



Board Report

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FINANCE, BUDGET AND AUDIT COMMITTEE MAY 18, 2016

SUBJECT: BASIC FINANCIAL STATEMENTS AND COMPONENT AUDITS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Los Angeles County Metropolitan Transportation Authority's (Metro) **basic financial statements and component financial statement audits completed by Crowe Horwath LLP (Crowe) for the fiscal year ended June 30, 2015.**

ISSUE

We are required to be audited annually by independent certified public accountants. The resulting reports include Metro's basic financial statements and following component audits for the year ended June 30, 2015:

- Independent Auditors' Report on the Los Angeles County Metropolitan Transportation Authority's basic financial statements which include the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2015;
- Independent auditors' SAS 114 letter covering required communications;
- Los Angeles County Metropolitan Transportation Authority Single Audit Report Fiscal year ended June 30, 2015 which include:
 - Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; and
 - Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal and State Awards as Required by OMB Circular A-133;
- Independent Accountants' Report on Applying Agreed-Upon Procedures on the Los Angeles County Metropolitan Transportation Authority's Federal Funding Allocation Data for the Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2015;
- Independent Accountants' Report on Applying Agreed-Upon Procedures on the Los Angeles County Metropolitan Transportation Authority's Federal Funding Allocation Data for the L.A. County Small Operators (ID# 90166) for the fiscal year ended June 30, 2015;

- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance with the California Code of Regulations (Section 6667) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Report on 50% Expenditure Limitation Schedule for the Los Angeles County Metropolitan Transportation Authority Transportation Development Act Operations Agency for the year ended June 30, 2015;
- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance with the California Code of Regulations (Section 6640-6662) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Report on Schedule of Revenues, Expenditures, and Changes in Fund Balances for the Los Angeles County Metropolitan Transportation Authority Transportation Development Act & Prop 1B PTMISEA Planning Agency for the year ended June 30, 2015;
- Independent Auditors' Report on the Los Angeles County Metropolitan Transportation Authority State Transit Assistance Special Revenue Fund's basic financial statements as of and for the years ending June 30, 2015 and 2014;
- Independent Auditors' Report on the Crenshaw Project Corporation (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) basic financial statements and other supplementary information as of and for the period from March 23, 2012 through June 30, 2015; and
- Independent Auditors' Report on the Service Authority for Freeway Emergencies' (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) financial statements and other supplementary information as of and for the years ending June 30, 2015 and 2014.

DISCUSSION

Metro's basic financial statements include our audited financial statements, supplemental information and unqualified opinion from Crowe, the independent auditor. Crowe representatives will provide a presentation on the results of their audit.

Crowe issued unmodified opinions on all audit reports; however, Crowe noted one finding in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The finding was related to lifetime benefits for some of Amalgamated Transit Union (ATU) employees not reflected in the prior period valuations prepared by the former actuarial firm, Mercer. The new actuarial firm, AON, recommended they should have been included and Management agreed. With the addition of the lifetime benefits, the calculation of prior Annual Required Contributions were understated and resulted in the Net OPEB (Other Post Employment Benefits) obligation liability being understated. Management has already resolved the issue.

Due to the considerable size of the document, we have not attached Metro's basic financial statements. Instead, as a savings measure a hard copy of the Basic Financial Statements is on file with the Board Secretary and is also available on the Metro website.

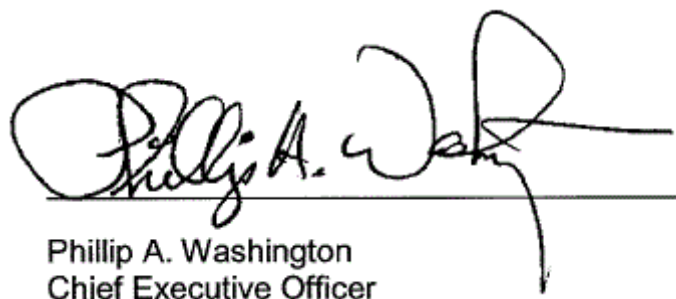
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ATTACHMENT(S)

- A. Independent auditors' SAS 114 letter covering required communications;
- B. Los Angeles County Metropolitan Transportation Authority Single Audit Reports for the fiscal year ended June 30, 2015;
- C. Los Angeles County Metropolitan Transportation Federal Funding Allocation Data Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2015 (With Independent Accountants' Report on Applying Agreed-Upon Procedures Thereon);
- D. Los Angeles County Metropolitan Transportation Authority Federal Funding Allocation Data L.A. County Small Operators (ID# 90166) for the fiscal year ended June 30, 2015 (With Independent Accountants' Report on Applying Agreed-Upon Procedures Thereon);
- E. Los Angeles County Metropolitan Transportation Authority Transportation Development Act Operations Agency Year ended June 30, 2015;
- F. Los Angeles County Metropolitan Transportation Authority Transportation Development Act & Prop 1B PTMISEA Planning Agency for the year ended June 30, 2015;
- G. Los Angeles County Metropolitan Transportation Authority State Transit Assistance Special Revenue Fund Basic Financial Statements June 30, 2015 and 2014 (With Independent Auditors' Report Thereon);
- H. Crenshaw Project Corporation (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) Financial Statements and Other Supplementary Information for the period from March 23, 2012 through June 30, 2015 (With Independent Auditors' Report Thereon); and
- I. Service Authority for Freeway Emergencies (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) Financial Statements and Other Supplementary Information June 30, 2015 and 2014 (With Independent Auditors' Report Thereon).

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Phillip A. Washington
Chief Executive Officer



Crowe Horwath LLP
Independent Member Crowe Horwath International

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the Los Angeles County Metropolitan Transportation Authority (LACMTA) for further information on the responsibilities of management and of Crowe Horwath LLP.

AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS

As part of obtaining reasonable assurance about whether LACMTA's financial statements are free of material misstatement, we performed tests of LACMTA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts or disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters will be discussed during our meeting with you.

- How we addressed the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor used the work of internal audit, and how the external and internal auditors best work together.

- Your views and knowledge about matters you consider warrant our attention during the audit, as well as your views on:
 - The allocation of responsibilities between you and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Significant communications with regulators.
 - Other matters you believe are relevant to the audit of the financial statements.
- Matters relative to the use of other auditors/other accountants during the audit:
 - An overview of the type of work to be performed by other auditors/other accountants.
 - The basis for the decision to make reference to the audit of the other auditor in our report on the entity's financial statements.
 - An overview of the nature of our planned involvement in the work to be performed by the other auditor/other accountant.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: The Board of Directors should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Board of Directors should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Board of Directors about such matters. To assist the Board of Directors in its oversight role, we also provide the following.

Accounting Standard	Impact of Adoption
GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.	Upon adoption of this Statement, LACMTA reduced beginning unrestricted net position by \$397.7 million. This was comprised of a net pension liability of \$467.2 million and deferred outflows of resources for pension contributions made after the actuarial measurement date of \$69.5 million at June 30, 2014.
GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. This standard requires a government to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation of the new pension standards. Recognition of this amount will eliminate a potential source of understatement of restated beginning net position and expense in the first year of a government's implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions."	This Statement was adopted concurrently with GASB Statement No. 68 above.

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in LACMTA's year-end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Allowance for Doubtful Accounts and Bad Debt Expense	The allowance for doubtful accounts was determined by management by a process involving consideration of past experiences, current aging information, information from credit reports, contacts with the customers, and other available data including environmental factors such as industry, geographical, economic and political factors.	We tested this accounting estimate by reviewing, on a test basis, the information listed and by testing information in certain customers' credit files.
Fair Values of Investment Securities and Other Financial Instruments	The disclosure of fair values of securities and other financial instruments requires management to use certain assumptions and estimates pertaining to the fair values of its financial assets and financial liabilities.	We tested the propriety of information underlying management's estimates.
Accrued Compensated Absences	Accrued compensated absences are estimated based on vacation and sick hours accumulated by each employee and the respective pay rate of each employee.	We tested the propriety of information underlying management's estimates.
Useful Lives of Capital Assets	Management has determined the economic useful lives of capital assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to LACMTA.	We tested the propriety of information underlying management's estimates.
Pension and Postretirement Obligations	Amounts reported for pension and postretirement obligations require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets.	We reviewed the reasonableness of these estimates and assumptions.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Derivatives and Hedging	LACMTA uses derivatives to hedge the cash flows of price fluctuations in diesel fuel. Management has recorded this hedge based on the provisions of GASB Statement No. 53, <i>Accounting and Financial Reporting for Derivative Instruments</i> (GASB 53). The investment in the derivative investment is recorded in the Statements of Net Position as part of current assets/liabilities and other non-current assets/liabilities, as appropriate. The change in fair value of the derivative investment is recorded as a deferred inflow/outflow, as appropriate. Any gain (loss) on the sale of the derivative is recorded in the Statements of Revenues, Expenses and Changes in Net Position.	We tested the completeness of the list of derivatives entered into, the reasonableness of management's assumptions in determining the overall effectiveness of the hedge, the amount of ineffectiveness included in earnings and the method used to determine the fair value of the commodity swap, and the documentation maintained by management at inception and each reporting period. We also evaluated the resulting financial statement disclosures for completeness.
Self-Insurance Liability	Management has determined this liability based on the estimated loss of known claims as well as an estimate of incurred but not reported claims based on historical claims data.	We tested the propriety of information underlying management's estimates.

AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with you our comments about the following matters related to LACMTA's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

- A prior period adjustment of \$215.0 million was recommended and made by management to decrease the business-type activities' beginning unrestricted net position and increase the net OPEB obligation liability by \$215.0 million. The impact on change in net position for the year ended June 30, 2014 was a reduction of \$215.0 million. There was no impact on the change in net position at June 30, 2014. This adjustment was made to recognize lifetime benefit provisions for ATU employees that were not reflected in the previous actuarial valuations used to calculate the net OPEB obligation. With the addition of the OPEB benefit provision, the actuarial calculation of prior Annual Required Contributions were understated and resulted in the Net OPEB Obligation liability being understated.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements.

- A likely misstatement was waived by management to capitalize bus improvement costs and record depreciation in the proper period. LACMTA has a bus repair/upgrade mid-life program and an engine replacement program that are designed to ensure that the buses last at least as long as their estimated life, if not further. The misstatement is due to the fact that they only place these assets into service once every two to three years, which results in the cost not being capitalized in the proper period and depreciation not starting when it should. As a result of waiving this adjustment, beginning unrestricted net position and current year depreciation expense on LACMTA business-type activities are both overstated by \$31.8 million.
- As noted above, a prior period adjustment of \$215.0 million was made to decrease the business-type activities' beginning net position and increase the net OPEB obligation by \$215.0 million. This adjustment brought the June 30, 2014 balance to the correct amount, however, an adjustment to account for the current fiscal year change of \$34.4 million was waived by management. As a result, the net OPEB obligation and fringe benefits are both understated by \$34.4 million at June 30, 2015 and unrestricted net position is overstated by the same amount.
- LACMTA has three long term notes receivables attributable to governmental funds. (A \$44.9 million note on the Proposition A Fund, a \$18.0 million note on the Measure R Fund, and a \$4.0 million note on the General Fund.) The proper treatment of these notes receivables is to exclude the balances from the governmental fund balance sheet, as they do not represent assets available in the current period. They should, however, be recorded on the government-wide statement of net position and included as a reconciling item between the balance sheet and statement of net position.

We noted that the Proposition A notes receivable balance is properly excluded from the governmental fund balance sheet but improperly excluded from the government-wide statement of net position. The Measure R and General Fund notes receivable balances have been improperly included in the governmental fund balance sheet but properly included in the government-wide statement of net position.

Management chose to waive these known misstatements, and as a result, the notes receivable and unrestricted net position on the government-wide statement of net position is understated by \$44.9 million. On the governmental fund balance sheet, the Measure R Fund notes receivable and unrestricted net position is overstated by \$18.0 million and the General Fund notes receivable and unrestricted net position is overstated by \$4.0 million.

- A known misstatement to properly accrue \$1.8 million of subsidy expense was waived by management. As a result, accrued expense liability and subsidy expense on the General Fund are understated by \$1.8 million.

OTHER COMMUNICATIONS

Communication Item	Results
<p>Other Information In Documents Containing Audited Financial Statements</p> <p>Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p>	<p>We read the following items and noted no material inconsistencies or misstatement of facts in such information based on our reading thereof.</p> <ul style="list-style-type: none"> Comprehensive Annual Financial Report
<p>Significant Difficulties Encountered During the Audit</p> <p>We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p>
<p>Disagreements With Management</p> <p>We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to LACMTA's financial statements or the auditor's report.</p>	<p>During our audit, there were no such disagreements with management.</p>
<p>Consultations With Other Accountants</p> <p>If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p>	<p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p>
<p>Representations The Auditor Is Requesting From Management</p> <p>We are to provide you with a copy of management's requested written representations to us.</p>	<p>We direct your attention to a copy of the letter of management's representation to us provided separately.</p>
<p>Significant Issues Discussed, or Subject to Correspondence, With Management</p> <p>We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.</p>	<p>There were no such significant issues discussed, or subject to correspondence, with management.</p>
<p>Significant Related Party Findings and Issues</p> <p>We are to communicate to you significant findings and issues arising during the audit in connection with LACMTA's related parties.</p>	<p>There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>

Communication Item	Results
<p>Other Findings or Issues We Find Relevant or Significant</p> <p>We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>	<p>There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>

We are pleased to serve LACMTA as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Board of Directors and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
December 22, 2015



**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

SINGLE AUDIT REPORT

Year ended June 30, 2015

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
Los Angeles, California

SINGLE AUDIT REPORT
Year ended June 30, 2015

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Los Angeles County Metropolitan
Transportation Authority
Los Angeles, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise LACMTA's basic financial statements, and have issued our report thereon dated December 22, 2015. Our report includes a reference to other auditors who audited the financial statements of the defined benefit pension plan financial statements of the Los Angeles County Metropolitan Transportation Authority Retirement Income Plans, as described in our report on LACMTA's financial statements. The defined benefit pension plan financial statements of the Los Angeles County Metropolitan Transportation Authority Retirement Income Plans were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACMTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of LACMTA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2015-001 that we considered to be a significant deficiency.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACMTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

LACMTA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. LACMTA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
Los Angeles County Metropolitan
Transportation Authority
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited Los Angeles County Metropolitan Transportation Authority's (LACMTA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of LACMTA's major federal programs for the year ended June 30, 2015. LACMTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LACMTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LACMTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LACMTA's compliance.

Opinion on Each Major Federal Program

In our opinion, LACMTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of LACMTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LACMTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LACMTA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of LACMTA as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Sherman Oaks, California
March 3, 2016

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

Federal grantor/cluster title/program title/pass-through grantor/project title	CFDA Number	Grant Number	Total Award	Total expended under federal/state/local for the fiscal year ended June 30, 2015			
				Total	Federal Share	State Share	Local Share
Federal Grants							
U.S. Department of Transportation							
Highway Planning and Construction Cluster							
Highway Planning and Construction							
Passed through State of California Department of Transportation:							
I-405 CAR Pool Lane	20.205	07-4826	\$ 1,053,347,625	\$ 63,527,694	\$ 56,241,067	\$ -	\$ 7,286,627
Burbank Airport	20.205	07-4U4524	4,387,000	623,063	280,193	-	342,870
Extension of Transit way on 1-110 to Downtown LA	20.205	EA 07-278008 ISTDEM-6065(165)	6,272,631	765,280	612,224	-	153,056
Congestion Reduction Demonstrations Project	20.205	EA 07-274408	68,429,771	7,652,753	(425,915)	-	8,078,668
Safe Routes to School	20.205	SRTSN-6065(178)	500,000	199,927	125,836	-	74,091
Orange line High Speed Magnetic Levitation trains	20.205	HPLUL-6065(156)	251,972	45,822	39,466	-	6,356
Highway Planning and Construction Cluster Total			<u>1,133,188,999</u>	<u>72,814,539</u>	<u>56,872,871</u>	<u>-</u>	<u>15,941,668</u>
Federal Transit Cluster							
Federal Transit Capital Improvement Grants:							
Direct Programs:							
Reseda Blvd. BRT Enhancements	20.500	CA-04-0073	500,446	37,157	29,726	-	7,431
Wilshire Blvd. Bus Only Lane	20.500	CA-03-0815	23,317,000	13,366,145	10,442,954	-	2,923,191
Metro Rapid System Gap Closure	20.500	CA-03-0796	16,700,000	4,346,765	2,717,179	-	1,629,586
Transit Center/Stop Improvements	20.500	CA-04-0037	1,601,429	12,925	10,340	-	2,585
Plng Engineering of Transit Centers	20.500	CA-04-0094	7,131,578	3,984,026	3,187,221	-	796,805
Crenshaw - Prairie Transit Corridor	20.500	CA-04-0034	8,563,010	560,168	448,134	-	112,034
Westside Purple Line Ext - Section 1	20.500	CA-03-0824	65,000,000	378,292,855	19,091,340	-	359,201,515
City of Baldwin Park - Purchase Two Buses - Dial-A Ride Program	20.500	CA-04-0149	592,000	200,000	200,000	-	-
Regional Connection Transit Corridor Construction	20.500	CA-03-0825	65,000,000	258,277,539	65,000,000	143,482,405	49,795,134
Construction of Division 13 - Bus Operations and Maintenance Facility	20.500	CA-04-0190	47,750,000	31,865,693	5,008,864	26,856,829	-
Acquisition of Buses	20.500	CA-04-0232	35,000,000	31,869,557	26,451,732	5,417,825	-
Southern California 511/VTCI	20.500	CA-04-0230	2,000,000	902,848	722,279	-	180,569
Patsaouras Plaza Bus way Station	20.500	CA-04-0233	9,679,000	4,602,178	3,681,743	-	920,435
Metro Orange Line Bus Enhancement	20.500	CA-04-0261	10,000,000	6,873,246	5,498,597	-	1,374,649
Traction Power Substations - ARRA	20.500	CA-56-0001	8,185,197	64,677	64,677	-	-
CFDA Subtotal			<u>301,019,660</u>	<u>735,255,779</u>	<u>142,554,786</u>	<u>175,757,059</u>	<u>416,943,934</u>
Federal Transit Formula Grants:							
Direct Programs:							
Metro Rapid Bus Stations/Signal Priority	20.507	CA-90-Y261	28,919,529	106,945	106,945	-	-
Replacement Buses	20.507	CA-95-X245	1,839,600	2,516,352	1,836,753	-	679,599
Purchase Buses, Amenities	20.507	CA-95-X255	3,953,000	4,899,000	3,793,000	-	1,106,000
Metro Rapid Bus Program	20.507	CA-90-Y457	11,081,700	1,201,135	1,201,135	-	-
FY05 Transit Enhancements	20.507	CA-90-Y454	516,210	149,659	119,727	-	29,932
Transit Enhancement FY2005 funds	20.507	CA-90-Y685	854,520	209,620	167,696	-	41,924
Preventive Maintenance - Operation & Capital - FY 14 PM	20.507	CA-90-Y717	480,395,145	111	89	-	22
45-Ft Composite Buses and Transit Enhancements - Capital	20.507	CA-90-Y717	8,013,440	936,735	749,388	-	187,347
Regional Connection Transit Corridor Construction	20.507	CA-95-X251	64,000,000	15,735,516	23,121,439	(7,385,923)	-
Preventive Maintenance - FY 14	20.507	CA-90-Z122	7,699,762	9,624,703	7,699,762	-	1,924,941
Preventive Maintenance - FY 14	20.507	CA-90-Z132	142,473,992	178,092,490	142,473,992	-	35,618,498
Preventive Maintenance - FY 15	20.507	CA-90-Z224	7,958,293	9,947,867	7,958,293	-	1,989,574
Crenshaw/Lax Transit Corridor	20.507	CA-95-X256	58,213,840	65,756,060	58,213,840	-	7,542,220
Metro Orange Line Extension Operating Assistance - PM	20.507	CA-95-X208	15,000,000	4,688,170	4,688,170	-	-
Exposition Blvd. Right-of-Way Bike Path	20.507	CA-95-X214	11,528,000	8,762,923	7,757,816	-	1,005,107
Bus Acq and MOL & MGL Op Asst	20.507	CA-95-X042	125,046,000	20,094,399	20,125,508	-	(31,109)
Expo Phase 1 Operating assistance - 80% CMAQ	20.507	CA-95-X176	32,093,000	20,435,304	16,348,243	-	4,087,061
LA CRD Operating Assistance - Vanpool	20.507	CA-95-X099	400,000	8,838	8,838	-	-
Bus replacement(141),Overhaul(290),Metro Blue Line Transit Provider - ARRA	20.507	CA-96-X012	225,154,824	4,465,007	4,450,771	-	14,236
CFDA Subtotal			<u>1,225,140,855</u>	<u>347,630,834</u>	<u>300,821,405</u>	<u>(7,385,923)</u>	<u>54,195,352</u>
State of Good Repair Grants Program - FY 14 SGR - PM Rail	20.525	CA-54-0011	86,968,557	56,191,946	44,953,557	-	11,238,389
Federal Transit Cluster Total			<u>\$1,613,129,072</u>	<u>\$ 1,139,078,559</u>	<u>\$488,329,748</u>	<u>\$168,371,136</u>	<u>\$482,377,675</u>

See accompanying notes to the schedule of expenditures of federal awards.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

Federal grantor/cluster title/program title/pass-through grantor/project title	CFDA Number	Grant Number	Total Award	Total expended under federal/state/local for the fiscal year ended June 30, 2015			
				Total	Federal Share	State Share	Local Share
Transit Service Cluster							
Job Access - Reverse Commute							
Direct Programs:							
L A County Job Access and Reverse Commute Program. Administration. FY 06-12	20.516	CA-37-X071	\$ 5,032,849	\$ 362,529	\$ 362,529	\$ -	\$ -
Job Access and Reverse Commute Program. Project - LA County Job Access and Program Project	20.516	CA-37-X100	10,343,881	976,364	749,398	-	226,966
LA County Job Access and Program Project - Capital/Operating Assist.	20.516	CA-37-X171	7,711,637	2,073,944	2,073,944	-	-
Job Access and Reverse Commute - Capital/Operating Assist.	20.516	CA-37-X123	13,878,024	308,852	226,992	-	81,860
CFDA Subtotal			36,966,391	3,721,689	3,412,863	-	308,826
New Freedom Programs:							
Direct Programs:							
New Freedom - Program Adm. FY06-12	20.521	CA-57-X003	2,152,346	237,171	237,171	-	-
New Freedom - Capital & Operating. Assistance	20.521	CA-57-X048	1,755,553	262,102	131,051	-	131,051
New Freedom - Capital & Operating. Assistance	20.521	CA-57-X084	8,702,026	920,642	920,642	-	-
New Freedom - Capital & Operating. Assistance	20.521	CA-57-X100	7,354,678	635,808	317,904	-	317,904
CFDA Subtotal			19,964,603	2,055,723	1,606,768	-	448,955
Transit Services Cluster Total			56,930,994	5,777,412	5,019,631	-	757,781
Clean Fuels - CNG Fueling Facility at Division 13	20.519	CA-58-0006	5,500,000	2,342,131	2,107,918	234,213	-
Wayside Energy Storage System	20.523	CA-77-0002	4,466,000	522,247	521,565	-	682
National Infrastructure Investments - Crenshaw/Lax Transit Corridor	20.933	CA-79-0001	13,903,535	194,803,784	-	(6,450,736)	201,254,520
U.S. Department of Transportation Total			2,827,118,600	1,415,338,672	552,851,733	162,154,613	700,332,326
U.S. Department of Homeland Security							
Rail and Transit Security Program							
Direct Programs:							
Transit Security Grant Program	97.075	2009-RA-T9-K004	8,458,478	558,685	502,071	-	56,614
Transit Security Grant Program	97.075	2010-RA-T0-K001	3,584,180	3,191,109	3,183,949	-	7,160
Transit Security Grant Program	97.075	EMW-2011-RA-00011-S01	5,744,329	(143,069)	(143,069)	-	-
Transit Security Grant Program	97.075	6361-0002, FIPS#037-91170	16,103,043	561,891	-	561,891	-
Transit Security Grant Program	97.075	EMW-2012-RA-K00030-S01	2,484,254	2,363,469	2,363,469	-	-
Transit Security Grant Program	97.075	EMW-2013-RA-00043-S01	7,050,010	4,752,681	4,752,681	-	-
Rail and Transit Security Program Total			43,424,294	11,284,766	10,659,101	561,891	63,774
U.S. Department of Homeland Security Total			43,424,294	11,284,766	10,659,101	561,891	63,774
Total Federal Grants			\$ 2,870,542,894	\$ 1,426,623,438	\$ 563,510,834	\$ 162,716,504	\$ 700,396,100
State Grants							
Prop 1B Security - FY 08-09	n/a	6161-002,FIPS#037-91170	\$ 16,103,000	\$ 487,314	\$ -	\$ 487,314	\$ -
Prop 1B Security - FY 09-10	n/a	6261-002,FIPS#037-91170	16,103,043	5,053,917	-	5,053,917	-
STIP PPM (State Transportation Improvement Program - Planning, Programming & Monitoring Program	n/a	PPM14-6065(183)	3,098,000	3,810,458	-	2,874,678	935,780
New State Pass-Through - South Bay Cities Council of Government	n/a	New State Pass-Through (3014-616)	885,048	74,888	-	67,287	7,601
Prop 1B PTMISEA SLPP LRT II - State / Local Partnership	n/a	07A0034-11 A4	28,259,000	54,725,716	-	17,218,732	37,506,984
Prop 1B PTMISEA - Ramer to Bernson Double Track Project (75A0406)	n/a	ICRB-A1314-02 75A0406	6,500,000	4,818,419	-	4,631,359	187,060
Prop 1B PTMISEA - Van Nuys North Platform Project (75A0407)	n/a	ICRB-A1314-01 75A0407	4,000,000	2,254,319	-	1,717,882	536,437
Prop 1B PTMISEA	n/a	Prop 1B PTMISEA	135,468,949	137,999,115	-	103,756,847	34,242,268
Prop 1B PTMISEA	n/a	Exposition LRT - II	135,983,130	197,348,820	-	76,794,789	120,554,031
Prop 1B PTMISEA	n/a	Division 13	52,764,816	13,486,437	-	1,308	13,485,129
Total State Grants			\$ 399,164,986	\$ 420,059,403	\$ -	\$ 212,604,113	\$ 207,455,290

See accompanying notes to the schedule of expenditures of federal awards.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

NOTE 1 – GENERAL

The accompanying schedule of expenditures of federal and state awards (the Schedule) presents the grant activity of all expenditures of federal and state award programs of the Los Angeles County Metropolitan Transportation Authority (LACMTA). All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the Schedule. The Schedule also includes state grants that do not participate in the federal awards. LACMTA is the reporting entity as defined in note 1 to the financial statements of LACMTA's basic financial statements.

NOTE 2 - BASIS OF PRESENTATION

The Schedule includes the federal grant activity of LACMTA and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, LACMTA provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Highway Planning and Construction Program	20.205	\$ 319,659
Federal Transit Capital Improvement Grants	20.500	13,870,240
Federal Transit Formula Grants	20.507	5,629,753
Job Access and Reverse Commute	20.516	3,050,334
New Freedom Program	20.521	<u>1,369,597</u>
		<u>\$ 24,239,583</u>

NOTE 4 – STATE AND LOCAL FUNDS REIMBURSEMENT

LACMTA utilizes state and local funds when federal funds are not received in a timely manner. Upon receipt of federal funds, LACMTA reimburses state and local funds that were utilized for expenditures for federal programs. Reimbursements are shown as credit balances in the Schedule. Expenditures incurred during the current fiscal year, but before a federal grant is executed are included as state or local on the Schedule in the year the expenditures are incurred and are reported as federal on the Schedule in the year the grant was executed.

NOTE 5 – FEDERAL FINANCIAL ASSISTANCE

Pursuant to the Single Audit Act and the OMB Circular A-133 Compliance Supplement, the federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2015

NOTE 6 – MAJOR PROGRAMS

The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for LACMTA are those programs selected for testing by the auditor using a risk assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

NOTE 7 – COMMINGLED ASSISTANCE

The LACMTA receives federal and state funding as a subrecipient through the State of California's Department of Transportation (Caltrans). The expenditures reported in the accompanying Schedule for CFDA 20.205, U.S. Department of Transportation – Highway Planning and Construction (grant #07-4826), represent commingled federal and state funding received from Caltrans. The sources of funding passed through Caltrans include state funding from the Traffic Congestion Relief Program (TCRP) and the State Transportation Program – Local (STPL) and Federal funding from the Federal Regional Surface Transportation Program (RSTP) and the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA – LU). The program also includes Local Proposition C-25% funding provided by LACMTA. When the sources of funding from Caltrans are not separately identifiable, LACMTA's policy is to report amounts expended under the program first as federal expenditures up to the approved budgeted amount and then the remaining expenditures will be reported as state expenditures.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards:

Internal Control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

CFDA 20.500 / 20.507 / 20.525 – Federal Transit Cluster
CFDA 20.205 – Highway Planning and Construction Cluster
CFDA 20.516 / 20.521 – Transit Services Cluster
CFDA 97.075 – Rail and Transit Security Program

Dollar threshold used to distinguish type A and B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? X Yes No

(Continued)

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding 2015-001 – OPEB Benefits and Plan Provisions (Significant Deficiency)

Condition: Management determined that certain benefit provisions were not included in the actuarial calculation used to measure the Net OPEB Obligation liability on LACMTA's statement of net position. Management discovered that lifetime benefits for ATU employees were not reflected in the previous valuations of the net OPEB obligation. With the addition of the OPEB lifetime benefit provision, the calculation of the prior Annual Required Contributions were understated and resulted in the Net OPEB Obligation liability being understated. This benefit plan provision did not affect any of the other LACMTA OPEB plans.

Criteria: Accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (Governmental GAAP) -- Under GASB 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided.

Effect: An adjustment was made to recognize the lifetime benefits for ATU employees that were not reflected in the previous valuations of the net OPEB obligation. With the addition of the OPEB lifetime benefit provision, the calculation of the prior Annual Required Contribution amounts were understated and resulted in the Net OPEB Obligation liability being understated. A prior period adjustment of \$215,000,000 was made to decrease the business-type activities' beginning net position and increase the net OPEB obligation by \$215,000,000. The impact on change in net position for the year ended June 30, 2014 was a reduction of \$35,000,000.

Cause: As part of a transition from one actuarial firm to a new actuarial firm, management and the actuary reviewed benefit plan provisions and identified the ATU lifetime benefit that was not included, although the benefit had been in place for several years.

Recommendation: We recommend that LACMTA management perform a review of all OPEB plan provisions and benefits any time a change in the plan is made.

Management Response and Corrective Action Plan: LACMTA management performed a detailed review of OPEB plan provisions as part of an actuarial valuation specialist transition during 2015 to determine the existence, completeness, and values of benefits provided. Ongoing, management will perform an annual review of plan and benefit changes for each OPEB plan and update the actuary on changes to the plan to evaluate their impact on benefits expense and valuation estimates.

(Continued)

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN OMB CIRCULAR A-133 SECTION 510(A):

None

SECTION 4 - PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 2014-001 – Davis-Bacon Act – Submission of Certified Payrolls (Significant Deficiency)

Federal Program Information: U.S. Department of Transportation – Federal Transit Cluster and National Infrastructure Investments (CFDA 20.500 and 20.933)

Condition: Management of the Los Angeles County Metropolitan Transportation Authority (LACMTA) is required to obtain, on a weekly basis, certified payrolls and statements of compliance from each contractor for each week in which contracted work is performed under the Davis-Bacon Act. For all major programs cited below, we noted that management did not have adequate controls in place to ensure that certified payrolls and compliance statements are received on a weekly basis as required by the Davis-Bacon Act (29 CFR Sections 5.5 and 5.6).

In our sample of 40 certified payrolls and compliance statements for the Federal Transit Cluster, we noted all of our samples were not received on a weekly basis. We noted that 27 of the exceptions were received between 2 and 243 days past the due date. For 13 of the samples, we noted that received date stamp on the documentation for the respective samples were either illegible or not present on the weekly certified payroll reports. Although the certified payrolls were not received weekly, the LACMTA ultimately received all of the required certified payrolls for the samples tested.

In our sample of 40 certified payrolls and compliance statements for the National Infrastructure Investments program, we noted 35 of our samples were not received on a weekly basis. We noted that these exceptions were received between 1 and 157 days past the due date. Although the certified payrolls were not received weekly, the LACMTA ultimately received all of the required certified payrolls for the samples tested.

Status: Resolved. For the Federal Transit Cluster, we selected a sample of 60 certified payrolls from fiscal year 2015 and did not identify any testing exceptions. The National Infrastructure Investments grant did not have any federal expenditures in fiscal year 2015, therefore no testing or follow-up was completed.

Finding 2014-002 – Procurement, Suspension, and Debarment (Significant Deficiency)

Federal Program Information: U.S. Department of Transportation – Federal Transit Cluster, National Infrastructure Investments, Rail and Transit Service Security Grant Program (CFDA 20.500, 20.933, and 97.075)

Condition: Management is required to document the significant history of procurements, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract type. Management is also required to perform verification for all covered transactions by checking the Excluded Party List System (EPLS) to ensure covered transactions are not awarded to suspended or debarred parties. For all major programs cited below, we noted that management did not have adequate controls in place to ensure compliance with procurement requirements.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

Federal Capital Improvement Grants

In our sample of 40 contracts and purchase orders with values over \$25,000 that had expenditures incurred during the fiscal year ended June 30, 2014, we noted 10 contract files did not have certification of non-suspension and debarment or EPLS verification within the documentation prior to federal funds being expended. We were, however, able to verify through the System for Award Management (SAM) that the respective vendors were not listed on the EPLS as suspended or debarred.

There were also 6 contracts which were missing the following information:

- 2 contract files were missing support for the history of the procurement, including the evidence of full and open competition. These contract files were also missing the required and Buy America certification.
- 1 contract file was missing support for the history of the procurement, including the evidence of full and open competition and of the cost or price analysis.
- 2 contract files were missing support for the history of the procurement, including the evidence of full and open competition.
- 1 contract file could not be located.

The federal share of expenditures associated with the 6 contracts and purchase orders that are not in compliance with the procurement requirements amounted to \$172,073 of the \$384,087,792 of total federal program expenditures for the Federal Transit Cluster.

National Infrastructure Investments

In our sample of 3 contracts and purchase orders with values over \$25,000 that had expenditures incurred during the fiscal year ended June 30, 2014, we noted 1 contract file did not have certification of non-suspension and debarment or EPLS verification within the documentation prior to federal funds being expended. We were, however, able to verify through the System for Award Management (SAM) that the respective vendors were not listed on the EPLS as suspended or debarred.

Rail and Transit Security Grant Program

In our sample of 4 contracts and purchase orders with values over \$25,000 that had expenditures incurred during the fiscal year ended June 30, 2014, we noted 2 contract files did not have certification of non-suspension and debarment or EPLS verification within the documentation prior to federal funds being expended. We were, however, able to verify through the SAM that the respective vendors were not listed on the EPLS as suspended or debarred.

Status: Resolved. For the Federal Transit Cluster, we selected a sample of 20 contracts and purchase orders from fiscal year 2015 and did not identify any testing exceptions with any of the procurement requirements and all 20 contract files were available and included supporting documentation. The National Infrastructure Investments grant did not have any federal expenditures in fiscal year 2015, therefore no testing or follow-up was completed. For the Rail and Transit Security Grant Program, we selected a sample of 6 contracts and purchase orders and did not identify any testing exceptions related to suspension or debarment.

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

FEDERAL FUNDING ALLOCATION DATA

Transportation Operating Agency (ID# 90154)

**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

Fiscal year ended June 30, 2015

Independent Accountant's Report
on Applying Agreed Upon Procedures

Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics form (FFA-10) of the Los Angeles County Metropolitan Transportation Authority's (the Authority) annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by FTA or otherwise meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles (VRM) data, appear to be accurate.
- Data is consistent with prior reporting periods and other facts known about the Authority's operations.

We have applied the procedures, as described in Attachment A, to the data contained in the accompanying FFA-10 for the fiscal year ending June 30, 2015. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2014 Policy Manual* and were agreed to by the Authority, were applied to assist the Authority in evaluating whether the Authority complied with the standards described in the first paragraph of this part and that the information included in the NTD report FFA-10 for the fiscal year ending June 30, 2015 is presented in conformity with the requirements of the *Uniform System of Accounts (USOA) and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the *2014 Policy Manual*. The Authority's management is responsible for the FFA-10 and compliance with NTD requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose. This report is intended solely for your information and for FTA and should not be used by those who did not participate in determining the procedures.

The procedures in Attachment A were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles (VRM), fixed guideway (FG), directional route miles (DRM), passenger miles traveled (PMT), and operating expenses (OE) of the Authority for the fiscal year ending June 30, 2015 for each of the following modes:

- Motor Bus – directly operated
- Motor Bus – purchased transportation
- Rapid Bus – directly operated
- Heavy Rail – directly operated
- Light Rail – directly operated
- Vanpool – purchased transportation

The agreed upon procedures are substantially less in scope than an examination, the objective of which is an expression of an opinion on the FFA-10 form. Accordingly, we do not express such an opinion. Also, we do not express an opinion on the Authority's system of internal control taken as a whole.

In performing the procedures, except for the information and findings identified in Attachment A to this report, no matters came to our attention that would be required to be reported to you regarding the information included in the NTD report on the FFA-10 Form for the fiscal year ending June 30, 2015. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the information described above, and does not extend to the Authority's financial statements taken as a whole, or the forms in the Authority's NTD report other than the FFA-10 form, for any date or period.

This report is intended solely for the information and use of the Board of Directors, the management of the Authority, and the FTA and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
November 18, 2015

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
June 30, 2015

FTA Suggested Procedures:

- a. Obtain and read a copy of written procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual. If procedures are not written, discuss the procedures with the personnel assigned responsibility of supervising the NTD data preparation and maintenance.

Step performed without exception.

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:
- The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual.

Step performed without exception.

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form (FFA-10).

Step performed without exception.

- d. Based on a description of the transit agency's procedures obtained in items a and b above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

Selected source documents from three different months in fiscal years 2014, 2013, and 2012 (9/19/2011, 11/10/2011, 4/15/2012, 8/19/2012, 3/11/2013, 5/20/2013, 10/26/2013, 2/8/2014, 4/7/2014) to ensure they were retained for a minimum of three years. We observed that the source documents were maintained for each fiscal year as required.

- e. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

Per inquiry with the management, the individuals reviewing source documents are independent of individuals preparing the information and the review is done on a periodic basis depending on the data being reviewed.

- f. Select a random sample of source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' review.

Selected a random sample of 126 source documents, noting the required approval on all source documents. Step performed without exception.

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- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

We obtained the worksheets and agreed the data on the worksheets to the summaries provided and verified the arithmetical accuracy of the summaries without exception.

- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2014 Policy Manual.

For the rail modes, the Authority utilized a statistical sampling method as described in FTA Circulars 2710.1A. For the motor bus and van pool modes, the Authority utilized a 100% count verification for passenger trips and an estimate of passenger miles based on a statistical sampling method as described in FTA Circulars 2710.2A.

- i. Discuss with transit agency staff, the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
- a. According to the 2010 Census, the public transit agency serves an urbanized area (UZA) of less than 500,000 population.
 - b. The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
 - c. Service purchased from a seller is included in the transit agency's NTD report.
 - d. For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2014) and determine that statistical sampling was conducted and meets the 95% confidence and +10% precision requirements.
 - e. Determine how the transit agency estimated annual PMT for the current report year.

Per inquiry with the Authority management, the Authority does not meet any of the three criteria that allows transit agencies to conduct statistical samples for accumulating passenger mile data every third year. Therefore, the Authority conducts statistical sampling annually as described in procedure h.

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

Step performed without exception.

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- k. Select a random sample of the source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summarization.

Selected a random sample of 148 source documents from October 2014, February 2015, and June 2015, used for accumulating passenger miles traveled (PMT) data and determined they were complete and mathematically accurate. We tested the average trip length and the total trips for each of the samples and recomputed the accumulations for each period. Step performed without exception.

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and identify that stated procedures are followed. Select a random sample of source documents used to record charter bus service and test the arithmetical accuracy of the computations.

Step performed without exception.

- m. For actual vehicle revenue miles (VRM) data, document the collection and recording methodology and identify that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
- If actual VRMs are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of the days that service is operated, and re-compute the daily total of missed trips and missed VRMs. Test the arithmetical accuracy of the summary.
 - If actual VRMs are calculated from hubodometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of the hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summary of intermediate accumulations.
 - If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

Vehicle logs are used to compute the VRM data for non-fixed routes. For fixed routes, the Authority uses monthly services reports and daily loss service records to record any missed trips. Selected a haphazard sample of 24 source documents and recalculated the VRMs for the sample of trips, excluding deadhead miles. Step performed without exception.

- n. For rail modes, obtain and read the recording and accumulation sheets for actual VRM's and identify that locomotive miles are not included in the computation.

Step performed without exception.

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- o. If fixed guideway or High Intensity Bus directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting the NTD data whether the operations meet the FTA definition of fixed guideway (FG) or High Intensity Bus (HIB) in that the service is:
- Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR) or
 - Bus (MB) service operating over exclusive or controlled access rights-of-way (ROW), and
 - Access is restricted
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on parallel adjacent highway, and
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation (see Fixed Guideway Segments form (P-40))
 - High Occupancy / Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues, and that the transit agency has provided to NTD a copy of the State's certification to the US Secretary of Transportation that it has established a program for monitoring, assessing and reporting on the operation of the HOV facility with HO/T lanes.

Step performed without exception.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that the he or she computed mileage in accordance with the FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

Per inquiry of management there were no service changes to FG during fiscal year 2015.

- q. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:
- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the FG-DRMs lasting more than 12 months, the transit agency should contact their validation analyst to discuss. FTA will make a determination on how the DRMs should be reported.

Per inquiry of management there were no interruptions in service during fiscal year 2015 that would require a change in reporting.

- r. Measure FG/HIB DRM from maps or by retracing route.

We measured all of the FG/HIB maps. Step performed without exception.

- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

Per inquiry of management, the Authority is the approved operator for all of their FG and the Authority is reporting their actual VRM, PMT, and OE for their services. Step performed without exception.

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- t. Review the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2015 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2014 report year, the Agency Revenue Service Date must occur within the transit agency's 2014 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Bus segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, the FTA will only consider segments continuously reported to the NTD.

Per inquiry of management, there were no new FG segments added in fiscal year 2015.

- u. Compare operating expenses with audited financial data after reconciling items are removed.

Step performed without exception.

- v. If the transit agency purchases transportation (PT) services, interview the personnel reporting the NTD data on the amount of PT-generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form (B-30).

We agreed the fare revenue for the vanpool and motor bus PT without exception.

- w. If the transit agency's report contains data for PT services and assurances of the data for those services is not included, obtain a copy of the Independent Auditor Statement for Federal Funding Allocation (IAS-FFA) data of the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

We inquired to management and noted that the report does include PT from private operators, but that an Independent Auditor Statement is not required since the Authority is a public transportation provider and the PT expenditures are included on the B-30 form of the NTD.

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

We obtained a copy of the PT contract for each provider and noted that the contract included a description of the services to be provided, the monetary consideration obligated by the Authority for the service and the period covered by the contract and that this period is the same as, or a portion of, the period covered by the Authority's NTD report; and is signed by representatives of both parties to the contract. Management stated that copies of the executed contracts are retained for the last three years, as applicable.

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- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non-UZAs. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

Per management, the Authority provides most of their services in one UZA and therefore it is all allocated to that one UZA. Additionally, all of the services provided are in urbanized areas and allocations to non-urbanized areas are not required, therefore the procedure is not applicable.

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10%, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

We compared and agreed the data reported on the Federal Funding Allocation Statistics form (Form FFA-10) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. For any current year data that increased or decreased by more than 10%, we inquired to the Authority and documented the explanations for the variances.

- aa. The auditor should document the specific procedures followed, documents reviewed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The auditor may perform additional procedures, which are agreed to by the auditor and the transit agency, if desired. The auditor should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the auditor but not by the FTA.

Step performed without exception.

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

FEDERAL FUNDING ALLOCATION DATA

LA County Small Operators (ID# 90166)

**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

Fiscal year ended June 30, 2015

Independent Accountant's Report
on Applying Agreed Upon Procedures

Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics form (FFA-10) of the Los Angeles County Metropolitan Transportation Authority – LA County Small Operators' (ID# 90166) (the Authority's) annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by FTA or otherwise meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles (VRM) data, appear to be accurate.
- Data is consistent with prior reporting periods and other facts known about the Authority's operations.

We have applied the procedures, as described in Attachment A, to the data contained in the accompanying FFA-10 for the fiscal year ending June 30, 2015. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2014 Policy Manual* and were agreed to by the Authority, were applied to assist the Authority in evaluating whether the Authority complied with the standards described in the first paragraph of this part and that the information included in the NTD report FFA-10 for the fiscal year ending June 30, 2015 is presented in conformity with the requirements of the *Uniform System of Accounts (USOA) and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the *2014 Policy Manual*. The Authority's management is responsible for the FFA-10 and compliance with NTD requirements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose. This report is intended solely for your information and for FTA and should not be used by those who did not participate in determining the procedures.

The procedures in Attachment A were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles (VRM), fixed guideway (FG), directional route miles (DRM), passenger miles traveled (PMT), and operating expenses (OE) of the Authority for the fiscal year ending June 30, 2015 for each of the following modes and jurisdictions (collectively referred to as the Authority):

- Modes
 - Motor Bus – purchased transportation (MB)
 - Demand Response – purchased transportation (DR)
 - Demand Response Taxi – purchased transportation (DT)
- Jurisdictions:
 - Agoura Hills
 - Alhambra
 - Artesia
 - Avalon
 - Azusa
 - Baldwin Park
 - Bell
 - Bell Gardens
 - Bellflower
 - Beverly Hills
 - Burbank
 - Calabasas
 - Carson
 - Cerritos
 - Compton
 - Covina
 - Cudahy
 - Downey
 - Duarte
 - El Monte
 - Glendale
 - Glendora
 - Huntington Park
 - Inglewood
 - LACDPW – Avocado Heights
 - LACDPW – East LA
 - LACDPW – East Valinda
 - LACDPW – King Medical Center
 - LACDPW – South Whittier
 - LACDPW – Whittier
 - LACDPW – Willowbrook
 - LACDPW – Willowbrook Shuttle
 - Lawndale
 - Lynwood
 - Malibu
 - Manhattan Beach
 - Maywood
 - Monrovia
 - Monterey Park
 - Palos Verdes Peninsula Transit Authority
 - Pasadena
 - Pico Rivera
 - Pomona Valley Transportation Authority
 - Rosemead
 - Santa Fe Springs
 - South Gate
 - South Pasadena
 - West Covina
 - West Hollywood
 - Whittier

(Continued)

The agreed upon procedures are substantially less in scope than an examination, the objective of which is an expression of an opinion on the FFA-10 form. Accordingly, we do not express such an opinion. Also, we do not express an opinion on the Authority's system of internal control taken as a whole.

In performing the procedures, except for the information and findings identified in Attachment A to this report, no matters came to our attention that would be required to be reported to you regarding the information included in the NTD report on the FFA-10 Form for the fiscal year ending June 30, 2015. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the information described above, and does not extend to the Authority's financial statements taken as a whole, or the forms in the Authority's NTD report other than the FFA-10 form, for any date or period.

This report is intended solely for the information and use of the Board of Directors, the management of the Authority, and the FTA and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP
Crowe Horwath LLP

Sherman Oaks, California
October 14, 2015

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FTA Suggested Procedures:

- a. Obtain and read a copy of written procedures related to the system for reporting and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual. If procedures are not written, discuss the procedures with the personnel assigned responsibility of supervising the NTD data preparation and maintenance.

Step performed with each jurisdiction without exception.

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:
- The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993 and as presented in the 2014 Policy Manual.

Step performed with each jurisdiction without exception.

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form (FFA-10).

Step performed with each jurisdiction without exception.

- d. Based on a description of the transit agency's procedures obtained in items a and b above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

Selected source documents from three different months in fiscal years 2014, 2013, and 2012 (8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, 6/20/2013, 11/26/2013, 1/8/2014, 3/7/2014) to ensure they were retained for a minimum of three years. We observed that the source documents were maintained for each fiscal year, for each jurisdiction, with the exception of the following:

- **City of Bell (MB) – The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, and 6/20/2013; however, since they did not begin reporting to the NTD until July 2013, they were not required to maintain information prior to that date.**
 - **City of Bell (DR) – The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, and 7/19/2012. In addition, the monthly summaries, monthly invoices, and annual summaries could not be provided for those corresponding months/years.**
 - **City of Bell (DT) – They city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, and 2/11/2013; however, since they did not begin reporting to the NTD until March 2013, they were not required to maintain information prior to that date.**
 - **City of Calabasas (DR) – The city was unable to provide the demand response daily summaries for 8/18/2011, 12/10/2011, and 3/15/2012, and the demand response trip sheets**
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for 12/10/2011 and 3/15/2012. In addition, the monthly summaries, monthly invoices, and annual summaries could not be provided for those corresponding months/years.

- **City of Carson (MB)** - The city was unable to provide motor bus daily trip sheets, daily summaries, monthly summaries, annual summaries, monthly invoices and/or NTD report for the following dates: 8/18/2011, 12/10/2011, and 3/15/2012.
 - **City of Maywood (DR)** – The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, and 6/20/2013. In addition, the monthly summaries, monthly invoices, and annual summaries could not be provided for those corresponding months/years.
 - **City of Maywood (MB)** - The city was unable to provide the motor bus daily trip sheets and daily summaries for the following dates: 8/18/2011, 12/10/2011, 3/15/2012, 7/19/2012, 2/11/2013, and 6/20/2013; however, since they did not begin reporting to the NTD until the current year, they were not required to maintain information from the prior years.
- e. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

Per inquiry with the various jurisdiction management, the individuals reviewing source documents are independent of individuals preparing the information and the review is done on a periodic basis depending on the data being reviewed.

- f. Select a random sample of source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' review.

Selected a random sample of 382 source documents across all of the jurisdictions, noting the required approval on all source documents, with the exception of two out of ten selected from the City of Artesia.

- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

We obtained the worksheets and agreed the data on the worksheets to the summaries provided, with the exception of the following:

- **City of Alhambra (DR)** – We noted an exception in the processing of NTD data to the MR-20 and S-10 forms. Specifically, the September 2014 Monthly Report contained incorrect data due to a transposition error as the mileage shown under 'Vehicle Mileage at First Pick Up' on trip sheet (source document) was incorrectly inputted into September 2014 monthly report. When recomputed, Vehicle Revenue Miles (VRM) should have been stated at 55.5 instead of the reported 11.7, creating a misstatement of 43.8 Vehicle Revenue Miles (VRM). The City subsequently corrected the transposition error on the final S-10 NTD reporting form.
- **City of Burbank (MB)** - Per our review of the May 28, 2015 source documents, we noted an exception regarding the reporting of vehicle revenue miles (VRM) data. While the data for VRM was added up correctly per the supporting trip sheets for the day, we noted the total

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amount did not agree to the monthly summary report for May 2015. The monthly summary reported VRM for this particular date at 1,035 VRM; however, our recalculation of VRM for this date yielded 1,002 VRM. The City subsequently corrected the errors on the final S-10 NTD reporting form.

- **City of Carson (DT) -** We noted an exception in the processing of NTD data to the MR-20 and S-10 forms. Specifically, the July 2014 Monthly Report contained incorrect data due to a transposition error. Further inquiry with the City's Transit Operator, yielded the reason to be due to the erroneous input of June 2014's data instead of July 2014's data. When considered, the transposition error differences amounted to 120 for Unlinked Passenger Trips (UPT); 4 for Vehicle Revenue Hours (VRH); and 140 for Vehicle Revenue Miles (VRM). We also observed a discrepancy on the MR-20 form for the month of August – a 3 hour difference for Vehicle Revenue Hours (VRH) was noted between the Monthly Report and MR-20 form, having an effect on S-10 form. City subsequently corrected the errors on the final S-10 NTD reporting form.
 - **Palos Verdes Peninsula Transit Authority (MB) –** We noted that for the month of September 2014 vehicle revenue miles reported at 28,166 and total miles reported at 39,359 did not agree to vehicle revenue miles and total miles on the Yearly Report reported at 27,764 and 39,333, respectively. Upon discussion with the City, the under reporting resulted from a data entry error that was not identified due to insufficient review controls implemented. The City subsequently corrected the errors on the final S-10 NTD reporting form.
- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2014 Policy Manual.

For MB mode, the Authority utilized a statistical sampling method as described in FTA Circulars 2710.1A. For DR and DT modes, the Authority utilized a 100% count verification at some jurisdictions and a statistical sampling method as described in FTA Circulars 2710.2A at other jurisdictions.

- i. Discuss with transit agency staff (the accountant may wish to list the titles of the persons interviewed) the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
- a. According to the 2010 Census, the public transit agency serves an urbanized area (UZA) of less than 500,000 population.
 - b. The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
 - c. Service purchased from a seller is included in the transit agency's NTD report.
 - d. For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2014) and determine that statistical sampling was conducted and meets the 95% confidence and +10% precision requirements.
 - e. Determine how the transit agency estimated annual PMT for the current report year.
-

LOS ANGELES COUNTY METROPOLITAN
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Per inquiry with the Authority management, the Authority does not meet any of the three criteria that allows transit agencies to conduct statistical samples for accumulating passenger mile data every third year. Therefore, the Authority conducts statistical sampling annually as described in procedure h.

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

Step performed with each jurisdiction without exception.

- k. Select a random sample of the source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summarization.

Selected a haphazard sample of 181 source documents across all of the jurisdictions from September 2014, March 2015, and May 2015, used for accumulating passenger miles traveled (PMT) data and determined they were complete and mathematically accurate. We tested the average trip length and the total trips for each of the samples and recomputed the accumulations for each period. Step performed without exception.

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and identify that stated procedures are followed. Select a random sample of source documents used to record charter bus service and test the arithmetical accuracy of the computations.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- m. For actual vehicle revenue miles (VRM) data, document the collection and recording methodology and identify that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
- If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

Selected a haphazard sample of 181 source documents across all of the jurisdictions and recalculated the VRMs for the sample of trips, excluding deadhead miles. All of the data agreed and was computed correctly, with the exception of the City of Agoura Hills which was unable to provide the trip sheets for two of the days selected and there was no other supporting documentation for the daily totals.

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- n. For rail modes, obtain and read the recording and accumulation sheets for actual VRM's and identify that locomotive miles are not included in the computation.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- o. If fixed guideway or High Intensity Bus directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting the NTD data whether the operations meet the FTA definition of fixed guideway (FG) or High Intensity Bus (HIB) in that the service is:
- Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR) or
 - Bus (MB) service operating over exclusive or controlled access rights-of-way (ROW), and
 - Access is restricted
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on parallel adjacent highway, and
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation (see Fixed Guideway Segments form (P-40))
 - High Occupancy / Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues, and that the transit agency has provided to NTD a copy of the State's certification to the US Secretary of Transportation that it has established a program for monitoring, assessing and reporting on the operation of the HOV facility with HO/T lanes.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that the he or she computed mileage in accordance with the FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- q. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:
- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the FG-DRMs lasting more than 12 months, the transit agency should contact their validation analyst to discuss. FTA will make a determination on how the DRMs should be reported.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- r. Measure FG/HIB DRM from maps or by retracing route.

This procedure was not applicable to the Authority. As such, procedure was not performed.

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- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- t. Review the FG/HIB segments form (P-40 form). Discuss the Agency Revenue Service Start Date for any segments added in the 2014 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2014 report year, the Agency Revenue Service Date must occur within the transit agency's 2014 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Bus segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, the FTA will only consider segments continuously reported to the NTD.

This procedure was not applicable to the Authority. As such, procedure was not performed.

- u. Compare operating expenses with audited financial data after reconciling items are removed.

Where audited financial data was available, we compared the operating expenses per the F-30 and F-40 to the audited data. Where audited financial data was not available, we did not perform this step.

- v. If the transit agency purchases transportation (PT) services, interview the personnel reporting the NTD data on the amount of PT-generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form (B-30).

We agreed the fare revenue to the B-30 for all jurisdictions, with the following exception.

- **City of Glendora (DR) - We obtained the City's monthly invoices for FY 2015 and agreed the total fare revenue per the invoices to the general ledger and to the total PT fare revenue reported on the Contractual Relationship form (B-30). The City reported \$18,153; however, our re-computations showed \$18,287. Upon discussions with the City, we noted that the \$134 understatement of fare revenue was due to additional entries to the general ledger that were not credited in the monthly invoices to the City. The City subsequently corrected the B-30.**

LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY
ATTACHMENT A – AGREED UPON PROCEDURES
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- w. If the transit agency's report contains data for PT services and assurances of the data for those services is not included, obtain a copy of the Independent Auditor Statement for Federal Funding Allocation (IAS-FFA) data of the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

We inquired to all jurisdictions and noted that the report does include PT from private operators, but that an Independent Auditor Statement is not applicable since all of the Jurisdictions are public transportation providers.

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

We obtained a copy of the PT contract for each provider and noted that the contract included a description of the services to be provided, the monetary consideration obligated by the jurisdiction for the service and the period covered by the contract and that this period is the same as, or a portion of, the period covered by the transit agency's NTD report; and is signed by representatives of both parties to the contract. Management stated that copies of the executed contracts are retained for the last three years, as applicable.

- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non-UZAs. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

This procedure was not applicable to the Authority since all service is provided in an urbanized area. As such, the procedure was not performed.

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10%, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

We compared and agreed the data reported on the Federal Funding Allocation Statistics form (Form FFA-10) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. For any current year data that increased or decreased by more than 10%, we inquired to the Jurisdictions and documented the explanations for the variances.

- aa. The auditor should document the specific procedures followed, documents reviewed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The auditor may perform additional procedures, which are agreed to by the auditor and the transit agency, if desired. The auditor should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the auditor but not by the FTA.

Step performed without exception.



**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
OPERATIONS AGENCY**

**50% EXPENDITURE LIMITATION SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
OPERATIONS AGENCY

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IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND REPORT ON 50%
EXPENDITURE LIMITATION SCHEDULE

The Board of Directors
Los Angeles County Metropolitan Transportation Authority

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

We have audited, in accordance with the 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements and have issued our report thereon dated December 22, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACMTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of LACMTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACMTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Transportation Development Act, including Public Utility Code Section 99245 as enacted and amended by statute through June 30, 2015, and the allocation instructions and resolutions of the Los Angeles County Metropolitan Transportation Authority (as Planning Agency) as required by Section 6667 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the LACMTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LACMTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on 50% Expenditure Limitation Schedule

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of LACMTA as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying 50% expenditure limitation schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 50% expenditure limitation schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Los Angeles, California
December 22, 2015

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
50% EXPENDITURE LIMITATION SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Amounts expressed in thousands)

1	Total operating cost	\$ 1,400,116
2	Total capital requirements	1,999,866
3	Total debt service	<u>622,077</u>
4	Total of lines 1, 2, and 3	<u>4,022,059</u>
5	Less federal grant received	589,311
6	Less State Transit Assistance (STA) funds received	<u>85,940</u>
7	Total of lines 5 and 6	<u>675,251</u>
8	Total of line 4 less line 7	3,346,808
	50% of line 8	<u>1,673,404</u>
	Total permissible Local Transportation Fund expenditures	\$ <u><u>1,673,404</u></u>

See accompanying report on internal control over financial reporting and on compliance with the California Code of Regulations (Section 6667) and other matters based on an audit of financial statements performed in accordance with Government Auditing Standard.



**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY**

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
WITH THE CALIFORNIA CODE OF REGULATIONS (SECTIONS 6640-6662) AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND
REPORT ON SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

The Board of Directors
Los Angeles County Metropolitan Transportation Authority

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

We have audited, in accordance with the 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements, and have issued our report thereon dated December 22, 2015. These financial statements include LACMTA's Transportation Development Act Special Revenue Fund (TDA Fund) and the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA Fund), which were audited as major governmental funds.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACMTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACMTA's internal control. Accordingly, we do not express an opinion on the effectiveness of LACMTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACMTA's TDA Fund and PTMISEA Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the California Code of Regulations (Sections 6640-6662), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the LACMTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LACMTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Schedule of Revenues, Expenditures, and Changes in Fund Balances

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the LACMTA as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of revenues, expenditures, and changes in fund balances is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues, expenditures, and changes in fund balances is fairly stated in all material respects in relation to the basic financial statements as a whole.

Crowe Horwath LLP

Los Angeles, California
December 22, 2015

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015
(Amounts expressed in thousands)

	Transportation Development Act			
	<u>Planning</u>	<u>Administration</u>	<u>Total</u>	<u>PTMISEA</u>
Revenues:				
Local grants and contracts	\$ 4,972	3,528	8,500	—
Intergovernmental	—	—	—	217,475
Investment income	—	—	—	103
Net appreciation in fair value of investment	—	—	—	8
Total revenues	<u>4,972</u>	<u>3,528</u>	<u>8,500</u>	<u>217,586</u>
Expenditures:	<u>4,972</u>	<u>3,528</u>	<u>8,500</u>	<u>—</u>
Total expenditures	<u>4,972</u>	<u>3,528</u>	<u>8,500</u>	<u>—</u>
Excess of revenues over expenditures	<u>—</u>	<u>—</u>	<u>—</u>	<u>217,586</u>
Other financing uses:				
Transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>(244,105)</u>
Total other financing uses	<u>—</u>	<u>—</u>	<u>—</u>	<u>(244,105)</u>
Net change in fund balances	<u>—</u>	<u>—</u>	<u>—</u>	<u>(26,519)</u>
Fund balances – beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>108,904</u>
Fund balances – end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>82,385</u>

See notes to Schedule of Revenues Expenditures, and Changes in Fund Balances, and report on internal control over financial reporting and on compliance with the California Code of Regulations (Sections 6640 - 6662) and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
TRANSPORTATION DEVELOPMENT ACT
AND
PROP 1B PTMISEA PLANNING AGENCY
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

(1) Transportation Planning Agency

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is the regional transportation planning agency responsible for long-range transportation planning and is designated under the provisions of Section 65080 of the California Government Code (the Code) to prepare and adopt the Regional Transportation Plan (RTP) and the Regional Transportation Improvement Program (RTIP). Both the RTP and RTIP are directed to achieve a coordinated and balanced regional transportation system for the county in its jurisdiction. LACMTA is also the administrator of the Local Transportation Fund (LTF) under the provisions of Section 9532 of the Code.

The LTF was created by the Transportation Development Act (TDA) to fund transit projects in each county. The LTF retail sales taxes collected statewide by the State Board of Equalization and which are returned to individual counties according to the amount collected within that county. Los Angeles County sales tax receipts are deposited in the Los Angeles County Treasurer's Office. LACMTA, as administrator of the LTF, is authorized to distribute funds from the Treasurer's Office to claimants for transit projects that are in accordance with the Code.

Basis of Accounting

The TDA Fund uses the modified accrual basis of accounting as required by generally accepted accounting principles. Under this basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.

(2) Prop 1B PTMISEA

The Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) was created by the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006. Of the \$19.9 billion available to transportation, \$3.6 billion was allocated to PTMISEA to be available to transit operators over a ten-year period. PTMISEA funds may be used for transit rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, and rolling stock (buses and rail cars) procurement rehabilitation or replacement. Funds in this account are appropriated annually by the Legislature to the State Controller's Office (SCO) for allocation in accordance with Public Utilities Code formula distributions: 50% is allocated to Local Operators based on farebox revenue and 50% to Regional Entities based on population.

Basis of Accounting

The PTMISEA Fund uses the modified accrual basis of accounting as required by generally accepted accounting principles. Under this basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred.



**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Financial Statements

June 30, 2015 and 2014

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the State Transit Assistance Fund (the STA Fund), a special revenue fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA) as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STA Fund, of the LACMTA, as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statements present only the STA Fund and do not purport to, and do not, present fairly the financial position of Los Angeles County Metropolitan Transportation Authority, as of June 30, 2015, or the changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the STA Fund as of June 30, 2014, were audited by other auditors whose report dated December 19, 2014, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 5 and page 11, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2015 financial statements as a whole. The 2015 supplemental schedule of allocations and supplemental schedule of expenditures and transfers on pages 12 and 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 financial statements. The 2015 information has not been subjected to the auditing procedures applied in the audit of the 2015 financial statements and accordingly, we do not express an opinion or provide any assurance on it. The 2014 supplemental schedule of allocations and supplemental schedule of expenditures and transfers on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the 2014 financial statements. The 2014 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 financial statements. The information has not been subjected to the auditing procedures applied by other auditors in the audit of the 2014 financial statements and accordingly, they did not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Management's Discussion and Analysis (Unaudited)

Fiscal years ended June 30, 2015 and 2014

The Los Angeles County Metropolitan Transportation Authority's State Transit Assistance Special Revenue Fund (the "STA Fund") was created in accordance with the provisions of the Transportation Development Act (the "Act") as administered by the Department of Transportation of the State of California (the "State"). Sales tax revenues of the STA Fund represent an allocation of sales tax on gasoline and diesel fuel collected by the State Board of Equalization in the State of California. Expenditures from the STA Fund are made by Los Angeles County (the "County") in accordance with written instructions issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA) under the terms of the Act.

Our discussion and analysis of STA Fund's financial performance presents an overview of the STA Fund's financial activities during the fiscal years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the financial statements beginning on page 6. The financial statements, notes to the financial statements, and this discussion and analysis were prepared by management and are the responsibility of the management.

All amounts are expressed in thousands of dollars unless otherwise indicated.

2015 Financial Highlights

- Revenues exceeded expenditures by \$95,774.
- Sales tax collected for the year decreased by \$10,999 or 9.39% compared with the prior year. The decrease was mainly due to the lower allocation received from the State of California. Investment income decreased by \$4 or 2.38% mainly due to unfavorable investment conditions.
- Total other financing sources (uses) of funds decreased by \$18,791 or 17.12% compared with the prior year. The decrease was mainly due to the lower bus and rail operating subsidy allocated to the Enterprise Fund due to less sales tax revenue.

2014 Financial Highlights

- Revenues exceeded expenditures by \$100,256.
- Sales tax collected for the year increased by \$574 or 0.49% compared with the prior year. The increase was due to the higher allocation received from the State of California. Investment income decreased by \$26 or 13.31% was mainly due to lower levels of funds available for investing.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Management's Discussion and Analysis (Unaudited)

Fiscal years ended June 30, 2015 and 2014

- Total other financing sources (uses) of funds increased by \$3,768 or 3.60% compared with the prior year. The increase was mainly due to an increase in the bus and rail operating subsidy allocated to the Enterprise Fund.

Overview of Financial Statements

This discussion and analysis serves as an introduction to the basic financial statements. The STA Fund's basic financial statements consist of two components: (1) the fund financial statements, and (2) the notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

The condensed balance sheets show STA Fund's assets, liabilities, and fund balances as of June 30, 2015, 2014 and 2013. The difference between the assets and liabilities is reported as fund balance. The Fund balance may serve as a useful indicator of the STA Fund's financial health.

The comparative statements of revenues, expenditures, and changes in fund balance for the fiscal year show the fund activities that impacted the fund balance.

Condensed Balance Sheets

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total assets	\$ 48,186	\$ 49,955	\$ 46,215
Total liabilities	\$ 39,632	\$ 46,235	\$ 33,020
Fund balances	8,554	3,720	13,195
Total liabilities and fund balances	\$ 48,186	\$ 49,955	\$ 46,215

As of June 30, 2015, STA's fund balance of \$8,554 represents funds available for future payments.

Total assets decreased \$1,769 or 3.54% as of June 30, 2015 compared to June 30, 2014 primarily due to lower sales tax receivable and the transfer of fund back to Prop A Discretionary Bus (95%x40%). Total liabilities decreased \$6,603 or 14.28%, as of June 30, 2015 compared to June 30, 2014 mainly due to lower accrued liabilities and a lower amount due to the Enterprise Fund for the bus and rail operating subsidy.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Management's Discussion and Analysis (Unaudited)

Fiscal years ended June 30, 2015 and 2014

Total assets increased \$3,740 or 8.09% as of June 30, 2014 compared to June 30, 2013 primarily due to an increase in sales tax receivables and in the due from Prop A Discretionary Bus (95%x40%). Total liabilities increased \$13,215 or 40.02% as of June 30, 2014 compared to June 30, 2013 mainly due to a higher amount due to the Enterprise Fund for the bus and rail operating subsidy.

Condensed Statement of Revenues, Expenditures, and Changes in Fund Balances

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues	\$ 106,287	\$ 117,290	\$ 116,742
Expenditures and other financing sources(uses) of funds	<u>(101,453)</u>	<u>(126,765)</u>	<u>(130,493)</u>
Excess of revenues over expenditures	4,834	(9,475)	(13,751)
Fund balances – beginning of year	<u>3,720</u>	<u>13,195</u>	<u>26,946</u>
Fund balances – end of year	<u>\$ 8,554</u>	<u>\$ 3,720</u>	<u>\$ 13,195</u>

Total revenues decreased \$11,003 or 9.38%, during fiscal year 2015 compared to fiscal year 2014 primarily due to the lower sales tax allocations received from the State of California. Expenditures and other financing uses decreased \$25,312 or 20% during fiscal 2015 compared to fiscal year 2014 mainly due to the lower bus and rail operating subsidy to the Enterprise Fund.

Total revenues increased \$548 or 0.47% during fiscal 2014 compared to fiscal year 2013 primarily due to the higher sales tax allocation received from the State of California. Expenditures and other financing uses decreased \$3,728 or 2.86% during fiscal 2014 compared to fiscal year 2013 mainly due to a transfer in from Prop A Discretionary Bus (95%x40%).

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Balance Sheets

June 30, 2015 and 2014

(Amounts expressed in thousands)

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 23,490	\$ 12,130
Interest receivable	28	36
Due from other funds	—	5,521
Sales tax receivable	<u>24,668</u>	<u>32,268</u>
Total assets	<u>48,186</u>	<u>49,955</u>
Liabilities		
Accounts payable and accrued liabilities	1,857	4,466
Due to other funds	<u>37,775</u>	<u>41,769</u>
Total liabilities	<u>39,632</u>	<u>46,235</u>
Fund balances:		
Restricted	<u>8,554</u>	<u>3,720</u>
Total Fund balances	<u>8,554</u>	<u>3,720</u>
Total liabilities and fund balances	<u>\$ 48,186</u>	<u>\$ 49,955</u>

See accompanying notes to financial statements

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Fiscal years ended June 30, 2015 and 2014

(Amounts expressed in thousands)

	<u>2015</u>	<u>2014</u>
Revenues:		
Sales tax	\$ 106,123	\$ 117,122
Investment income	<u>164</u>	<u>168</u>
Total Revenue	<u>106,287</u>	<u>117,290</u>
Expenditures:		
Transportation subsidies	<u>10,513</u>	<u>17,034</u>
Excess of revenues over expenditures	<u>95,774</u>	<u>100,256</u>
Other financing sources (uses)		
Transfers in	—	5,000
Transfers out	<u>(90,940)</u>	<u>(114,731)</u>
Total net other financing uses	<u>(90,940)</u>	<u>(109,731)</u>
Net change in fund balances	4,834	(9,475)
Fund balances - beginning of the year	<u>3,720</u>	<u>13,195</u>
Fund balances - end of year	<u>\$ 8,554</u>	<u>\$ 3,720</u>

See accompanying notes to financial statements.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Notes to Financial Statements
June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) General Description

The Los Angeles County Metropolitan Transportation Authority's State Transit Assistance Special Revenue Fund (the STA Fund) was created in accordance with the provisions of the Transportation Development Act (the Act) as administered by the Department of Transportation of the State of California (the State). Sales tax revenues of the STA Fund represent an allocation of retail sales tax on gasoline and diesel fuel collected by the State Board of Equalization in the State of California. Expenditures from the STA Fund are made by Los Angeles County (the County) in accordance with written instructions issued by the Los Angeles County Metropolitan Transportation Authority (LACMTA) under the terms of the Act.

(b) Basis of Accounting

The STA Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become 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.

(c) 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. The STA Fund is considered a governmental fund. The measurement focus is the determination of changes in financial position, rather than net income determination. Additionally, the STA Fund is considered a special revenue governmental fund. Special revenue funds are used to account for proceeds of specific revenue sources including sales tax that are legally restricted to expenditures for specified transportation purposes. When both restricted and unrestricted resources are available for use, it is LACMTA's policy to use restricted resources first.

(d) Financial Statement Presentation

The accompanying financial statements present only the STA Fund and do not purport to, and do not, present fairly the financial position of the Los Angeles County Metropolitan Transportation Authority as of June 30, 2015 and 2014, the changes in its financial position, and where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Notes to Financial Statements
June 30, 2015 and 2014

(e) Cash and Cash Equivalents

The STA Fund's cash and cash equivalents include investments in the Los Angeles County Investment Pool (LACIP) and are reported at fair value which is the quoted market price. The STA Fund is an involuntary participant in the LACIP.

(f) Sales Tax Receivable

Sales tax receivables represent uncollected amounts from the allocation of retail sales tax on gasoline and diesel fuel collected by the State Board of Equalization in the State of California. As of June 30, 2015 and 2014, the STA Fund had a receivable of \$24,668 and \$32,268 due from the State for the fourth quarter allocation.

(2) Cash and Investments

Cash balances of the STA Fund are pooled with other County funds and invested by the Los Angeles County Treasurer (the Treasurer). These funds are subject to withdrawal from the Treasurer's pool upon demand.

The STA Fund's pooled cash and investments with the LACIP amounted to \$23,490 at June 30, 2015 and \$12,130 at June 30, 2014. The County Board of Supervisors provides regulatory oversight for the LACIP. The fair value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2015 and 2014.

Detailed information concerning the County's pooled cash and investments can be found in the County of Los Angeles Comprehensive Annual Financial Report (CAFR). A copy of the County's CAFR can be obtained by writing to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.

(3) Due to/from Other Funds

Due to or from other funds represent payables owed to or receivable from a particular LACMTA fund for temporary loans, advances, goods delivered, or services rendered. As of June 30, 2015, the STA Fund had a payable to the LACMTA's Enterprise Fund in the net amount of \$37,775. At June 30, 2014, the STA Fund had a net payable of \$41,248 due to the Enterprise Fund and a receivable from the Prop A Discretionary Bus Fund (95%x40%) of \$5,000.

(4) Interfund Transfers

Transfers represent permanent, legally authorized transfers from a fund receiving revenue to the fund through which resources are to be expended. These transfers represent operating and capital subsidies given out from one fund to another fund. For the year ended June 30, 2015, the STA Fund transferred \$85,940 to LACMTA's Enterprise Fund and \$5,000 to the Prop A Discretionary Bus Fund (95%x40%). For the year ended June 30, 2014, the STA Fund transferred \$114,731 to the LACMTA Enterprise Fund and received \$5,000 from the Prop A Discretionary Bus Fund (95%x40%).

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Notes to Financial Statements
June 30, 2015 and 2014

(5) Sales Tax Revenue

Sales tax revenue represents amounts from the allocation of retail sales tax on gasoline and diesel fuel collected by the California State Board of Equalization. For the years ended June 30, 2015 and 2014, the STA Fund received an allocation of \$106,123 and \$117,122, respectively.

(6) Payables to Cities and Jurisdiction

For the years ended June 30, 2015 and 2014, the STA Fund incurred accrued liabilities to various cities and jurisdictions of \$1,857 and \$4,466, respectively. These accrued liabilities represented claims for the fiscal year allocation that were disbursed by the STA Fund in the following fiscal year.

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Fiscal year ended June 30, 2015

(Amounts expressed in thousands)

	<u>Final budget (Unaudited)</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Sales tax	\$ 104,699	\$ 106,123	\$ 1,424
Investment income	-	164	164
Total revenues	<u>104,699</u>	<u>106,287</u>	<u>1,588</u>
Expenditures:			
Transportation subsidies	<u>11,582</u>	<u>10,513</u>	<u>1,069</u>
Total expenditures	<u>11,582</u>	<u>10,513</u>	<u>1,069</u>
Excess of revenues over expenditures	<u>93,117</u>	<u>95,774</u>	<u>2,657</u>
Other financing sources(uses)			
Transfers in	-	-	-
Transfers out	<u>(85,745)</u>	<u>(90,940)</u>	<u>(5,195)</u>
Total net financing (uses)	<u>(85,745)</u>	<u>(90,940)</u>	<u>(5,195)</u>
Net change in fund balances	<u>7,372</u>	<u>4,834</u>	<u>(2,538)</u>
Fund balances - beginning of the year	<u>3,720</u>	<u>3,720</u>	<u>-</u>
Fund balances - end of year	<u>\$ 11,092</u>	<u>\$ 8,554</u>	<u>\$ (2,538)</u>

See accompanying independent auditors' report

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Supplemental Schedule of Allocations (Unaudited)

Fiscal years ended June 30, 2015 and 2014

(Amounts expressed in thousands)

<u>PUC Code</u>	<u>Operating 6730(a)</u>	<u>Capital 6730(b)</u>	<u>Rail 6730 (c)</u>	<u>2015 Total</u>	<u>2014 Total</u>
Jurisdiction					
Arcadia	\$ 40	-	-	40	50
Claremont	29	-	-	29	39
Commerce	41	-	-	41	48
Culver City	646	-	-	646	886
Foothill Transit	2,744	-	-	2,744	3,913
Gardena	637	-	-	637	915
La Mirada	15	-	-	15	20
Montebello	1,009	-	-	1,009	1,444
Long Beach	2,768	-	-	2,768	3,940
LACMTA	33,271	-	48,406	81,677	99,108
Norwalk	368	-	-	368	546
Redondo Beach	88	-	-	88	119
Santa Monica	2,426	-	-	2,426	3,479
Torrance	770	-	-	770	1,102
Total STA fund allocations	\$ <u>44,852</u>	\$ <u>-</u>	\$ <u>48,406</u>	\$ <u>93,258</u>	\$ <u>115,609</u>

See accompanying independent auditors' report

**LOS ANGELES COUNTY
METROPOLITAN TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE
SPECIAL REVENUE FUND**

Supplemental Schedule of Expenditures and Transfers (Unaudited)

Fiscal years ended June 30, 2015 and 2014

(Amounts expressed in thousands)

PUC Code	2015				2014			
	Operating 6730(a)	Capital 6730(b)	Rail 6730 (c)	Total	Operating 6730(a)	Capital 6730(b)	Rail 6730 (c)	Total
Jurisdiction								
Arcadia	\$ 30	\$ -	\$ -	\$ 30	\$ 66	\$ -	\$ -	\$ 66
Claremont	-	-	-	-	50	-	-	50
Commerce	31	-	-	31	63	-	-	63
Culver City	484	-	-	484	886	310	-	1,196
Foothill Transit	2,058	-	-	2,058	3,913	-	-	3,913
Gardena	478	-	-	478	915	111	-	1,026
La Mirada	-	-	-	-	27	-	-	27
Long Beach	2,768	-	-	2,768	3,940	-	-	3,940
LACMTA	33,271	196	52,475	85,942	57,457	(10)	57,284	114,731
Montebello	1,008	-	-	1,008	1,444	-	-	1,444
Norwalk	368	-	-	368	546	-	-	546
Redondo Beach	88	-	-	88	158	9	-	167
Santa Monica	2,425	2	-	2,427	3,479	15	-	3,494
Torrance	771	-	-	771	1,102	-	-	1,102
Total STA fund expenditures	\$ <u>43,780</u>	\$ <u>198</u>	\$ <u>52,475</u>	\$ <u>96,453</u>	\$ <u>74,046</u>	\$ <u>435</u>	\$ <u>57,284</u>	\$ <u>131,765</u>

See accompanying independent auditors' report

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

We have audited, in accordance with the 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, the financial statements of the State Transit Assistance Fund (the STA Fund), a special revenue fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA), which comprise the balance sheet as of June 30, 2015, and the related statement of revenues, expenditures, and changes in fund balance for the years then ended, and have issued our report thereon dated December 22, 2015

In connection with our audit, nothing came to our attention that caused us to believe that LACMTA failed to comply with the terms, covenants, provisions, or conditions of Section 6751 of the California Code of Regulations, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding LACMTA's noncompliance with the above-referenced terms, covenants, provisions, or conditions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of management, LACMTA's Board of Directors, others within the Authority, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015



Crenshaw Project Corporation
(A Component Unit of the Los Angeles County
Metropolitan Transportation Authority)

Basic Financial Statements

June 30, 2015

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Basic Financial Statements
June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Crenshaw Project Corporation
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying statement of net position of the Crenshaw Project Corporation (CPC), a component unit of the Los Angeles County Metropolitan Transportation Authority, as of June 30, 2015 and the related statement of revenues, expenses, and changes in fund net position and statement of cash flows for the period from March 23, 2012 through June 30, 2015, and the related notes to the financial statements, which collectively comprise the CPC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CPC, as of June 30, 2015, and the changes in its financial position, and its cash flows for the period from March 23, 2012 through June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 1 and 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
December 22, 2015

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Management's Discussion and Analysis (Unaudited)
June 30, 2015

As management of the Crenshaw Project Corporation (CPC), we offer readers of our basic financial statements this narrative overview and analysis of the financial activities of CPC for the period from March 23, 2012 to June 30, 2015. This discussion and analysis is designed to assist the readers in focusing on the significant financial issues and activities of CPC.

We encourage the readers to consider the information presented herein in conjunction with the basic financial statements beginning on page 3. The basic financial statements, the notes to the basic financial statements, and this discussion and analysis were prepared by management and are the responsibility of management.

All amounts are expressed in thousands of dollars unless otherwise indicated.

Background

The Crenshaw Project Corporation (CPC) was formed on March 23, 2012 for the sole purpose of participating in financing public transportation projects of the Los Angeles County Metropolitan Transportation Authority (LACMTA).

CPC currently serves as the conduit borrower as part of a financing agreement with the United States Department of Transportation (USDOT) under its Transportation Infrastructure Finance and Innovation Act (TIFIA) program to partially finance the construction of LACMTA's Crenshaw/LAX Transit Project (Project).

Financial Highlights

- In September, 2012, CPC secured a \$545,900 TIFIA loan from the USDOT to partially finance the Project. The loan under the TIFIA program is secured by Measure R sales tax revenues allocated to the Project. The CPC has drawdown \$37,477 of the loan as of June 30, 2015.
- Net position remained \$0 as of June 30, 2015. Total assets of \$37,477 represent advances to LACMTA and the total liabilities represent the note payable to TIFIA.
- Total expenses of \$457 consisted mostly of loan fees and other charges, which were reimbursed by LACMTA.

Overview of the Basic Financial Statements

This management's discussion and analysis serves as an introduction to the CPC's basic financial statements. The CPC's basic financial statements are: 1) the statement of net position, 2) the statement of revenues, expenses, and changes in net position, 3) the statement of cash flows, and 4) the notes to the basic financial statements.

CPC's basic financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as promulgated by the

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Government Accounting Standards Board (GASB). CPC is structured as an Enterprise fund where revenues are recognized when they are earned and expenses are recognized when they are incurred. See notes to the basic financial statements for the summary of CPC's significant accounting policies.

The statement of net position presents information on all of CPC's assets and liabilities, and the difference between the two is reported as net position. The statement of revenues, expenses, and changes in net position presents the results of CPC's operations. The statement of cash flows presents the cash flows generated by CPC to meet its obligations. The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Presented below are the condensed statement of net position and condensed statement of revenues, expenses, and changes in net position as of June 30, 2015 and for the period from March 23, 2012 to June 30, 2015. The table below presents financial information for CPC since its inception, therefore comparative amounts are not available.

Condensed Statement of Net Position	
Non-current assets	\$ 37,477
Total assets	<u>37,477</u>
Non-current liabilities	<u>37,477</u>
Total liabilities	<u>37,477</u>
Net position	<u>\$ -</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Position	
Revenues	\$ 457
Expenses	<u>457</u>
Net income (loss)	<u>-</u>
Changes in net position	<u>-</u>
Net position – beginning of year	<u>-</u>
Net position – end of year	<u>\$ -</u>

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Statement of Net Position
June 30, 2015
(Amounts expressed in thousands)

Assets

Non-current assets

Due from LACMTA	\$	37,477
-----------------	----	--------

Total Assets	\$	37,477
--------------	----	--------

Liabilities

Non-current liabilities

Note payable	\$	37,477
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Total Liabilities		37,477
-------------------	--	--------

Net Position	\$	-
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The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Revenues, Expenses, and Changes in Fund Net Position
Period from March 23, 2012 to June 30, 2015
(Amounts expressed in thousands)

Operating Revenues	
Charges for services	\$ 457
Total operating revenues	<u>457</u>
Operating Expenses	
Professional and technical services	455
Other administrative expenses	<u>2</u>
Total operating expenses	<u>457</u>
Operating income (loss)	<u>-</u>
Change in net position	-
Net position – beginning of year	<u>-</u>
Net position – end of year	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement.

Crenshaw Project Corporation
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)
Statement of Cash Flows
Period from March 23, 2012 to June 30, 2015
(Amounts expressed in thousands)

Cash Flows from Operating Activities	
Receipts from LACMTA	\$ 457
Payments to vendors	(457)
Net cash flows from operating activities	-
Cash Flows from Non-Capital Financing Activities	
Proceeds from TIFIA loan	37,477
Advances to LACMTA for the construction of Crenshaw Transit project	(37,477)
Net cash flows from non-capital financing activities	-
Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents - beginning of year	-
Cash and cash equivalents - end of year	\$ -

The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements
June 30, 2015

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.

Note 1 – Reporting Entity

Crenshaw Project Corporation (CPC) was formed for the specific purpose of securing a loan from United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act (TIFIA) program for the construction of LACMTA's Crenshaw/LAX Transit Project (Project). The Project has an approved life-of-project (LOP) budget of \$2.05 billion that covers the design and construction of a new 8.5-mile double-track LRT line, including eight transit stations, 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 EXPO Line (at the intersection of Exposition and Crenshaw Boulevards) and the Metro Green Line near the existing Aviation/LAX Station.

CPC is governed by a Board consisting of the same members of the Board of Directors of LACMTA (the "Metro Board"). The Chair, First-Chair and Second-Chair of the Metro Board shall have the corresponding positions on the CPC Board. The Board may serve on the Board only as long as they are members of the Metro Board. Each Director shall serve a term commensurate with his or her term on the Metro Board. CPC is a component unit of LACMTA because it is financially dependent upon LACMTA and LACMTA's approval is needed for CPC to expend its budgets and issue long-term debt. Although CPC is a legally separate entity, and in substance part of LACMTA's operations, the data from CPC is included in LACMTA's financial data. These financial statements present only CPC and do not purport to, and do not, present fairly the financial position of Los Angeles County Metropolitan Transportation Authority, as of June 30, 2015, or the changes in the financial position for the year then ended.

Note 2 - Summary of Significant Accounting Policies

CPC's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The basic financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred, regardless of the timing of related cash flows.

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Fund Accounting

The proprietary fund type is used to account for ongoing operations and activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. CPC uses the proprietary fund type to account for the goods and services provided to LACMTA on a cost reimbursement basis. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues generally result from providing services in connection with CPC's ongoing operations. Operating expenses include professional services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. CPC applied all applicable Government Accounting Standard Board pronouncements in accounting and reporting for its proprietary operations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, including restricted assets with a maturity date of 90 days or less, are considered to be cash and cash equivalents. Otherwise, they are considered to be investments.

Note 3 – Due from LACMTA

Due from LACMTA consists of cash advances to partially finance the construction of the Project. As of June 30, 2015, the outstanding balance of due from LACMTA totaled \$37,477.

Note 4 – Notes Payable

In September, 2012, the CPC secured a loan not to exceed \$545,900 from USDOT under the TIFIA program to partially finance the construction of the Project. The loan, secured by a portion of LACMTA's Measure R sales tax revenues allocated to the Project, bears interest at 2.43% per annum on the outstanding balance with a maturity date of June 1, 2034. As of June 30, 2015, the outstanding balance of the TIFIA loan was \$37,477.

The CPC's annual debt service requirements (including accretion) are as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ (857)	\$ 857	\$ -
2017	(936)	936	-
2018	(960)	960	-
2019	(984)	984	-
2020	(1,009)	1,009	-
2021-2025	2,892	5,044	7,936
2026-2030	16,961	4,054	21,015
2031-2034	22,370	1,460	23,830
	<u>\$ 37,477</u>	<u>\$ 15,304</u>	<u>\$ 52,781</u>

Crenshaw Project Corporation
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Notes to the Financial Statements
June 30, 2015

The annual debt service requirements represent a proportionate share of the loan payments for the principal amount of \$545,900.

Note 5 – Subsequent Events

In July and August 2015, \$82,678 and \$143,751, respectively, were drawn down from the TIFIA loan to reimburse LACMTA for expenditures incurred on the Project.



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SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Service Authority for Freeway Emergencies (SAFE), a component unit of the Los Angeles County Metropolitan Transportation Authority (LACMTA), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises SAFE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of SAFE as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The basic financial statements of SAFE as of June 30, 2014, were audited by other auditors whose report dated February 11, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities and the major fund.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 5 and page 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
March 1, 2016

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
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Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

Management's discussion and analysis of the financial performance of the Service Authority for Freeway Emergencies (SAFE) presents an overview of SAFE's financial activities during the fiscal years ended June 30, 2015 and 2014. Management encourages readers to consider information presented here in conjunction with the financial statements (beginning on page 6). The financial statements, notes to the financial statements, and this discussion and analysis were prepared by management and are the responsibility of management. All dollar amounts are expressed in thousands unless otherwise indicated.

Financial Highlights

- Fiscal year 2015 net position decreased by \$5,164 or 17.37% compared to fiscal year 2014 mainly due to higher expenses for congestion relief operations.
- Total revenues are comprised of licenses and fines, intergovernmental revenue, and investment earnings. Licenses and fines revenue remained flat from 2014 to 2015. Investments earnings in fiscal year 2015 decreased by \$145 or 47.08% compared to fiscal year 2014 mainly due to unfavorable investment conditions.
- Expenses increased by \$2,279 or 20.94% in fiscal year 2015 compared to fiscal year 2014. The increase in expenses for fiscal year 2015 was mainly due to the implementation of MATIS (Motorist Aid Traveler Information System) and increase in the operating subsidy.

Overview of Financial Statements

This management's discussion and analysis serves as an introduction to SAFE's basic financial statements. SAFE's basic financial statements are comprised of three components: (1) the government-wide financial statements; (2) the fund financial statements, and (3) the notes to the basic financial statements. This report also contains required supplemental information in addition to the basic financial statements.

Government-wide financial statements provide a broad overview of SAFE's finances in a manner similar to private sector entities. The government-wide statements consist of: (1) the statements of net position, which present information on all of SAFE's assets and liabilities with the difference between the two being reported as net position, and (2) the statements of activities, which depict the changes in net position during the year. Trends of increasing or decreasing net position may serve as a useful indicator of financial health.

Fund financial statements represent the near-term inflows, outflows, and balances of spendable resources. The basic fund financial statements consist of: (1) the balance sheets, which present SAFE's assets and liabilities, with the difference between assets and liabilities being reported as fund balance; and (2) the statements of revenues, expenditures, and changes in fund balances. This report presents the underlying events or activities of the fund that affected the balance sheets.

The notes to the basic financial statements are various disclosures that accompany the government-wide and fund financial statements in order to provide a full understanding of SAFE's finances.

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Analytical Overview

The table below shows the condensed schedule of net position for fiscal years 2015, 2014, and 2013:

	Governmental Activities		
	Schedule of Net Position		
	2015	2014	2013
Total assets	\$ 25,678	\$ 30,624	\$ 33,903
Total liabilities	1,119	901	1,448
Total net position	\$ 24,559	\$ 29,723	\$ 32,455

Total assets decreased by \$4,946 or 16.64% in fiscal year 2015, and \$3,279 or 9.67% in fiscal year 2014. This was due to increases in capital and operating subsidies which were reported as transfers to the Los Angeles County Metropolitan Transportation Authority.

The total liabilities increased by \$218 or 24.20% mainly due to increase in program expenditures during the year and timing differences. Total liabilities for fiscal year 2014 decreased by \$547 or 37.78% below fiscal year 2013 due to a decrease in congestion relief operations program expenditures and lower unpaid Freeway Service Patrol (FSP) program expenditure reimbursement to LACMTA.

The following table is a condensed schedule of activities for the years ended June 30, 2015, 2014, and 2013:

	Governmental Activities		
	Summary Schedule of Activities		
	2015	2014	2013
Program expenses, net of revenue:			
Congestion relief operations net of revenue	\$ 8,205	\$ 6,353	\$ 7,355
Operating subsidies to the Los Angeles County Metropolitan Transportation Authority	4,956	4,529	933
Program expenses, net of revenue	13,161	10,882	8,288
General Revenues:			
Licenses and fines	7,834	7,842	7,607
Investment and earnings	163	308	53
Total general revenues	7,997	8,150	7,660
Change in net position	\$ (5,164)	\$ (2,732)	\$ (628)

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Factors Impacting Future Periods

For the foreseeable future, SAFE will continue to operate and manage the call box system (fixed and mobile) and the Southern California 511 traveler information system. In fiscal year 2015, SAFE completed an evaluation of the fixed call box system and obtained approval to proceed with a restructuring of the fixed call box system. This restructuring will begin in fiscal year 2016 and is expected to be completed in fiscal year 2017. The restructuring will result in the removal of approximately 400 call boxes and the reduction in the operating costs for the fixed call box system. The mobile call box service has been fully transitioned into Southern California 511 and will continue to operate as a motorist aid service similar to the fixed call box system thereby providing motorists with a readily available alternative to the fixed call box system. The Southern California 511 system is operated under contract and the contract is set to expire in June 2017. As a result, it is anticipated that during fiscal year 2017, overall costs to support 511 may increase as both the cost to maintain current operations and the anticipated development of the next generation system will need to be accounted for. The goal of the next generation 511 system will be to streamline operations and hopefully reduce or contain future operating costs. SAFE will continue to provide financial support to the Metro Freeway Service Patrol program as long as funds remain available. Finally, SAFE is also participating in the evaluation and possible integration of operations into the Los Angeles Transportation Management Center operated jointly by CHP and Caltrans. The purpose of this project is to evaluate opportunities to better utilize SAFE services in the overall management of the operation of the freeway system. It is anticipated that there will be a slight cost increase to support this project and future cost reductions will be realized through the operational improvements.

Further Information

This report has been designed to provide all interested parties with a general overview of SAFE'S financial condition and related issues. Inquiries should be directed to the Accounting Department, One Gateway Plaza, Mail Stop 99-20-7, Los Angeles, CA 90012-2952.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
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Statements of Net Position
June 30, 2015 and 2014
(Amounts expressed in thousands)

	Governmental activities	
	2015	2014
Assets:		
Cash and investments	\$ 24,918	\$ 30,501
Intergovernmental receivable	653	123
Interest receivable	107	—
Total assets	<u>25,678</u>	<u>30,624</u>
Liabilities:		
Accounts payable and accrued expenses	<u>1,119</u>	<u>901</u>
Total liabilities	<u>1,119</u>	<u>901</u>
Net position:		
Restricted	<u>24,559</u>	<u>29,723</u>
Total net position	<u>\$ 24,559</u>	<u>\$ 29,723</u>

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Statements of Activities
Years ended June 30, 2015 and 2014
(Amounts expressed in thousands)

	Governmental activities	
	2015	2014
Program expenses, net of revenue:		
Transit operations:		
Congestion relief operations	\$ 8,207	\$ 6,358
Less operating grants and contributions	(2)	(5)
Net congestion relief operations	<u>8,205</u>	<u>6,353</u>
Operating subsidies to the Los Angeles County Metropolitan Transportation Authority	<u>4,956</u>	<u>4,529</u>
Total program expenses, net of program revenue	<u>13,161</u>	<u>10,882</u>
General revenues:		
Licenses and fines	7,834	7,842
Investment and other earning	<u>163</u>	<u>308</u>
Total general revenues	<u>7,997</u>	<u>8,150</u>
Change in net position	(5,164)	(2,732)
Net position – beginning of year	<u>29,723</u>	<u>32,455</u>
Net position – end of year	<u><u>\$ 24,559</u></u>	<u><u>\$ 29,723</u></u>

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
 (A Component Unit of the
 Los Angeles County Metropolitan Transportation Authority)
 Balance Sheets
 June 30, 2015 and 2014
 (Amounts expressed in thousands)

	Special Revenue Fund	
	2015	2014
Assets:		
Cash and investments	\$ 24,918	\$ 30,501
Intergovernmental receivable	653	123
Interest receivable	107	-
Total assets	<u>25,678</u>	<u>30,624</u>
Liabilities:		
Accounts payable	<u>1,119</u>	<u>901</u>
Total liabilities	<u>1,119</u>	<u>901</u>
Fund balance:		
Restricted	<u>24,559</u>	<u>29,723</u>
Total fund balance	<u>24,559</u>	<u>29,723</u>
Total liabilities and fund balance	<u>\$ 25,678</u>	<u>\$ 30,624</u>

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
 (A Component Unit of the
 Los Angeles County Metropolitan Transportation Authority)
 Statements of Revenues, Expenditures, and Changes in Fund Balance
 Years ended June 30, 2015 and 2014
 (Amounts expressed in thousands)

	Special Revenue Fund	
	2015	2014
Revenues:		
Licenses and fines	\$ 7,834	\$ 7,842
Intergovernmental	2	5
Investment income	163	308
Total general revenues	<u>7,999</u>	<u>8,155</u>
Expenditures:		
Administration and other transportation projects	8,207	6,358
Subsidies to the Los Angeles County Metropolitan Transportation Authority	4,956	4,529
Total expenditures	<u>13,163</u>	<u>10,887</u>
Net change in fund balance	(5,164)	(2,732)
Fund balance - beginning of year	29,723	32,455
Fund balance - end of year	<u>\$ 24,559</u>	<u>\$ 29,723</u>

See accompanying notes to the basic financial statements.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
(A Component Unit of the
Los Angeles County Metropolitan Transportation Authority)
Notes to the Basic Financial Statements
June 30, 2015 and 2014

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 indicated, all dollar amounts are expressed in thousands.

(1) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The Service Authority for Freeway Emergencies (SAFE) was created in February 1988 pursuant to California Streets and Highway Code Section 2550 et seq., and is responsible for the operation, maintenance, and administration of the Los Angeles County Kenneth Hahn Call Box system. Under the authority of the above section, the Los Angeles County Metropolitan Transportation Authority (LACMTA) is the designated SAFE for Los Angeles County.

As LACMTA's board is SAFE's board, SAFE is a component unit of LACMTA and is included in LACMTA's financial statements as a blended component unit.

(b) *Operations*

SAFE is responsible for the implementation, maintenance, operation, and administration of motorist aid on the network of freeways, highways, and unincorporated county roads within Los Angeles County. SAFE operates and maintains approximately 2,700 call boxes along 436 miles of freeways, state highways, and selected county roads in Los Angeles County. SAFE also funds, operates and manages the Southern California 511 traveler information system. This system provides real-time and planned traffic, transit and other related traveler information to the public via the phone, web and mobile application.

(c) *Government-wide Financial Statements*

SAFE's financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, consist of government-wide statements, including a statement of net position, 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 agency and are reported using the economic resources measurement focus and the accrual basis of accounting.

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. Licenses and fines and investment earnings not considered program revenues are reported as general revenues.

SERVICE AUTHORITY FOR FREEWAY EMERGENCIES
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Notes to the Basic Financial Statements
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(d) *Fund Accounting*

SAFE utilizes fund accounting to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary.

Governmental funds are used to account for SAFE's activities. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Additionally, the SAFE fund is considered a special revenue governmental fund. Special revenue funds are used to account for specific revenue sources that are legally restricted to specific purposes. 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, SAFE 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.

(e) *Fund Balance and Net Position*

Restricted fund balance and net position include amounts that can be spent only for specific purposes stipulated by enabling legislation, by grants, creditors, or by regulations of other governments. SAFE's fund balance and net position were classified as restricted as they can only be used in accordance with the provisions of the California Streets and Highway Code Section 2550 et seq by which the fund was created.

(f) *Budgetary Accounting*

Enabling legislation and adopted policies and procedures provide that the SAFE Board of Directors approve an annual budget. The Board of Directors conducts a public hearing for discussion of the proposed annual budget prior to adoption of the final budget. Unexpended appropriations lapse at year-end. The legal level of control is at the fund level, and expenses may not exceed total appropriations without board approval. By policy, the board has provided procedures for management to make revisions within operational or project budgets when there is no net dollar impact to total appropriations. The budget is prepared on a GAAP basis.

(g) *Cash and Investments*

SAFE maintains a minimum balance with the Los Angeles County Treasurer's external investment pool. Balances in excess of \$50 are withdrawn and deposited into the LACMTA internal investment pool. Cash and investments are reported at fair market value which is the quoted market price.

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(h) *Receivables*

Receivables are net of estimated allowances for uncollectible accounts which are determined based on past experience. Receivables includes license and fine revenue due from the State Department of Motor Vehicles.

(i) *License and Fines*

License and fines revenue is recognized when earned and is generated by a \$1 (amount not in thousands) per car registration fee in Los Angeles County, which is receivable from the State Department of Motor Vehicles.

(j) *Effects of New GASB Pronouncements*

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

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. The implementation of the new reporting requirements of GASB 68 did not have any impact on SAFE.

In January 2013, GASB issued Statement No. 69, *"Government Combinations and Disposals of Government Operations."* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Government mergers include combinations of legally separate entities without the exchange of significant considerations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. This Statement also provides guidance for transfers of operations that do not constitute legally separate entities and in which no significant consideration is exchanged. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The implementation of the new reporting requirements of GASB 69 did not have any impact on SAFE.

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In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68*. This Statement amends paragraph 137 of Statement 68 which requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition, only if it is practical to determine all such amounts. At transition to Statement 68, Statement 71 states that if it is not practical for an employer or non-employer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. The implementation of the new reporting requirements of GASB 71 did not have any impact on SAFE.

In February 2015, GASB issued Statement No. 72 *“Fair Value Measurement and Application.”* This standard is applicable primarily to investments made by state and local governments and defines fair value and describes how fair value should be measured, identifies the assets and liabilities that should be measured at fair value, and requires specific information about fair value to be disclosed in the financial statement. This new standard also expands note disclosures to categorize fair values according to their relative reliability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. SAFE plans to implement the new reporting requirement of GASB 72 for the fiscal year ending June 30, 2016, if applicable.

In June 2015, GASB issued Statement No. 73 *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68,”* and *“Amendments to Certain Provisions of GASB Statements 67 and 68.”* GASB Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2016, if applicable.

In June 2015, GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* which replaces GASB Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*. Statement 74 addresses the financial reports of defined retiree benefit by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires additional disclosures and RSI related to the measurement of the retiree benefit plan liabilities with accumulated assets, including information about the annual money-weighted rates of return on plan investments. The requirements of this Statement are effective for fiscal years

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beginning after June 15, 2016. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2017, if applicable.

In June 2015, GASB issued Statement No. 75 *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* which replaces the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (retiree benefits)”. Statement No. 75 directs governments to report a liability on their financial statements for their retiree benefits. It requires governments in all types of retiree benefit plans to present additional disclosures and supplementary information (RSI) about their retiree benefit liabilities. The requirements of Statement 75 are effective for fiscal years beginning after June 15, 2017. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2018, if applicable.

In June 2015, GASB issued Statement No. 76 *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”* which reduces the GAAP hierarchy from four categories under GASB Statement No. 55 to two categories. The first category consists of GASB Statements of Governmental Accounting Standards; the second category comprises GASB Technical Bulletins, Implementation Guides, and guidance from the AICPA. The most significant change is the raising of the level of authority of the Implementation Guides. The Statement also addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. That will improve the usefulness of financial statement information for making decisions, assessing accountability, and enhancing the comparability of financial statement information among governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2016, if applicable.

In August 2015, GASB issued Statement No. 77 *“Tax Abatement Disclosures.”* This statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by abatement recipients, 2) the gross dollar amount of taxes abated during the period, and 3) commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement are effective for fiscal years beginning after December

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15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2017, if applicable.

In December 2015, GASB issued Statement No. 78 “*Pension Provided Through Certain Multiple-employer Defined Benefit Pension Plan.*” This statement amends the scope and applicability of GASB 68 to exclude pensions provided to benefit pension plan that; 1) is not a state or local governmental pension plan, 2) is used to provide define benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and 3) has no predominant state or local governmental employer (either individual or collectively with other states or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for fiscal years beginning after December 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2017, if applicable.

In December 2015, GASB issued Statement No. 79, “*Certain External Investment Pools and Pool Participants.*” This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The provisions of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. SAFE plans to implement the new reporting requirements for the fiscal year ending June 30, 2016, if applicable.

In January 2016, GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units.*” This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, “*Determining Whether Certain Organizations Are Component Units.*” The requirements of this Statement are effective for fiscal years beginning after June 15, 2016. SAFE plans to implement the new requirements for the fiscal year ending June 30, 2017, if applicable.

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(2) Cash and Investments

The following is a breakdown of SAFE's cash and investments as of June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
LACMTA investment pool	\$ 24,868	\$ 29,752
Los Angeles County investment pool	50	749
Total	<u>\$ 24,918</u>	<u>\$ 30,501</u>

SAFE cash balances are pooled with other LACMTA funds participating in the investment pool by the LACMTA Treasurer. These funds are subject to withdrawal from the Treasurer's pool upon demand. The LACMTA Board of Directors provides regulatory oversight for the LACMTA pool. Each fund maintains an equity interest in the pool and is presented as cash and investments in the Statement of Net Position. The fair value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2015 and 2014. Detailed information regarding the LACMTA's pooled cash and investments can be found in the LACMTA Comprehensive Annual Financial Report (CAFR). A copy of the LACMTA's CAFR can be obtained by submitting a written request to the Accounting Department, One Gateway Plaza, Los Angeles, CA 90012-2952.

SAFE cash balances are also pooled with other County funds and invested by the Los Angeles County Treasurer. These funds are subject to withdrawal from the Treasurer's pool upon demand. The County Board of Supervisors provides regulatory oversight for the Los Angeles County Investment Pool (LACIP). The fair value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2015 and 2014. Detailed information regarding the County's pooled cash and investments can be found in the County of Los Angeles Comprehensive Annual Financial Report (CAFR). A copy of the County's CAFR can be obtained by submitting a written request to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.

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 concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk are discussed in the following paragraphs:

(a) 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. SAFE maintains investment policies that establish thresholds for holdings of individual securities. SAFE does not have any holdings meeting or exceeding these threshold levels. As of June 30, 2015, SAFE does not have any investments with more than 5% of the total investments under one issuer except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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(b) Custodial Credit Risk

SAFE 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.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. SAFE measures interest rate risk on its short-term investments using the effective duration method. SAFE maintains policy requiring the average duration of the externally managed short-term investments not to exceed 150% 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. SAFE measures interest rate risk on its bond proceeds and debt service investments using the weighted average maturity method.

(d) 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, 2015, there is no exposure to currency risk as all SAFE cash deposits and investments are denominated in U.S. dollar currency.

(3) Significant Commitments

SAFE has entered into a Memorandum of Understanding (MOU) with the Public Transportation Services Corporation (PTSC), a blended component unit of LACMTA, for PTSC to provide cost reimbursable administrative support services to SAFE. The MOU will remain in effect until terminated by either party with a minimum of sixty (60) days written notice.

SAFE had \$2,583 of outstanding contractual commitments as of June 30, 2015 that had not been claimed or disbursed.

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Statements of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
For the years ended June 30, 2015 and 2014
(Amounts expressed in thousands)

	2015				2014			
	Original Budget ¹	Final Budget ¹	Actual	Variance with Final Budget	Original Budget*	Final Budget *	Actual	Variance with Final Budget
Revenues:								
Licenses and fines	\$ 9,000	\$ 9,000	\$ 7,834	\$ (1,166)	\$ 8,325	\$ 8,325	\$ 7,842	\$ (483)
Intergovernmental	-	-	2	2	-	-	5	5
Investment income	500	500	163	(337)	500	500	308	(192)
Total revenues	9,500	9,500	7,999	(1,501)	8,825	8,825	8,155	(670)
Expenditures:								
Administration and other transportation projects	11,707	11,589	8,207	3,382	11,760	11,705	6,358	5,347
Subsidies to the Los Angeles County Metropolitan Transportation Authority	5,000	5,000	4,956	(44)	1,500	1,500	4,529	(3,029)
Total expenditures	16,707	16,589	13,163	3,426	13,260	13,205	10,887	2,318
Net change in fund balances	(7,207)	(7,089)	(5,164)	1,925	(4,435)	(4,380)	(2,732)	1,648
Fund balances – beginning of year	29,723	29,723	29,723	-	32,455	32,455	32,455	-
Fund balances – end of year	\$ 22,516	\$ 22,634	\$ 24,559	\$ 1,925	\$ 28,020	\$ 28,075	\$ 29,723	\$ 1,648

* Budget prepared in accordance with GAAP.