debt

LACMTA's long-term debt activity for the year ended June 30, 2012 was summarized as follows:

Series	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
<u>Business-type Activities</u>					
Sales tax revenue and refunding bonds	\$ 3,447,870	\$ 235,110 *	\$ (321,485)	\$ 3,361,495	\$ 153,620
Lease/leaseback to service obligations	850,770	31,363 **	(97,150)	784,983	(30,385)
General revenue bonds	165,795	-	(5,025)	160,770	5,830
Commercial paper	143,713	-	(110,162)	33,551	-
Notes payable	8,955	-	(1,195)	7,760	1,244
Capitalized lease	2,820	-	(1,990)	830	830
Total	4,619,923	266,473	(537,007)	4,349,389	131,139
Unamortized bond premium	146,849	28,222	(16,438)	158,633	17,551
Unamortized bond discount and deferred charge on bond refunding	71,076	2,096	(7,223)	65,949	(7,418)
Net Business-type Activities long- term debt	4,695,696	292,599	(546,222)	4,442,073	141,272
<u>Governmental Activities</u>					
Redevelopment and housing bonds	23,302	-	(1,035)	22,267	637
Total long-term liabilities	\$ 4,718,998	\$ 292,599	\$ (547,257)	\$ 4,464,340	\$ 141,909

*Represent refunding bonds.

**Represent Lease/leaseback accretion.

Unamortized bond premium, bond discount, and deferred charge on bond refunding, reflected on the table above, are associated with the issuance of sales tax revenue and refunding bonds and general revenue bonds.

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Sales Tax Revenue and Sales Tax Revenue Refunding Bonds

Sales Tax Revenue and Refunding Bonds activities for the year ended June 30, 2012 are as follows:

<u>Series</u>	<u>Original</u>	<u>Year</u>	<u>Year of</u>	<u>Interest Rate</u>	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within</u>
<u>Proposition A</u>									
1999C	\$ 170,495	1999	2026	4.25 to 6.00%	\$ 6,845	\$ -	\$ (6,845)	\$ -	\$ -
2001A	55,685	2001	2031	4.00 to 5.00%	10,610	-	(10,610)	-	-
2001B	191,215	2001	2018	3.75 to 5.25%	177,890	-	(177,890)	-	-
2003A	273,505	2003	2018	2.50 to 5.00%	188,385	-	(13,625)	174,760	14,235
2003B	243,795	2003	2021	4.50 to 5.00%	243,635	-	-	243,635	-
2005A	242,795	2005	2035	4.00 to 5.00%	216,950	-	(5,800)	211,150	6,090
2005B	43,655	2005	2013	5.00%	16,520	-	(5,240)	11,280	5,505
2007A	46,635	2007	2016	4.25 to 5.00%	46,500	-	(70)	46,430	75
2008A	263,075	2008	2031	VRDB*	260,125	-	(1,525)	258,600	1,600
2008B	26,075	2008	2028	3.25 to 5.00%	24,795	-	(765)	24,030	805
2009A	320,945	2009	2026	2.00 to 5.00%	294,930	-	(26,605)	268,325	34,980
2011A	144,000	2011	2018	0.20 to 5.00%	-	144,000	-	144,000	15,135
2011B	91,110	2011	2023	3.00 to 5.00%	-	91,110	-	91,110	-
<u>Proposition C</u>									
1999A	124,805	1999	2028	4.00 to 7.00%	15,020	-	-	15,020	-
2000A	161,995	2000	2030	4.00 to 5.25%	-	-	-	-	-
2003A	94,840	2003	2013	2.00 to 5.25%	31,615	-	(10,000)	21,615	10,540
2004A	176,345	2004	2034	3.00 to 5.25%	156,845	-	(4,000)	152,845	4,205
2006A	129,385	2006	2030	4.00 to 5.00%	128,130	-	(310)	127,820	325
2008A	128,745	2008	2022	4.00 to 5.00%	128,745	-	(18,440)	110,305	19,320
2009C	89,625	2009	2025	VRDB*	89,625	-	-	89,625	-
2009D	118,785	2009	2019	1.40 to 5.00%	108,645	-	(9,945)	98,700	10,365
2009E	118,940	2009	2029	3.00 to 5.00%	117,070	-	(4,775)	112,295	4,965
2009A	167,300	2009	2023	VRDB*	166,500	-	(425)	166,075	450
2009B	245,825	2009	2020	0.75 to 5.00%	240,625	-	(5,325)	235,300	5,535
2010A	45,455	2010	2023	3.00 to 5.25%	45,455	-	(4,090)	41,365	4,215
<u>Measure R</u>									
2010A	573,950	2010	2039	4.28 to 5.13%	573,950	-	-	573,950	-
2010B	158,460	2010	2020	0.50 to 5.00%	158,460	-	(15,200)	143,260	15,275
Total	\$ 4,447,440				\$ 3,447,870	\$ 235,110	\$ (321,485)	\$ 3,361,495	\$ 153,620

* Variable Rate Demand Bonds (VRDB)

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Sales tax revenue bonds issued by LACMTA are secured by the Los Angeles County voters approved Proposition A, Proposition C, or, Measure R sales tax revenues. Proceeds of these bonds were used to provide funds for the acquisition of revenue vehicles and construction of major capital facilities.

Sales tax revenue refunding bonds were generally issued to reduce debt service costs by refinancing previously issued sales tax revenue bonds and/or commercial paper notes when more favorable interest rate or financing terms are available. In October 2011, LACMTA issued Proposition A Series 2011A and 2011B refunding bonds for an aggregate amount of \$235,110 to refund Proposition A Series 2001 A and Series 2001 B Bonds totaling \$165,390, and to permanently finance \$102,413 Proposition A Commercial Paper Notes. The present value of the cash flow savings from this refunding amounted to \$17,735 as shown on page 75.

The principal is payable in annual installments on July 1 on Proposition A and Proposition C bonds, and on June 1 on Measure R bonds. Interest is payable semi-annually on January 1 and July 1 on Proposition A and Proposition C bonds, and on December 1 and June 1 on Measure R bonds.

The Proposition A Series 2008A, Proposition C Series 2009A, and Proposition C Series 2009C bonds are variable-rate demand bonds, with an aggregate outstanding amount of \$514,300 at June 30, 2012. These bonds are supported by either letters of credit, bond purchase agreements, or are index interest rate bonds with various liquidity providers, providing LACMTA the ability to finance on a long-term basis. It is LACMTA's intention to renew the facilities or exercise its rights to tender the debt as a long-term financing; thus these variable-rate bonds were classified as long-term liabilities in the financial statements. The principal due in the next fiscal year was included in the current portion of the long-term debt.

Annual debt service requirements on the Sales Tax Revenue and Refunding Bonds outstanding at June 30, 2012 are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2013	\$ 153,620	\$ 155,709	\$ 309,329
2014	164,655	147,179	311,834
2015	176,595	139,483	316,078
2016	183,465	131,343	314,808
2017	191,645	122,789	314,434
2018 - 2022	1,096,240	470,103	1,566,343
2023 - 2027	711,045	250,950	961,995
2028 - 2032	347,610	137,754	485,364
2033 - 2037	256,035	61,654	317,689
2038 - 2039	80,585	6,975	87,560
Total	<u>\$ 3,361,495</u>	<u>\$ 1,623,939</u>	<u>\$ 4,985,434</u>

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Lease/leaseback and Lease-to-service Obligations

From January 1997 through July 2003, LACMTA entered into a number of “lease/leaseback” leveraged lease agreements for assets including heavy rail vehicles, buses, light rail vehicles, and various real property operating facilities. Under these agreements, LACMTA entered into a head-lease as lessor with an investor and simultaneously entered 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 \$64,700 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. 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.

In December 2011, LACMTA reached an agreement with one of the lessors to terminate a lease/leaseback agreement. AIG agreed to terminate the contract at a premium above the accreted value of \$58,539. LACMTA paid the legal expenses of all parties.

As of June 2012, in the current market environment, most products specified in the Lease/leaseback transaction documents as acceptable replacement facilities are not available. Since May 2011, LACMTA has reached agreements with two lessors to terminate the respective lease/leaseback transactions with minimal settlement costs and has reached agreement with two other lessors to post collateral under three leases in lieu of obtaining a replacement facility. Failure to reach a solution with the two remaining lessors could result in early termination and could require LACMTA to pay up to \$30,000 plus legal costs.

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Lease/leaseback obligations activities for the fiscal year ended June 30, 2012 were as follows:

Lease	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Comerica / CIBC / Norwest Lease	6.79% -7.64%	\$ 218,166	\$ 6,255	\$ -	\$ 224,421	\$ (6,712)
Agilent Lease	6.17%	56,720	1,819	(58,539)	-	-
Comerica Lease	7.12%	59,425	1,210	-	60,635	(2,705)
First Hawaiian Lease	6.61%	90,966	-	(38,611)	52,355	(791)
Philip Morris Lease	5.0%-5.13%	375,488	19,200	-	394,688	(20,183)
Fleet Lease	6.79% -7.64%	50,005	2,879	-	52,884	6
Total		\$ 850,770	\$ 31,363	\$ (97,150)	\$ 784,983	\$ (30,385)

Note: Additions represent loan accretion, which is the accrued interest, or a portion thereof, added to principal amount.

Annual debt service requirements on the Lease/leaseback obligations outstanding as of June 30, 2012, funded by investment undertaking agreements, are as follows:

Year Ending June 30	Principal / (Accretion)	Interest	Total / Net Debt Service
2013	\$ (30,385)	\$ 46,895	\$ 16,510
2014	83,311	48,550	131,861
2015	264,341	44,046	308,387
2016	20,193	30,277	50,470
2017	(16,663)	31,003	14,340
2018 - 2022	(57,374)	172,526	115,152
2023 - 2027	148,013	152,693	300,706
2028 - 2032	285,728	78,442	364,170
2033 - 2037	69,078	23,181	92,259
2038 - 2039	18,741	1,545	20,286
Total	\$ 784,983	\$ 629,158	\$ 1,414,141

General Revenue Bonds

General revenue bonds were issued to fund the cost of the LACMTA 27-story building, including parking and related improvements. Refunding bonds were subsequently issued to refinance the original debt to achieve debt service savings.

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General Revenue Bonds consist of two refunding issues, the Series 2004 and Series 2010A. Debt activity for the year ended June 30, 2012 is summarized as follows:

Series	Original Principal Issued	Year Issued	Year of Maturity	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2004 Bonds	\$197,050	2004	2027	3.501%	\$ 86,175	\$ -	\$ -	\$86,175	\$ -
2010A Bonds	<u>79,620</u>	2010	2021	3.00 to 5.00 %	<u>79,620</u>	-	(5,025)	74,595	5,830
Total	<u><u>\$276,670</u></u>				<u>\$ 165,795</u>	<u>\$ -</u>	<u>\$(5,025)</u>	<u>\$160,770</u>	<u>\$ 5,830</u>

Annual debt service requirements on the General Revenue Bonds outstanding at June 30, 2012 are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 5,830	\$ 6,158	\$ 11,988
2014	6,255	5,910	12,165
2015	6,715	5,644	12,359
2016	7,160	5,368	12,528
2017	7,655	5,076	12,731
2018 - 2022	46,655	19,596	66,251
2023 - 2027	65,150	8,649	73,799
2028	<u>15,350</u>	<u>269</u>	<u>15,619</u>
Total	<u><u>\$ 160,770</u></u>	<u><u>\$ 56,670</u></u>	<u><u>\$ 217,440</u></u>

Commercial Paper Notes

Generally, LACMTA issues Commercial Paper Notes (CPN) to provide interim financing for construction and acquisition activities, including construction of rail capital projects and rail right-of-way acquisitions. At June 30, 2012, LACMTA's outstanding CPN was \$33,551.

LACMTA operates two commercial paper programs, Proposition A and Proposition C CPN, to maintain access to a low cost and flexible source of capital financing. Taxable and tax-exempt CPN are issued by LACMTA with maturity dates ranging from one to 270 days at various interest rates. At June 30, 2012, Proposition A CPN and Proposition C CPN were \$10,948 and \$22,603, respectively.

Under the terms of the commercial paper programs, maturing principal amounts can be rolled-over by issuing new notes. It is the intention of LACMTA to pay the accrued interest

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and reissue the principal amounts as they mature. Therefore, the outstanding amounts were classified as noncurrent liabilities. LACMTA periodically retires CPN by issuing long-term, fixed rate bonds. During the year, \$102,413 Proposition A CPN were retired from the proceeds of the Proposition A 2011B bonds.

The Proposition A and Proposition C commercial paper programs are supported by direct-pay irrevocable letters of credit. The letters of credit are issued by a single bank for the Proposition C CPN program and 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 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 will expire in May 2013, while two of the letters of credit supporting the Proposition A commercial paper program expired in August 2012 will not be extended as outstanding Proposition A commercial paper notes which amounted to \$10,948 were fully paid in July 2012. The remaining letters of credit for Proposition A CPN expires in June 2013. LACMTA plans to enter into a \$150,000 of letters of credit prior to June 2013 in order to maintain at least \$150,000 capacity.

All outstanding Proposition A commercial paper notes, which amounted to \$10,948, were fully paid in July 2012. In October 2012, LACMTA issued the Sixteenth Note Subseries of taxable commercial paper note with a principal amount of \$75,000. The proceeds are to be used to reimburse the LACMTA's general fund for the purchase of Los Angeles Union Station.

Notes Payable

LACMTA's notes payable relates to the Acquisition Fund and Control Agreement between LACMTA and Banc of America Public Capital Corp, for financing the acquisition of the solar energy generation and conservation equipment and installation at the Metro Support Services Center. The note bears interest of 4.04%. Principal and interest are due monthly on the 6th of each month. At June 30, 2012, Notes Payable outstanding balance was \$7,760.

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Annual debt service requirements on Notes Payable outstanding at June 30, 2012 are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 1,244	\$ 291	\$ 1,535
2014	1,295	240	1,535
2015	1,348	186	1,534
2016	1,404	131	1,535
2017	1,462	73	1,535
2018	1,007	15	1,022
	\$ 7,760	\$ 936	\$ 8,696

Redevelopment and Housing Bonds

Redevelopment and Housing Bonds consist of two issues: the 2002 Grand Central Square Qualified Redevelopment Bonds Series 2002A ("Series 2002A") and Grand Central Square Multi Family Housing Revenue Refunding Series 2007B ("Series 2007B"). Debt activity for the year ended June 30, 2012 was as follows:

Series	Original Principal Issued	Year Issued	Year of Maturity	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2002A Bonds	\$ 20,825	2002	2026	2.50 to 5.375%	\$ 16,097	\$ -	\$ (710)	\$ 15,387	\$ 302
2007B Bonds	8,615	2007	2026	4.00 To 5.00%	7,205	-	(325)	6,880	335
Total	\$ 29,440				\$ 23,302	\$ -	\$ (1,035)	\$ 22,267	\$ 637

The Redevelopment and Housing Bonds were issued by the Community Redevelopment Financing Authority of the CRA/LA, a Designated Local Authority (formerly Community Redevelopment Agency ("CRA") of the City of Los Angeles), secured by LACMTA revenues, pursuant to the pledge agreement between the two parties. Proceeds were used to purchase certain CRA/LA obligations and to finance CRA/LA's projects that include Grand Central Square Housing Project, which relates to the rehabilitation of a portion of the Grand Central Market, and Central Business District Area Redevelopment Project. Both projects are located in downtown Los Angeles, served by and accessible to Metro Redline subway station. LACMTA agreed to support these projects as a means of encouraging the use of mass transit and reducing traffic congestion.

The projects were completed and LACMTA makes the debt service payments on the related refunding bond issues Series 2002A and 2007B, to be reimbursed by Grand Central Square Limited Partnership (the "Developer"), pursuant to the reimbursement agreement. The Developer issued two promissory notes, collateralized by real property of the Grand Central Square Housing Project, with a combined value of \$41,112 due in fiscal year 2027.

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Annual debt service requirements on Redevelopment and Housing Bonds outstanding at June 30, 2012 are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 637	\$ 1,117	\$ 1,754
2014	1,110	1,067	2,177
2015	1,160	1,014	2,174
2016	1,215	958	2,173
2017	1,280	897	2,177
2018-2022	7,380	3,445	10,825
2023-2027	9,485	1,281	10,766
Total	\$ 22,267	\$ 9,779	\$ 32,046

Proposition A, Proposition C and Measure R Future Revenue Pledged

LACMTA has pledged a portion of Proposition A, Proposition C and Measure R sales tax revenues, excluding sales tax allocated for administrative fees and local returns, to repay sales tax revenue bonds, sales tax revenue and refunding bonds, general revenue bonds, and redevelopment and housing bonds. These bonds were used to finance the acquisition of revenue vehicles and construction of major capital facilities. The total principal and interest remaining to be paid on these bonds is \$5,235,120 as at June 30, 2012. The total principal and interest paid on these bonds in fiscal year 2012 was \$328,052 while the sales tax revenue, net of allocation for local returns was \$1,498,731. The maturity dates and other additional information on these bonds are found on pages 68 through 75.

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

In October, 2011, LACMTA issued \$144,000 aggregate principal amount of Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2011A and \$91,110 aggregate principal amount of Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2011B. The proceeds of the Series 2011A, together with other available funds, were used to (a) refund and defease an aggregate principal amount of \$9,285 Proposition A First Tier Senior Sales Tax Revenue Refunding Bonds, Series 2001A and \$156,105 aggregate principal of Series 2001-B to generate a debt service savings for LACMTA, and (b) pay a portion of the costs associated with the issuing the series 2011 Bonds. The proceeds of the Series 2011B, together with other available funds, were used to (a) retire \$102,413 aggregate principal amount of LACMTA's outstanding Proposition A Commercial Paper Notes, (b) make a deposit to the Reserve Account, and (c) pay a portion of the costs associated with issuing the Series 2011 Bonds. The refunded bonds Series 2001A and Series 2001B were redeemed at 101% of principal plus accrued interest.

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The net cash flow savings that resulted from this refunding is as follows:

Refunding Debt	Prior Net Cash Flow	Refunding Debt Service	Net Cash Flow Savings	Present Value of Net Cash Flow Savings
Prop A Revenue Refunding Bonds, Series 2001A and Series 2001B	\$ 187,264	\$ 167,682	\$ 19,582	\$ 17,735

M. Derivative Instruments

LACMTA entered into interest swap agreements and commodity swap agreements to hedge or reduce financial risk such as interest rates and commodity price fluctuations, related to variable rate bonds and compressed natural gas.

Derivative instruments are reported at fair value in the Statement of Net Position. The fair value is the theoretical cost that LACMTA will pay or receive to terminate the swap at the valuation date. The fair values were estimated by discounting the future monthly net cash flows on commodity swap or future net settlement payments required by the interest rate swap.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year ended June 30, 2012, are as follows:

Business-Type Activities	Fiscal Year Change		Year End Fair Value		Notional Value
	Classification	Amount	Amount	Classification	
Cash Flow Hedges:					
Pay fixed interest rate swaps	Deferred Inflow	\$ 1,740	\$ (29,638)	Noncurrent Liability	\$ 600,475
Commodity swap	Deferred Outflow	(2,391)	(2,004)	Noncurrent Liability	5,403 per MMBTU*

*Million Metric British Thermal Units (MMBTU)

These derivative instruments are evaluated to determine if they are effective, which will significantly reduce the identified financial risk, at year end. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

Hedge accounting is applied to effective derivative instruments. Effective derivatives are reported, at fair value, as asset or liability with a corresponding deferred outflow of resources or deferred inflow of resources on the Statement of Net Position. Changes in fair value are recognized as deferred outflows or inflows. If the derivative instrument is determined to be ineffective, it is classified as investment derivative. Ineffective derivative's fair value is reported as an asset or liability on the Statement of Net Position. Change in fair value is

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reported within investment revenue classification on the Statement of Activities. As of June 30, 2012, all of LACMTA's derivative instruments were determined to be effectively hedged.

As of June 30, 2012, LACMTA had the following hedging derivative instruments within the business-type activities.

Type	Objective	Notional Value	Effective Date	Maturity Date	Fair Value at June 30, 2012	Terms
<u>Interest Rate Swap</u>						
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of the 2004 Gateway Bonds	\$ 86,175	9/22/2004	7/1/2027	\$ (4,526)	Receives 64% of LIBOR; Pays 3.501%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of the Prop A Series 2008-A1 and A2	129,225	8/23/2005	7/1/2031	(9,372)	Receives 63% of LIBOR; Pays 3.373%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of the Prop A Series 2008-A3 and A4	129,375	8/23/2005	7/1/2031	(9,451)	Receives 63% of LIBOR; Pays 3.358%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of the Prop C Series 2009-C	89,625	7/29/2009	7/1/2025	(2,930)	Receives 68% of LIBOR; Pays 3.392%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the changes in interest rates of the Prop C Series 2009-A	<u>166,075</u>	11/18/2010	7/1/2023	<u>(3,359)</u>	Receives 68% of LIBOR; Pays 3.454%
Total		<u>\$600,475</u>			<u>\$ (29,638)</u>	
<u>Commodity Swap</u>						
Commodity Forward Contract	To reduce the risks associated with the changes in the costs of Compressed Natural gas	913	7/1/2012	6/30/2013	(1,135)	Client receive SOCAL-BORDER-NGI, Pays 5.420 Max - 4.450 Min per MMBTU
Commodity Forward Contract	To reduce the risks associated with the changes in the costs of Compressed Natural gas	912	7/1/2012	6/30/2013	(622)	Client receive SOCAL-BORDER-NGI, 4.890 Max - 3.800 Min per MMBTU
Commodity Forward Contract	To reduce the risks associated with the changes in the costs of Compressed Natural gas	1,314	7/1/2012	6/30/2013	(21)	Client receive SOCAL-BORDER-NGI, 4.130 Max - 2.750 Min per MMBTU
Commodity Forward Contract	To reduce the risks associated with the changes in the costs of Compressed Natural gas	1,680	7/1/2012	6/30/2013	(117)	Client receive SOCAL-BORDER-NGI, 4.350 Max - 2.800 Min per MMBTU
Commodity Forward Contract	To reduce the risks associated with the changes in the costs of Compressed Natural gas	<u>584</u>	7/1/2012	6/30/2013	<u>(109)</u>	Client receive SOCAL-BORDER-NGI, 4.500 Max - 2.980 Min per MMBTU
Total		<u>5,403</u>			<u>(2,004)</u>	
			Total		<u>\$ (31,642)</u>	

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Interest Rate Swap

LACMTA entered into interest rate swap agreement to manage the exposure of charges 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.

LACMTA neither received nor paid any upfront amount when these swaps were initiated. The fair value of the interest rate swap hedging derivatives at valuation date was negative, as reflected in the table on previous page, because the market interest rates on the valuation date of the swaps were lower than market interest rates on the effective date of the swaps.

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.

As of June 30, 2012, LACMTA's outstanding interest swap fair values along with the changes in fair values for the year then ended, and the associated counterparties and credit ratings are as follows:

Bond Series	Fair Value June 30, 2011	Change in Fair Value	Fair Value at June 30, 2012	Counterparty	Ratings		
					Moodys	S&P	Fitch
2004 Gateway	\$ (3,526)	\$ (1,000)	\$ (4,526)	Bank of Montreal	Aa2	A+	AA-
Prop A Series 2008-A1/A2	(7,852)	(1,520)	(9,372)	Bank of Montreal	Aa2	A+	AA-
Prop A Series 2008-A3/A4	(7,757)	(1,694)	(9,451)	Deutsche Bank AG	A2	A+	A+
Prop C Series 2009	(8,823)	5,893	(2,930)	Goldman Sachs Mitsui Marine Derivative Products, LP	Aa2	AAA	N/A
Prop C Series 2009-A	(3,420)	61	(3,359)	Wells Fargo Bank	Aa3	AA-	AA-
Total	\$ (31,378)	\$ 1,740	\$ (29,638)				

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

LACMTA is exposed to the following risks generally associate with the interest rate 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, 2012, LACMTA was required to post collateral for two of its counterparties: Bank of Montreal and Wells Fargo Bank for \$2,000 and \$500,000 (not in thousands), respectively.

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

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

Rollover Risk – When the notional amount under the swap agreement terminates prior to the final maturity of the hedged bonds, the governmental issuer would then be exposed to the current short-term bond interest rates, as well as to current swap pricing in order to continue the benefit of the synthetic fixed rate for the duration of the bond issue. As of

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

June 30, 2012, 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, 2012, 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, 2012, 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, 2012, LACMTA has sufficient liquidity support.

Annual debt service requirements on variable rate obligations, and net swap payments on interest rate swaps outstanding at June 30, 2012 are as follows:

Fiscal Year	Variable-rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2013	\$ 2,050	\$ 2,747	\$ 18,960	\$ 23,757
2014	2,125	2,736	18,895	23,756
2015	22,175	2,678	18,506	43,359
2016	23,000	2,573	17,783	43,356
2017	31,700	2,441	16,911	51,052
2018-2022	195,900	9,863	68,623	274,386
2023-2027	269,750	4,333	27,262	301,345
2028-2032	53,775	299	1,621	55,695
Total	\$ 600,475	\$ 27,670	\$ 188,561	\$ 816,706

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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

Commodity Swap

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 used a “costless collar” strategy to hedge approximately 85% of the natural gas volume for fiscal year 2012 and to hedge about 95% 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.

As of June 30, 2012, the fair value 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, 2011	Change in Fair Value	Fair Value at June 30, 2012	Counterparty	Ratings		
				Moody's	S&P	Fitch
\$ 387	\$ (387)	\$ -	Barclays Capital*			
-	(1,135)	(1,135)	RBC-Capital Markets	AA3	AA-	AA
-	(622)	(622)	Citibank, N.A. New York	A3	A	A
-	(21)	(21)	Citibank, N.A. New York	A3	A	A
-	(117)	(117)	Merrill Lynch Commodities, Inc.	Baa2	A-	A
-	(109)	(109)	Merrill Lynch Commodities, Inc.	Baa2	A-	A
<u>\$ 387</u>	<u>\$ (2,391)</u>	<u>\$ (2,004)</u>				

*The swap agreement with Barclays Capital expired on June 30, 2012.

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.

LACMTA is exposed to the following risks generally associate with commodity 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.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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 if 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.

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 including LA Union Station, which was acquired by LACMTA in April 2011. 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, 2012 is \$94,983 and is included under the Land caption in the capital assets section of the notes to the basic financial statements found on page 52.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

The following is a schedule by years of minimum future rentals to be received on non cancellable operating leases as of June 30, 2012:

Year Ending June 30	Amount
2013	\$ 5,549
2014	5,729
2015	5,782
2016	4,988
2017	4,392
2018-2022	22,651
2023-2027	21,056
2028-2032	23,425
2033-2037	26,972
2038-2042	31,046
2043-2047	35,754
2048-2052	41,533
2053-2057	39,860
2058-2062	26,224
2063-2067	26,170
2068-2072	28,802
2073-2077	31,953
2078-2082	33,847
2083-2087	37,916
2088-2092	39,186
2093-2097	39,487
2098-2102	45,805
2103-2106	38,518
Total	\$ 616,645

LACMTA is committed under various leases as “lessee” to lease building and office space. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2012, totaled \$5,645. Future minimum lease payments for these leases are as follows:

Year Ending June 30	Amount
2013	\$ 3,629
2014	3,133
2015	2,338
2016	2,310
2017	2,042
Total	\$ 13,452

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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:

	<u>Equipment</u>
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, 2012 are as follows:

Purpose	Interest Rates	Amount
Business-type Activities	2.94% - 3.05%	\$ 830

The lease payment schedule to maturity is as follows:

Year Ending June 30	Principal	Interest
2013	\$ 830	\$ 11
Total	\$ 830	\$ 11

O. Capital and MOU Commitments

LACMTA’s commitments to vendors for capital projects which are in various phases of development as of June 30, 2012 are as follows:

Project	Contract Commitments	
	Total	Remaining
Rail Projects	\$ 2,173,005	\$ 1,138,051
Bus Rapid Transitways	93,848	9,565
Bus Acquisition and Others	836,886	352,861
	\$ 3,103,739	\$ 1,500,477

LACMTA has entered into various Memoranda of Understanding (MOU) to fund local transportation projects. For this purpose, LACMTA has reserved Propositions A and C, TDA, STA and Measure R funds totaling \$1,196,302 as of June 30, 2012.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

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, 2012, 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, 2011 (most recent data available) was as follows:

Current Assets	\$ 186,400
Capital Assets, net	1,084,887
Other Assets	200
Total Assets	1,271,487
Total Liabilities	148,578
Net Assets	\$ 1,122,909
Total Revenues	\$ 381,192
Total Expenses	(262,254)
Increase in Net Assets	\$ 118,938

Additional detailed financial information is available from the Office of Finance and Administration, SCRRA, 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

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

management believes that costs ultimately disallowed, if any, would not materially affect the financial condition of LACMTA.

R. Subsequent Events

Long-term Debt

In July 2012, LACMTA issued Proposition C Series 2012A and Series 2012B Refunding Bonds for an aggregate amount of \$89,520, issued at a discount and premium, which amount to \$146 and \$18,051, respectively. The proceeds from these refundings were used to redeem \$15,020 Series 1999A bonds and \$89,625 Series 2009C variable rate bonds, including swap termination payment of \$2,640 with respect to interest rate swap agreement associated with Prop C 2009C variable rate bonds.

Transportation Infrastructure Finance and Innovation Act “TIFIA” Loan

In September 2012, the U.S. Department of Transportation (USDOT) approved LACMTA’s request for \$545,900 TIFIA’s loan for the Crenshaw/LAX Corridor project. The Crenshaw/LAX Corridor project is 8.5-mile light rail project with new six stations scheduled to begin construction in 2013 and expected to be completed by 2018.

Commercial Paper Loan

In September 2012, LACMTA issued the Sixteenth Note Subseries of taxable commercial paper note with a principal amount of \$75,000. The proceeds are to be used to reimburse the LACMTA’s general fund for the purchase of Los Angeles Union Station. All of the purposes for which the proceeds are to be used are permissible uses of Proposition A Sales Tax Revenue. Under the terms of the program, commercial paper notes have maturity dates ranging from 1 to 270 days per each roll with variable interest rate. LACMTA intends to pay the accrued interest using Proposition A Sales Tax Revenues and maturing principal amounts may be rolled over or retired by issuing long-term fixed rate bonds.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
Required Supplementary Schedule
Schedule of Funding Progress – Pension Plans
For the Fiscal Year Ended June 30, 2012

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 LACMTA:

Actuarial 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 *						
06/30/10	\$ 360,072	\$ 339,282	\$ 20,790	94.23%	\$ 132,749	15.66%
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%
LACMTA **						
UTU						
12/31/11	586,643	386,459	200,184	65.88%	181,993	110.00%
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%
TCU						
12/31/11	105,148	67,668	37,480	64.36%	26,975	138.94%
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%
ATU						
01/01/12	339,989	224,261	115,728	65.96%	111,164	104.11%
01/01/11	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%
Non-Contract						
12/31/11	144,895	103,653	41,242	71.54%	4,856	849.30%
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%
AFSCME						
12/31/11	55,847	43,597	12,250	78.07%	5,213	234.99%
12/31/10	52,654	45,079	7,575	85.61%	5,561	136.22%
12/31/09	50,675	44,653	6,022	88.12%	6,161	97.74%
LACMTA TOTAL						
12/31/11	\$ 1,232,522	\$ 825,638	\$ 406,884	66.98%	\$ 330,201	123.26%
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%

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, 2012

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	<u>\$ 1,004,049</u>	<u>\$ 187,591</u>	<u>\$ 816,458</u>	<u>18.68%</u>	<u>\$ 609,537</u>	<u>133.95%</u>
January 1, 2009						
LACMTA	\$ 148,150	\$ 22,934	\$ 125,216	15.48%	\$ 165,924	75.47%
ATU	462,109	71,537	390,572	15.48%	142,512	274.06%
TCU	90,227	13,968	76,259	15.48%	35,372	215.59%
UTU	314,221	48,643	265,578	15.48%	236,341	112.37%
Total	<u>\$ 1,014,707</u>	<u>\$ 157,082</u>	<u>\$ 857,625</u>	<u>15.48%</u>	<u>\$ 580,149</u>	<u>147.83%</u>
January 1, 2007*						
LACMTA	\$ 104,433	\$ -	\$ 104,433	-%	\$ 144,609	72.22%
ATU	351,541	-	351,541	-%	122,385	287.24%
TCU	62,883	-	62,883	-%	31,242	201.28%
UTU	214,585	-	214,585	-%	233,331	91.97%
Total	<u>\$ 733,442</u>	<u>\$ - *</u>	<u>\$ 733,442</u>	<u>-%</u>	<u>\$ 531,567</u>	<u>137.98%</u>

*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 61 to 66.

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, 2012
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 30,101	\$ 30,138	\$ 20,909	\$ (9,229)
Investment income	4,115	4,115	5,700	1,585
Net decline in fair value of investments	-	-	(347)	(347)
Lease and rental	15,900	15,900	15,740	(160)
Licenses and fines	500	500	512	12
Other	36,598	36,598	13,095	(23,503)
TOTAL REVENUES	87,214	87,251	55,609	(31,642)
EXPENDITURES				
Current:				
Administration and other	85,220	80,016	58,871	21,145
Transportation subsidies	22,056	23,556	5,627	17,929
Debt and interest expenditures:				
Principal	-	-	1,035	(1,035)
Interest and fiscal charges	2,223	2,223	1,161	1,062
TOTAL EXPENDITURES	109,499	105,795	66,694	39,101
EXCESS OF REVENUES OVER EXPENDITURES	(22,285)	(18,544)	(11,085)	7,459
OTHER FINANCING SOURCES (USES)				
Transfers in	28,327	31,167	56,217	25,050
Transfers out	(17,186)	(64,764)	(59,284)	5,480
TOTAL OTHER FINANCING SOURCES (USES)	11,141	(33,597)	(3,067)	30,530
NET CHANGE IN FUND BALANCES	(11,144)	(52,141)	(14,152)	37,989
Fund balances – beginning of year	489,748	489,748	489,748	-
FUND BALANCES – END OF YEAR	\$ 478,604	\$ 437,607	\$ 475,596	\$ 37,989

*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, 2012
(Amounts expressed in thousands)

	<u>Budgeted Amounts*</u>		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 605,100	\$ 605,100	\$648,692	\$ 43,592
Investment income	-	-	843	843
Net decline in fair value of investments	-	-	(82)	(82)
TOTAL REVENUES	<u>605,100</u>	<u>605,100</u>	<u>649,453</u>	<u>44,353</u>
EXPENDITURES				
Current:				
Transportation subsidies	258,082	258,082	259,569	(1,487)
EXCESS OF REVENUES OVER EXPENDITURES	<u>347,018</u>	<u>347,018</u>	<u>389,884</u>	<u>42,866</u>
OTHER FINANCING USES				
Transfers in	-	-	28,794	28,794
Transfers out	(321,408)	(322,317)	(326,569)	(4,252)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(321,408)</u>	<u>(322,317)</u>	<u>(297,775)</u>	<u>24,542</u>
NET CHANGE IN FUND BALANCES	25,610	24,701	92,109	67,408
Fund balances – beginning of year	69,049	69,049	69,049	-
FUND BALANCES – END OF YEAR	<u>\$ 94,659</u>	<u>\$ 93,750</u>	<u>\$ 161,158</u>	<u>\$ 67,408</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, 2012
(Amounts expressed in thousands)

	Budgeted Amounts *		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 605,100	\$ 605,100	\$ 648,776	\$ 43,676
Intergovernmental	197,756	200,015	210,322	10,307
Investment income	-	-	1,298	1,298
Net decline in fair value of investments	-	-	(145)	(145)
TOTAL REVENUES	802,856	805,115	860,251	55,136
EXPENDITURES				
Current:				
Administration and other	206,471	208,105	237,755	(29,650)
Transportation subsidies	439,655	439,655	347,767	91,888
TOTAL EXPENDITURES	646,126	647,760	585,522	62,238
EXCESS OF REVENUES OVER EXPENDITURES	156,730	157,355	274,729	117,374
OTHER FINANCING SOURCES (USES)				
Transfers in	5,866	5,866	2,821	(3,045)
Transfers out	(252,330)	(253,791)	(259,810)	(6,019)
TOTAL OTHER FINANCING SOURCES (USES)	(246,464)	(247,925)	(256,989)	(9,064)
NET CHANGE IN FUND BALANCES	(89,734)	(90,570)	17,740	108,310
Fund balances – beginning of year	116,912	116,912	116,912	-
FUND BALANCES – END OF YEAR	\$ 27,178	\$ 26,342	\$ 134,652	\$ 108,310

*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, 2012
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales taxes	\$ 605,100	\$ 605,100	\$ 645,026	\$ 39,926
Intergovernmental	970	970	1,804	834
Investment income	-	-	7,403	7,403
Net decline in fair value of investments	-	-	(601)	(601)
TOTAL REVENUES	606,070	606,070	653,632	47,562
EXPENDITURES				
Current:				
Administration	103,422	109,976	51,768	58,208
Transportation subsidies	249,879	248,829	152,742	96,087
TOTAL EXPENDITURES	353,301	358,805	204,510	154,295
EXCESS OF REVENUES OVER EXPENDITURES	252,769	247,265	449,122	201,857
OTHER FINANCING SOURCES (USES)				
Transfers in	9,484	9,484	12,047	2,563
Transfers out	(156,609)	(156,609)	(157,276)	(667)
TOTAL OTHER FINANCING SOURCES (USES)	(147,125)	(147,125)	(145,229)	1,896
NET CHANGE IN FUND BALANCES	105,644	100,140	303,893	203,753
Fund balances – beginning of year	611,464	611,464	611,464	-
FUND BALANCES – END OF YEAR	\$ 717,108	\$ 711,604	\$ 915,357	\$ 203,753

*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
Prop 1B-PTMISEA
For the Year Ended June 30, 2012
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 145,410	\$ 145,410
Investment income	-	-	10	10
Net decline in fair value of investments	-	-	(2)	(2)
TOTAL REVENUES	-	-	145,418	145,418
OTHER FINANCING SOURCES (USES)				
Transfers out	(885)	(885)	(103,862)	(102,977)
NET CHANGE IN FUND BALANCES	(885)	(885)	41,556	42,441
Fund balances – beginning of year	(9,374)	(9,374)	(9,374)	-
FUND BALANCES – END OF YEAR	\$ (10,259)	\$ (10,259)	\$ 32,182	\$ 42,441

*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, 2012
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales tax	\$ 302,550	\$ 302,550	\$ 326,883	\$ 24,333
Investment income	-	-	2,268	2,268
TOTAL REVENUES	302,550	302,550	329,151	26,601
EXPENDITURES				
Current:				
Transportation subsidies	105,438	105,438	102,654	2,784
EXCESS OF REVENUES OVER EXPENDITURES	197,112	197,112	226,497	29,385
OTHER FINANCING SOURCES (USES)				
Transfers out	(149,167)	(167,337)	(144,085)	23,252
NET CHANGE IN FUND BALANCES	47,945	29,775	82,412	52,637
Fund balances – beginning of year	214,652	214,652	214,652	-
FUND BALANCES – END OF YEAR	\$ 262,597	\$ 244,427	\$ 297,064	\$ 52,637

* 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, 2012
(Amounts expressed in thousands)

	Budgeted Amounts*		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Sales tax	\$ 96,210	\$ 96,210	\$ 117,062	\$ 20,852
Investment income	-	-	118	118
TOTAL REVENUES	96,210	96,210	117,180	20,970
EXPENDITURES				
Current:				
Transportation subsidies	13,414	13,414	10,437	2,977
EXCESS OF REVENUES OVER EXPENDITURES	82,796	82,796	106,743	23,947
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	254	254
Transfers out	(129,322)	(129,322)	(129,765)	(443)
TOTAL OTHER FINANCING SOURCES (USES)	(129,322)	(129,322)	(129,511)	(189)
NET CHANGE IN FUND BALANCES	(46,526)	(46,526)	(22,768)	23,758
Fund balances – beginning of year	49,714	49,714	49,714	-
FUND BALANCES – END OF YEAR	\$ 3,188	\$ 3,188	\$ 26,946	\$ 23,758

*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, 2012
(Amounts expressed in thousands)

	<u>Budgeted Amounts*</u>		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 34,817	\$ 34,817
Investment income	500	500	398	(102)
Net decline in fair value of investments	-	-	(49)	(49)
Licenses and fines	7,000	7,000	7,553	553
TOTAL REVENUES	7,500	7,500	42,719	35,219
EXPENDITURES				
Current:				
Administration and other	12,633	12,633	8,086	(4,547)
EXCESS OF REVENUES OVER EXPENDITURES	(5,133)	(5,133)	34,633	39,766
OTHER FINANCING SOURCES (USES)				
Transfers out	(18,838)	(18,838)	(19,233)	(395)
NET CHANGE IN FUND BALANCES	(23,971)	(23,971)	15,400	39,371
Fund balances – beginning of year	59,342	59,342	59,342	-
FUND BALANCES – END OF YEAR	\$ 35,371	\$ 35,371	\$ 74,742	\$ 39,371

*Budget prepared in accordance with GAAP

See accompanying independent auditors' report.

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