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**FINANCE, BUDGET AND AUDIT COMMITTEE  
APRIL 17, 2019**

**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, 2018.

**ISSUE**

Metro is 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, 2018:

- Comprehensive Annual Financial Report for the Los Angeles County Metropolitan Transportation Authority for the year ended June 30, 2018;
- Independent Auditor's SAS 114 letter covering required communications; Los Angeles County Metropolitan Transportation Authority Single Audit Report for fiscal year ended June 30, 2018;
- Independent Accountant's 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, 2018;
- Independent Accountant's Report on Applying Agreed-Upon Procedures National Transit Database Financial Data Procedures by the Los Angeles County Metropolitan Transportation Authority for the Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2018;
- Independent Auditor's Report on Compliance with the California Code of Regulations (Section 6667); Report on Internal Control over Compliance; and Report on 50% Expenditure Limitation Schedule for the Los Angeles County Metropolitan Transportation Authority Transportation Development Act Operations Agency for the fiscal year ended June 30, 2018;
- Independent Auditor's Report on Compliance with the California Code of Regulations (Sections 6640-6662); Report on Internal Control over Compliance; 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 fiscal year ended June 30, 2018;
- Independent Auditor's 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 ended June 30, 2017 and 2018;
- Independent Auditor's Report on the Crenshaw Project Corporation (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) basic financial statements as of June 30, 2018;
- Independent Auditor's Report on the Service Authority for Freeway Emergencies (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) financial statements for the year ended June 30, 2018; and
- Independent Auditor's Report on Compliance with Rules and Regulations of the Low Carbon Transit Operations Program (LCTOP) and Report on Internal Control over Compliance for the Los Angeles County Metropolitan Transportation Authority's compliance with the LCTOP Guidelines for the fiscal year ended June 30, 2018.

## **DISCUSSION**

Metro's basic financial statements include our audited financial statements, supplemental information and unmodified audit opinion from independent external auditor, Crowe. The independent auditor, Crowe, issued unmodified opinions on all audit reports for FY18. Unmodified opinion means that all financial statements for FY18 were fairly presented and that Metro complied in all material respects with the applicable financial reporting framework and compliance requirements respectively. However, in the Single Audit Report, Crowe noted one significant deficiency in our internal control over compliance with major federal programs pertaining to sub-recipient monitoring of federal awards. Specifically, City of Pasadena self-certified that it did not meet the threshold requirement for a single audit. Metro is required to verify that each pass-through sub-recipient entities is audited if required by the single audit requirements. Instead of relying on the sub-recipient's self-certification, Metro's Grants Management will implement preventative controls by clarifying to sub recipients that in completing their annual self-certification, the response applies to the entire entity federal awards and not just the particular grant. Additionally, Grants Management will verify the sub-recipients' responses using the search on Federal Audit Clearinghouse to ensure that no single audit is required for the sub-recipients.

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

[https://media.metro.net/about\\_us/finance/images/fy18\\_cafr.pdf](https://media.metro.net/about_us/finance/images/fy18_cafr.pdf)

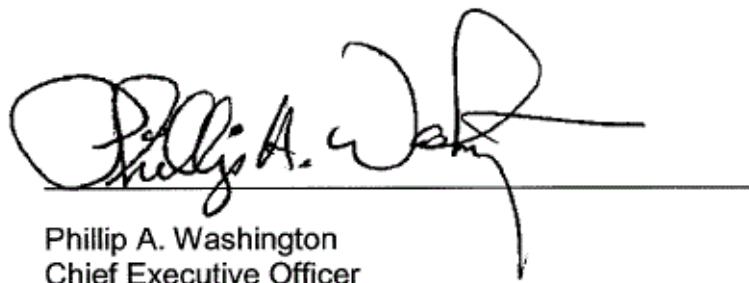
## **ATTACHMENTS**

- Attachment A - SAS 114 letter covering required communications;
- Attachment B - Single Audit Report for fiscal year ended June 30, 2018;
- Attachment C - Federal Funding Allocation Data for the Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2018;
- Attachment D - National Transit Database Financial Data Procedures by the Los

- Angeles County Metropolitan Transportation Authority for the Transportation Operating Agency (ID# 90154) for the fiscal year ended June 30, 2018;
- Attachment E - Transportation Development Act Operations Agency for the fiscal year ended June 30, 2018;
- Attachment F - Transportation Development Act & Prop 1B PTMISEA Planning Agency for the fiscal year ended June 30, 2018;
- Attachment G - State Transit Assistance Special Revenue Fund's basic financial statements as of and for the years ended June 30, 2017 and 2018;
- Attachment H - Crenshaw Project Corporation (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) basic financial statements as of June 30, 2018;
- Attachment I - Service Authority for Freeway Emergencies (A Component Unit of the Los Angeles County Metropolitan Transportation Authority) financial statements for the year ended June 30, 2018;
- Attachment J - Low Carbon Transit Operations Program (LCTOP) and Report on Internal Control over Compliance for the fiscal year ended June 30, 2018

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Phillip A. Washington  
Chief Executive Officer



**Crowe LLP**  
Independent Member Crowe Global

December 19, 2018

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 LACMTA for further information on the responsibilities of management and of Crowe 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 regarding the planned scope and timing of the audit were discussed with you.

- How we proposed to address 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 will use the work of internal audit, and how the external and internal auditors can best work together.
- Your views and knowledge of 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: Those Charged with Governance should be informed of the initial selection of and changes in significant accounting policies or their application. Also, Those Charged with Governance 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 Those Charged with Governance about such matters. To assist Those Charged with Governance in its oversight role, we also provide the following.

Accounting Standard	Impact of Adoption
<p><b>GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits other than Pensions.”</b></p> <p>The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.</p>	<p>Upon adoption of this Statement, LACMTA restated business-type activities net position as of July 1, 2017 by \$956,045,000.</p>
<p><b>Significant Unusual Transactions.</b></p>	<p>No such matters noted.</p>
<p><b>Significant Accounting Policies in Controversial or Emerging Areas.</b></p>	<p>No such matters noted.</p>

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
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.
Loss Contingencies	LACMTA consults with legal counsel to evaluate outstanding litigation, claims and assessments. Factors that affect management's evaluation of litigation contingencies requiring disclosure include the nature of the contingencies and whether the outcome could have an effect on the consolidated financial statements.	Based on information obtained from LACMTA's legal counsel regarding this matter and discussions with management, we concur with management's determination that the loss contingency does not meet conditions for accrual of being both probable and estimable, and, thus, no accrual is recorded and no specific disclosures are required.
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.

**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.

There were no such misstatements.

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.

Refer to the discussion of uncorrected misstatements below as well as the attached summary of waived adjustments.

1. Two known misstatements and one likely misstatement were waived by management relating to the generation and sale of low carbon fuel standards (LCFS) credits, a program administered by the California Air Resources Board. LACMTA generates these credits through the usage of low carbon fuel options, such as CNG and propulsion power, activities that are recorded on the Enterprise fund (business-type activities). Thus, the revenue from the sales of these credits should be recorded on the Enterprise fund. However, management has recorded the revenue on the General fund to provide greater visibility to the revenue being generated.

The first known waived adjustment is to reverse the revenue recorded from the sale of credits in FY 2018 in the General fund and present it as an operating transfer from the Enterprise fund in the amount of \$20.3 million. The second waived adjustment records the \$20.3 million of revenue on the Enterprise fund and the transfer of the funds to the General fund in operating transfers out.

In addition to reclassifying the revenue between LACMTA's funds, we also noted that the number of credits held as of the reporting date, multiplied by their estimated fair value, should be recorded as an asset based on the GASB's definition of an asset. This resulted in a likely misstatement that understated Enterprise fund assets by approximately \$43.5 million, understated revenue by approximately \$16.9 million, and understated net position by approximately \$26.6 million. The misstatement of net position represents the estimated value of LCFS credits that were held as of June 30, 2017, which was reported as waived adjustment in the FY 2017 audit.

2. A known misstatement relating to interest relating to construction projects was waived by management. Certain of LACMTA's rail projects have related TIFIA loans that were issued specifically for their construction. The proceeds drawn on these loans were not removed from the balance of qualifying assets as prescribed by GASB 62. This errors resulted in an overstatement of assets and understatement of interest expense on the Enterprise fund of \$38.9 million.
3. A known misstatement was waived by management to reverse revenue and receivables relating to amounts originally billed to Caltrans that were subsequently determined to be billed internally. The result was an overstatement of revenue and receivables in the amount of \$3.9 million.
4. Known misstatements to properly defer revenue relating to receivables not collected within 90 days were waived by management. In October 2018, LACMTA received a late cleanup payment of sales tax which impacted the Proposition A fund, Proposition C fund, Measure R fund, Measure M fund, and TDA fund. As a result, deferred revenues were understated and revenues are overstated by \$12.5 million each for the Proposition A fund, Proposition C fund, Measure R fund, and Measure M fund and \$6.6 million for the TDA fund.
5. A known misstatement was waived by management to restate opening net position for revenue that related to a prior period. As a result, revenues were overstated and net position was understated by \$1.5 million.

## OTHER COMMUNICATIONS

Communication Item	Results
<p><b>Other Information In Documents Containing Audited Financial Statements</b> 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 understand that management has not prepared such information to accompany the audited financial statements.</p>
<p><b>Significant Difficulties Encountered During the Audit</b> 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><b>Disagreements With Management</b> 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><b>Consultations With Other Accountants</b> 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><b>Representations The Auditor Is Requesting From Management</b> 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><b>Significant Issues Discussed, or Subject to Correspondence, With Management</b> 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><b>Significant Related Party Findings and Issues</b> 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>
<p><b>Other Findings or Issues We Find Relevant or Significant</b> 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 LLP*  
Crowe LLP

Los Angeles, California  
December 19, 2018

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY**  
**WAIVED ENTRY SCHEDULE**  
 June 30, 2018  
 (amounts in thousands)

Opinion Unit	Account Name	Debit	Credit	Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Increase (Decrease)			
							Revenues	Expenses / Expenditures	Other Financing Sources	
1 Business-type activities	LCFS asset	43,493		43,493						
	Other revenue		16,852				16,852			
	Net position		26,641			26,641				
	Operating transfers out	20,332								(20,332)
	Other revenue		20,332					20,332		
General fund	Miscellaneous revenue	20,332					(20,332)			
	Operating transfers in		20,332							20,332
2 Business-type activities	Interest expense	38,881								38,881
	Construction in progress		38,881	(38,881)						
3 Proposition C	Intergovernmental revenue	3,934								(3,934)
	Intergovernmental receivable		3,934	(3,934)						
4 Proposition A	Intergovernmental revenue	12,540								(12,540)
	Deferred revenue		12,540		12,540					
Proposition C	Intergovernmental revenue	12,540								(12,540)
	Deferred revenue		12,540		12,540					
Measure R	Intergovernmental revenue	12,540								(12,540)
	Deferred revenue		12,540		12,540					
Measure M	Intergovernmental revenue	12,524								(12,524)
	Deferred revenue		12,524		12,524					
TDA	Intergovernmental revenue	6,568								(6,568)
	Deferred revenue		6,568		6,568					
5 Aggregate Remaining	License and fines revenue	1,458								(1,458)
	Net position		1,458			1,458				



**LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY**

**SINGLE AUDIT REPORT**

Fiscal year ended June 30, 2018

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
Los Angeles, California

SINGLE AUDIT REPORT  
Fiscal year ended June 30, 2018

CONTENTS

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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	1
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 AWARDS REQUIRED BY THE UNIFORM GUIDANCE .....	3
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS .....	6
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS .....	9
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	10



**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 fiscal year ended June 30, 2018, 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 19, 2018. 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 financial statements of the defined benefit pension plan 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. 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.

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(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*.

## **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 LLP

Los Angeles, California  
December 19, 2018

**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 THE UNIFORM GUIDANCE**

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 Compliance Supplement* that could have a direct and material effect on each of LACMTA's major federal programs for the fiscal year ended June 30, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 fiscal year ended June 30, 2018.

## 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 the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, as item 2018-001, that we consider to be a significant deficiency.

LACMTA's response to the internal control over compliance findings identified in our audit are 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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(Continued)

## Report on Schedule of Expenditures of Federal and State Awards Required by Uniform Guidance

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 fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 19, 2018, 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 the Uniform Guidance 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 expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Crowe LLP*

Crowe LLP

Los Angeles, California  
December 19, 2018

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
Fiscal year ended June 30, 2018**

		Total expended under federal/state/local for the fiscal year ended June 30, 2018						
Federal Grants	Federal grantor/cluster title/program title/pass-through grantor/project title	CFDA Number	Direct Program and Pass-through Grant Identifying Number	Total Award	Total	Federal Share passed through to subrecipients	State Share	Local Share
U.S. Department of Transportation								
Federal Transit Administration								
Passed through the State of California Department of Transportation:								
Highway Planning and Construction Cluster								
Highway Planning and Construction								
	Extension of Transit way on 1-110 to Downtown LA	20.205	FHWA 07-278008	6,272,631	898,221	718,577	-	179,644
	Active Transportation Education Program	20.205	CMLNI 6065 (190)	4,000,000	(135,487)	(133,747)	-	(1,739)
	Union Station Master Plan: Alameda Esplanade	20.205	07-6065F15-F022_A1PL-6065(209)	2,150,000	416,634	258,567	-	158,067
	Freight Advanced Traveler Information System (FRATIS)	20.205	ATCMTDL-6065(216)	3,000,000	11,530	5,765	-	5,765
	Project Approval/Environmental Document for I-105 Express Lanes	20.205	CML-6065(223)	2,607,000	873,235	275,593	-	597,642
Direct Programs:								
	Pedestrian and Pedestrian Mobility	20.205	CA-15-X005	800,000	224,691	224,691	-	-
	Reconstruct Cabrillo Male Terminal	20.205	CA-70-X017	2,400,000	210,390	168,312	-	42,078
	Highway Planning and Construction Cluster Total			21,229,631	2,492,214	1,517,757	-	981,457
Direct Programs:								
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program								
	Transportation Infrastructure Finance and Innovation Act (TIFIA) Program - Regional Connector	20.223	2013-1008A	160,000,000	55,894,820	55,894,820	-	-
	Transportation Infrastructure Finance and Innovation Act (TIFIA) Program - Westline Purple Line Extension - Section 1	20.223	2013-1009A	856,000,000	258,421,577	258,421,577	-	-
	Transportation Infrastructure Finance and Innovation Act (TIFIA) Program - Westline Purple Line Extension - Section 2	20.223	2013-1003A	307,000,000	207,000,000	207,000,000	-	-
	TIFIA Program Total			1,323,000,000	521,316,397	521,316,397	-	-
Direct Programs:								
Federal Transit Cluster								
Federal Transit - Capital Improvement Grants								
	Metrolink System Gap Closure	20.500	CA-03-0796	16,700,000	779,146	506,445	-	272,701
	Ped./pass ehan & 22' alt. Fuel bus	20.500	CA-03-0783	1,214,721	448,233	358,587	-	89,647
	Trans Ctr / Bus Park & Shelters	20.500	CA-04-0088	5,570,560	1,525,284	1,220,227	-	305,057
	Flng Engineering of Transit Centers	20.500	CA-04-0094	7,131,578	118,955	95,164	-	23,791
	Transit Centers & Expansion Buses	20.500	CA-04-0161	2,819,500	568,687	455,631	-	112,855
	Wilshire Blvd. Bus Only Lane	20.500	CA-03-0815	23,317,000	2,344,532	1,855,598	-	488,934
	Regional Connection Transit Corridor Construction	20.500	CA-2016-046	300,000,000	160,289,294	111,903,278	-	48,386,015
	Passenger and Pedestrian Enhancements	20.500	CA-04-0067	2,502,232	521,604	417,283	-	104,321
	Westside Purple Line Ext. - Section 1	20.500	CA-2016-017	300,000,000	36,749,859	142,836,944	-	(106,087,085)
	Westside Purple Line Extension 2 - FFGA	20.500	CA-2016-047	300,000,000	(37,446,713)	118,203,798	-	(155,650,511)
	Los Angeles Union Station/Cesar Chavez Bus Stop	20.500	CA-2016-123-00	1,668,557	228,622	182,897	-	45,724
	Map-2/ Section 20005(b) West Santa Ana Branch Transit Corridor TOD Strategic Implementation Plan	20.500	CA-2017-044	2,000,000	1,228,148	982,518	-	245,630
	Federal Transit - Capital Improvement Grants Total			962,924,148	167,355,650	379,018,571	-	(211,662,921)
Federal Transit - Formula Grants								
	Subgrantee Vehicles/Transit facilities	20.507	CA-90-Y114	5,985,469	1,107,708	886,166	-	221,542
	Metrolink Rapid Bus Stations/Signal Priority	20.507	CA-90-Y261	28,919,529	103,949	103,949	-	-
	Metrolink Rapid Bus Program	20.507	CA-90-Y457	11,081,700	36,675	36,675	-	-
	FY17 CMAQ Westside Purple Line Extension Section 1	20.507	CA-2018-009	476	826	476	-	350
	Regional Connection Transit Corridor Construction	20.507	CA-95-X251	64,000,000	181,048	160,280	-	20,766
	Light Rail Vehicle Acquisition	20.507	CA-95-X246-01	120,872,000	83,620,273	73,353,745	-	10,266,528
	Systemwide Light Rail Vehicles	20.507	CA-2016-026	47,030,000	59,831,814	53,118,214	-	6,713,600
	Systemwide Light Rail Vehicles - CMAQ	20.507	CA-2018-093	42,000,000	107,160	94,869	-	12,291
	Westside Purple Line Ext. - Section 2 CMAQ	20.507	CA-2016-045	43,000,000	79,975,316	20,297,480	-	59,678,837
	Pass / Ped. Enhancements and Improvements	20.507	CA-95-X227	2,996,000	1,504,681	1,203,745	-	300,936
	Subrecipient Bus Procurement	20.507	CA-95-X329	6,952,873	2,679,923	2,143,938	-	535,985
	Glendale Baseline CNG Mnic/Adm. Facility	20.507	CA-95-X061	3,650,000	75,000	60,000	-	15,000
	Signage and Lighting for Bus Stops	20.507	CA-2016-025	733,533	327,182	261,753	-	65,438
	Willowbrook/Rosa Parks Pedestrian Promenade & Bike Mobility Hub	20.507	CA-2016-012	445,000	435,080	346,064	-	87,016

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

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
Fiscal year ended June 30, 2018**

Total expended under federal/state/local for the fiscal year ended June 30, 2018									
Federal grantor/cluster title/program title/pass-through grantor/project title	CFDA Number	Direct Program and Pass-Through Grant Identifying Number	Total Award	Total	Federal Share	Federal Share passed through to subrecipients	State Share	Local Share	
Airport Metro Connector and Crenshaw / LAX Accommodation	20.507	CA-2016-062	35,648,778	9,244,207	9,244,207	-	-	-	
Metro Gold Line Foothill Extension Operating Assistance	20.507	CA-2016-029-01	41,400,000	30,185,052	24,148,041	-	1,619,179	4,417,832	
Metro EXPO Line Phase II Operating Assistance	20.507	CA-2016-029-03	43,059,032	22,144,598	17,715,678	-	1,841,652	2,587,268	
Congestion Mitigation and Air Quality Improvement (CMAQ) program	20.507	CA-2017-042	2,206,000	1,799,569	1,055,519	1,055,519	-	744,050	
5307/5340 LA Metro FY18 Rail Preventive Maintenance - Growing State Funds	20.507	CA-2018-066-03	3,279,151	4,098,939	3,279,151	-	-	819,788	
5307 LA Metro FY18 Rail Preventive Maintenance - Urbanized Area	20.507	CA-2018-066-04	5,103,189	6,378,986	5,103,189	-	-	1,275,797	
FY18 Section 5307 Bus Preventive Maintenance	20.507	CA-2018-074	133,629,528	167,036,910	133,629,528	-	-	33,407,382	
5307/5340 LA Metro FY18 Rail Preventive Maintenance - Growing State Funds	20.507	CA-2018-066-01	9,037,114	11,296,393	9,037,114	-	-	2,259,279	
<b>Federal Transit - Formula Grants Total</b>			<b>651,070,372</b>	<b>482,172,297</b>	<b>355,281,781</b>	<b>5,349,368</b>	<b>3,460,831</b>	<b>123,429,865</b>	
<b>State of Good Repair Grants Program</b>									
LA Metro FY17 Rail Preventive Maintenance - Fixed Guideway Funds	20.525	CA-2017-064-03	99,534,460	4,641,120	3,712,896	-	-	928,224	
5337 LA Metro Rail Vehicle Midlife Overhauls	20.525	CA-2018-031	86,251,460	30,122,791	24,098,233	-	-	6,024,558	
5337 LA Metro FY18 Rail Preventive Maintenance - Fixed Guideway Funds	20.525	CA-2018-066-01	9,780,202	12,225,253	9,780,202	-	-	2,445,051	
5337 LA Metro FY18 Rail Preventive Maintenance - High Intensity Motorbus Funds	20.525	CA-2018-066-02	3,091,620	3,864,525	3,091,620	-	-	772,905	
5337 LA Metro FY18 Rail Preventive Maintenance - High Intensity Motorbus Funds	20.525	CA-2018-066-02	6,076,930	7,596,163	6,076,930	-	-	1,519,233	
5337 LA Metro FY18 Rail Preventive Maintenance - Fixed Guideway Funds	20.525	CA-2018-066-03	87,499,102	109,373,678	87,499,102	-	-	21,874,776	
<b>State of Good Repair Grants Program Total</b>			<b>292,233,774</b>	<b>167,823,730</b>	<b>134,256,983</b>	<b>-</b>	<b>-</b>	<b>33,564,747</b>	
<b>Bus and Bus Facilities Formula Program</b>									
FY18/17 Section 5339 Bus Acquisitions, CNG Lease, Workforce Dev/Training, and Preventive Maintenance	20.526	CA-2018-062	43,491,979	30,861,359	24,689,087	-	-	6,172,272	
<b>Bus and Bus Facilities Formula Program Total</b>			<b>43,491,979</b>	<b>30,861,359</b>	<b>24,689,087</b>	<b>-</b>	<b>-</b>	<b>6,172,272</b>	
<b>Federal Transit Cluster Total</b>			<b>1,949,720,273</b>	<b>848,213,036</b>	<b>893,248,422</b>	<b>7,896,460</b>	<b>3,460,831</b>	<b>(48,496,217)</b>	
<b>Transit Services Programs Cluster</b>									
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	CA-16-0063	693,120	85,181	85,181	85,181	-	-	
Enhanced Mobility of Seniors and Individuals with Disability Program	20.513	CA-16-X066	6,092,451	2,261,766	1,834,545	1,834,545	-	327,221	
30-ft Bus Procurement	20.513	CA-16-X067-01	7,072,604	163,698	139,277	139,277	-	24,420	
L.A. County Section 5310 Program Administration	20.513	CA-2018-029	1,043,894	52,757	52,757	-	-	-	
<b>Enhanced Mobility of Seniors and Individuals with Disabilities Total</b>			<b>14,902,069</b>	<b>2,563,401</b>	<b>2,211,760</b>	<b>2,159,003</b>	<b>-</b>	<b>351,642</b>	
<b>Job Access and Reverse Commute Program</b>									
LA County Job Access and Reverse Commute Program, Administration, FY 06-12	20.516	CA-37-X071	5,032,849	238,094	238,094	-	-	-	
Job Access and Reverse Commute Program, Project - LA County Job Access and Program Project	20.516	CA-37-X100	10,343,881	901,679	704,028	704,028	-	197,651	
Job Access and Reverse Commute - Capital/Operating Assist.	20.516	CA-37-X123	13,878,024	408,634	204,317	138	-	204,317	
LA County Job Access and Program Project - Capital/Operating Assist.	20.516	CA-37-X171	7,711,637	679,203	679,203	679,203	-	-	
<b>Job Access and Reverse Commute Program Total</b>			<b>36,966,391</b>	<b>2,227,610</b>	<b>1,825,643</b>	<b>1,383,369</b>	<b>-</b>	<b>401,967</b>	
<b>New Freedom Program</b>									
New Freedom - Program Adm, FY06-12	20.521	CA-57-X003	2,152,346	151,099	151,099	-	-	-	
New Freedom - Capital & Operating, Assistance	20.521	CA-57-X048	1,755,553	121,280	86,261	86,261	-	35,019	
New Freedom - Capital & Operating, Assistance	20.521	CA-57-X084-01	8,702,026	1,474,193	1,435,097	1,435,097	-	39,096	
New Freedom - Capital & Operating, Assistance	20.521	CA-57-X100	7,354,678	396,582	203,807	203,807	-	192,776	
<b>New Freedom Program Total</b>			<b>19,964,603</b>	<b>2,143,154</b>	<b>1,876,264</b>	<b>1,725,165</b>	<b>-</b>	<b>266,890</b>	
<b>Transit Services Cluster Total</b>			<b>71,833,063</b>	<b>6,934,165</b>	<b>5,913,667</b>	<b>5,267,538</b>	<b>-</b>	<b>1,020,499</b>	

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

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
Fiscal year ended June 30, 2018**

Federal grantor/cluster, title/program title/pass-through grantor/project title		CFDA Number	Direct Program and Pass-Through Grant Identifying Number	Total Award	Total	Federal Share	Federal share passed through to subrecipients	State Share	Local Share
<b>Research and Development Cluster</b>									
Public Transportation Research, Technical Assistance, and Training									
Platform Track Intrusion Detection Demo									
LA County and Puget Sound First / Last Mile Partnership with Lyft									
Public Transportation Research, Technical Assistance, and Training Total									
Research and Development Cluster Total									
Federal Transit Administration Total									
Office of the Secretary									
National Infrastructure Investments									
Eastside Access Improvements									
Wilbrook/Rosa Parks Station Improvements									
National Infrastructure Investments Total									
Office of the Secretary Total									
U.S. Department of Transportation Total									
U.S. Department of Homeland Security:									
Direct Programs:									
Rail and Transit Security Grant Program									
Sustainment of Threat Interdiction Unit									
U.S. Department of Homeland Security Total									
Total Federal Grants									
State Grants									
Prop 1B Security - FY 08-09									
Prop 1B Security - FY 10-11									
Crenshaw/LAX Transit Corridor									
Crenshaw/LAX Transit Corridor									
Systemwide Light Rail Vehicles									
Conservation for Regional Climate Action and Sustainability									
Proposition 1B Inerticity Rail (ICR) Van Nuys North Platform Project									
Alternative & Renewable Fuel & Vehicle Technology Program									
Permeable Pavement and Bioretention Pilot Project, LA/MTA Division 4 Maintenance Facility									
Sustainable South Bay Transportation and Land Use Implementation Framework									
Metro Blue Line First / Last Mile Plan									
Regional Transportation Planning and Program Development									
Blue Line Light Rail Signal Improvement Project									
STIP PPM (State Transportation Improvement Program) - Planning, Programming & Monitoring Program									
Division 20 Turnback and Portal Widening									
Los Angeles - San Fernando Valley North-South Bus Transit									
I-710 Livability Initiative for Complete Streets & Active Transportation									
Total State Grants									
Total expended under federal/state/local for the fiscal year ended June 30, 2018									

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



LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
Fiscal year ended June 30, 2018

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**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) in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. LACMTA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3 – 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 4 – FEDERAL FINANCIAL ASSISTANCE**

Pursuant to the Single Audit Act and Uniform Guidance 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. For CFDA #20.223, \$343,227,963 included in the Schedule represent current year loan proceeds for expenditures that were originally incurred in prior years.

**NOTE 5 – MAJOR PROGRAMS**

The Single Audit Act and Uniform Guidance 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 Uniform Guidance. Programs with similar requirements may be grouped into a cluster for testing purposes.

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal year ended June 30, 2018

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements:***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes       X   No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes       X   None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes       X   No

***Federal Awards:***

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ Yes       X   No

Significant deficiency(ies) identified?

  X   Yes     \_\_\_\_\_ None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

  X   Yes     \_\_\_\_\_ No

Identification of major federal programs:

CFDA 20.513 / 20.516 / 20.521

Transit Services Programs Cluster

CFDA 97.075

Rail and Transit Security Grant Program

CFDA 20.223

Transportation Infrastructure Finance and Innovation Act (TIFIA) Program

Dollar threshold used to distinguish type A and B programs:

  \$   4,283,760

Auditee qualified as low-risk auditee?

  X   Yes     \_\_\_\_\_ No

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(Continued)

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal year ended June 30, 2018

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**SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

None.

**SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS**

**Finding 2018-001 – Subrecipient Monitoring (Significant Deficiency)**

Information on Federal Program:

CFDA Numbers and Program Names: Transit Services Programs Cluster  
20.513 Enhanced Mobility of Seniors and Individuals with Disabilities  
20.516 Job Access and Revenue Commute Program  
20.521 New Freedom Program

Federal Agency: Department of Transportation

Criteria:

2 CFR 200.331 REQUIREMENTS FOR PASS-THROUGH ENTITIES.

All pass-through entities must:

(f) Verify that every subrecipient is audited as required by Subpart F—Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501 Audit requirements.

Condition: Management is required to verify that each subrecipient is audited if required by §200.501 Audit requirements. For the programs listed above, we noted that management did not have adequate controls in place to ensure compliance with this requirement.

Questioned Costs: None noted.

Context: In our sample of five subawards under the Transit Service Programs Cluster, management did not obtain the single audit report for the City of Pasadena (City), a subrecipient of Grant CA-37-X100, for fiscal year 2017. The City indicated in its annual self-certification form that the threshold to require a single audit was not met for fiscal year 2017. We noted that the City's response was inaccurate through verification on the Federal Audit Clearinghouse.

Cause: LACMTA's policy requires subrecipient to complete an annual self-certification form to indicate whether the entity is subject to audit under §200.501 Audit requirements, however, management does not verify the accuracy of the subrecipient's response through review of submissions within the Federal Audit Clearinghouse. The City of Pasadena incorrectly completed the annual self-certification form and disclosed that they did not meet audit requirement for fiscal year 2017.

Effect: Management relied on the City's response, and therefore did not obtain the audit report as required by 2 CFR 200.331(f).

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(Continued)

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal year ended June 30, 2018

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Recommendation: We recommend that management corroborate each subrecipient's response in the annual self-certification form by searching the Federal Audit Clearinghouse. This verification should be maintained with the subrecipient's annual self-certification form to evidence the review was performed. We also recommend management consider requiring subrecipients to submit their annual financial audit report and related management letter to review for any deficiencies internal control from the financial statement audit that could have an impact on internal controls surrounding the management of federal awards.

Management's Response: Management agrees with this finding and acknowledges that the policies in place do not require verifying that the annual self-certification responses are correct. In the future we plan to communicate to individuals completing the self-certification that the response applies to the entire entity, not just the particular grant or cluster.

**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, 2018

Independent Accountant's Report  
on Applying Agreed Upon Procedures

Management and the 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, 2018. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2018 Policy Manual* and were agreed to by the Authority management and the Board of Directors, 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, 2018 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 *2018 Policy Manual*. The District management is responsible for the FFA-10 and compliance with NTD requirements. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

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, 2018 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

In performing the procedures, except for the information 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, 2018. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on 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 *2018 Policy Manual*. Accordingly, we do not express such an opinion or conclusion. 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 LLP*

Crowe LLP

Los Angeles, California  
October 31, 2018

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
ATTACHMENT A – AGREED UPON PROCEDURES  
June 30, 2018

**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 2018 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 2018 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 all modes and from several different months in fiscal years 2017, 2016, and 2015 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 haphazard 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 haphazard sample of 40 source documents, noting the required approval on all source documents. Step performed without exception.**



LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
ATTACHMENT A – AGREED UPON PROCEDURES  
June 30, 2018

- 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 for the VP-PT, HR-DO, LR-DO, MB-DO, and RB-DO modes. For the MB-PT mode, we noted that the Dodger Express vehicle revenue hours (VRH) data was not included on the FFA-10 form. As a result, 9,351 VRH's were excluded. Total VRH's reported on the FFA-10 form was 482,596.**

- 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 2018 Policy Manual.

**For the rail and van pool modes, the Authority utilized a statistical sampling method as described in FTA Circulars 2710.1A. For the motor bus 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 (2018) 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 haphazard selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was haphazard. Determine that the transit agency followed the stated sampling procedure.

**Step performed without exception.**

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
ATTACHMENT A – AGREED UPON PROCEDURES  
June 30, 2018

- k. Select a haphazard 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 haphazard 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 128 source documents across all modes from all twelve months in fiscal year 2018, 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 haphazard 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 haphazard 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 haphazard 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 haphazard 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. The VP-PT mode does not have any deadhead miles. Selected a haphazard sample of 114 source documents across all modes 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. There are no locomotives.**

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
ATTACHMENT A – AGREED UPON PROCEDURES  
June 30, 2018

- 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, no new FG segments were added in fiscal year 2018.**

- 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 2018 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.**

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
ATTACHMENT A – AGREED UPON PROCEDURES  
June 30, 2018

- t. Review the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2018 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 2018 report year, the Agency Revenue Service Date must occur within the transit agency's 2018 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, no new FG segments were added in fiscal year 2018.**

- 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.**

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY  
ATTACHMENT A – AGREED UPON PROCEDURES  
June 30, 2018

- 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. There were no variances greater than 10% in any mode except for VP-PT and RB-DO. In those two modes, 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**

**NATIONAL TRANSIT DATABASE FINANCIAL DATA PROCEDURES**

**Transportation Operating Agency (ID# 90154)**

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

Fiscal year ended June 30, 2018

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Management  
Los Angeles County Metropolitan Transportation Authority  
Los Angeles, California

We have performed the procedures enumerated below, on the application of the requirements of the Federal Transit Administration (FTA) as set forth in its applicable National Transit Database (NTD) Uniform System of Accounts (USOA) by the Los Angeles County Metropolitan Transportation Authority (LACMTA) for the fiscal year ended June 30, 2018. Such procedures, which were agreed to by the management of LACMTA and the FTA, were performed to assist LACMTA and FTA in determining conformance with USOA requirements based on the following assertion by LACMTA's management:

The accounting system from which the NTD reports for the year ended June 30, 2018 were derived, uses the accrual basis of accounting and is directly translated, using a clear audit trail, to the accounting treatment and categories specified by the USOA.

LACMTA's management is responsible for conformance with the requirements described above. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures and associated findings are as follows:

### 1. Procedure: NTD Crosswalk

- a. Obtain the following NTD Reporting Forms prepared by management for the year ended June 30, 2018:
  - NTD Form F-10, Sources of Funds – Funds Expended and Funds Earned (USOA Section 2)
  - NTD Form F-20, Uses of Capital (USOA Section 3)
  - NTD Form F-30, Operating Expenses (USOA Section 4, 5, and 6 and Appendix A)
  - NTD Form F-40, Operating Expenses Summary
  - NTD Form F-60, Financial Statement
- b. Obtain the reconciliation documentation management prepares (referred to as “the crosswalk” throughout this report) to reconcile the chart of accounts, general ledger, and/or trial balance and other supporting documents such as Excel spreadsheets (collectively referred to as the accounting system) to the respective NTD Reporting Forms identified above.
- c. Inquire of management as to whether the crosswalk obtained in procedure 1.b is supported by the accounting system.

- d. For a transit agency that is part of a larger reporting entity, inquire of management as to whether the crosswalk includes the full cost of providing transit service, including costs incurred by the larger reporting entity to specifically support the agency's transit service.
- e. Inspect the crosswalk to determine that it incorporates NTD reporting using the applicable modes and types of service identified in the bulleted list below:
  - Sources of Funds, Form F-10 – Funding sources, passenger fares by mode and service type, passenger fares by passenger paid or by organization paid fares, revenue object class, and funds expended on operations and capital fund types
  - Uses of Capital, Form F-20 - Type of use, asset classifications, and modes and service types
  - Operating Expenses, Form F-30 - Modes, service types, object classes and functions
  - Operating Expenses Summary, Form F-40 - Expense reconciling items
  - Financial Statement, Form F-60 - Current assets, non-current assets, deferred outflows of resources, current liabilities, non-current liabilities, and deferred inflows of resources.

**Findings:**

No exceptions were found as a result of this procedure.

**2. Procedure: Accrual Accounting**

- a. Obtain the most recent audited financial statements that include the transit agency and inspect the notes to the financial statements to determine whether the accrual basis of accounting was used.
- b. Inquire of management as to whether the accrual basis of accounting has continued to be used since the last audited reporting period and that it is used for NTD reporting in the current period.
- c. If the notes to the financial statements indicate that an accrual basis of accounting is not being used, or the results of the inquiry to management in procedure 2.b indicate the accrual basis of accounting is not being used in the current period, inspect the crosswalk to determine that the transit agency made adjustments to convert to an accrual basis for NTD reporting.

**Findings:**

No exceptions were found as a result of this procedure.

**3. Procedure: Sources of Funds (Form F-10)**

- a. Trace and agree total sources of funds from Form F-10 to revenue reported in the accounting system using the crosswalk.
- b. Inspect the crosswalk for a written reconciliation between total revenues reported in the audited financial statements or the accounting system and the total revenues reported on Form F-10.
- c. Trace and agree the two largest directly generated fund passenger fare revenue modes (all service types) from Form F-10 to the accounting system.
- d. Trace and agree the largest revenue object class (other than passenger fares) in the following major categories of funds from Form F-10 to the accounting system: (1) Local Government; (2) State Government; (3) Federal Funds; and (4) Other Directly Generated Funds (i.e., 4100 and 4200 combined).
- e. Inspect the crosswalk to determine that it identifies, evaluates, and classifies financial transactions into categories of funds expended on operations and funds expended on capital (USOA Section 2) for the reporting year.

**Findings:**

No exceptions were found as a result of this procedure.



#### **4. Procedure: Uses of Capital (Form F-20)**

- a. Obtain accounting system documentation on capital asset additions for the reporting period.
- b. Trace and agree total uses of capital from Form F-20 to the crosswalk reconciliation of total capital asset additions.
- c. Trace and agree types of use (existing service and expansion of service) from Form F-20 to the crosswalk or other supporting documentation reflecting the nature of the uses of capital.
- d. Trace and agree asset classifications (guideway, revenue vehicles, etc.) from Form F-20 to the crosswalk or other documentation reflecting the assets classes of capital additions.
- e. For the largest mode/service type, trace and agree the type of use classification and asset classification from Form F-20 to the crosswalk or other documentation reflecting the uses of capital.
- f. If capital projects support multiple modes/types of services or and/or asset classifications, inquire of management as to whether management reported the use of capital considering the predominant use rules as described in the "Predominant Use" section of the 2018 NTD Policy Manual.
- g. If capital projects involve: 1) Rehabilitation/Reconstruction/Replacement/Improvement for Existing Service; and 2) Expansion of Service; inquire of management as to whether project costs were allocated between the two project purposes and whether such allocation was documented in the crosswalk or other supporting documentation.

##### **Findings:**

No exceptions were found as a result of this procedure.

#### **5. Procedure: Operating Expenses (Form F-30)**

- a. For the two largest modes/type of services, trace and agree functions (vehicle operations, vehicle maintenance, etc.) from Form F-30 to the crosswalk or other written documentation of functional expenses.
- b. For the two largest modes/type of services, trace and agree object classes (natural expenses) from Form F-30 to the crosswalk or other written documentation of object class categories.
- c. If management allocated shared operating expenses, inquire of management as to whether (1) the operating expenses are split between direct and shared costs; (2) shared costs were allocated across modes, services types and functions, (3) the allocation was documented in the crosswalk or other supporting documentation; and (4) the driving variables used are updated annually.

##### **Findings:**

No exceptions were found as a result of this procedure.

#### **6. Procedure: Operating Expenses Summary (Form F-40)**

- a. Obtain total expenses from the accounting system for the reporting period. Trace and agree total expenses from Form F-40 to the accounting system using the crosswalk.
- b. Trace and agree the reconciling items appearing on Form F-40 through the crosswalk to the accounting system.

##### **Findings:**

No exceptions were found as a result of this procedure.

**7. Procedure: Financial Statement (Form F-60)**


- a. Trace and agree (1) Current Assets; (2) Non-Current Assets; (3) Deferred Outflows of Resources; (4) Current Liabilities; (5) Non-Current Liabilities; and (6) Deferred Inflows of Resources appearing on Form F-60 to the crosswalk or other supporting documentation.

**Findings:**

No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, LACMTA's conformance with the requirements described above, for the year ended June 30, 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Crowe LLP

Los Angeles, California  
November 7, 2018



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

**50% EXPENDITURE LIMITATION SCHEDULE**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

Table of Contents

	Page
Independent Auditor's Report on Compliance with the California Code of Regulations (Section 6667); Report on Internal Controls over Compliance; and Report on 50% Expenditure Limitation Schedule	1
50% Expenditure Limitation Schedule	3

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE CALIFORNIA CODE OF REGULATIONS (SECTION 6667); REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON 50% EXPENDITURE LIMITATION SCHEDULE**

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

**Report on Compliance with the Transportation Development Act**

We have audited the Los Angeles County Metropolitan Transportation Authority (LACMTA) compliance with the types of compliance requirements described in the Transportation Development Act Guidelines, including Public Utility Code Section 99245 as enacted and amended by statute, 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 adopted by the California Department of Transportation (collectively, Transportation Development Act [TDA]) that could have a direct and material effect on LACMTA's compliance with the Transportation Development Act for the fiscal year ended June 30, 2018.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Transportation Development Act.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for LACMTA's TDA program 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 the Transportation Development Act. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA 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 the TDA program. However, our audit does not provide a legal determination of LACMTA's compliance.

***Opinion on the Transportation Development Act 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 the TDA program for the fiscal year ended June 30, 2018.

## 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 the TDA program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance on the TDA program and to test and report on internal control over compliance in accordance with the TDA program, 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 TDA 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 the TDA 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 the TDA 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 the Transportation Development Act. Accordingly, this report 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 fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 19, 2018, 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 LLP*

Crowe LLP

Los Angeles, California  
December 19, 2018

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY**  
**TRANSPORTATION DEVELOPMENT ACT**  
**50% EXPENDITURE LIMITATION SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**  
(Amounts expressed in thousands)

1	Total operating cost	\$	1,736,005
2	Total capital requirements		1,768,792
3	Total debt service		467,140
<b>4</b>	<b>Total of lines 1, 2, and 3</b>		<b><u>3,971,937</u></b>
5	Less federal grant received		913,257
6	Less State Transit Assistance (STA) funds received		49,008
<b>7</b>	<b>Total of lines 5 and 6</b>		<b><u>962,265</u></b>
<b>8</b>	<b>Total of line 4 less line 7</b>		<b>3,009,672</b>
	50% of line 8		<u>1,504,836</u>
	<b>Total permissible Local Transportation Fund expenditures</b>	<b>\$</b>	<b><u>1,504,836</u></b>



**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 FISCAL YEAR ENDED JUNE 30, 2018**



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

Table of Contents

	Page
Independent Auditor's Report on Compliance v= with the California Code of Regulations (Sections 6640-6662); Report on Internal Control over Compliance; and Report on Schedules of Revenues, Expenditures, and Changes in Fund Balances	1
Schedule of Revenues, Expenditures, and Changes in Fund Balances	3
Notes to the Schedule of Revenues, Expenditures, and Changes in Fund Balances	4

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE CALIFORNIA  
CODE OF REGULATIONS (SECTIONS 6640-6662); REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE; AND REPORT ON SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES**

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

**Report on Compliance with the Transportation Development Act**

We have audited the Los Angeles County Metropolitan Transportation Authority (LACMTA) compliance with the types of compliance requirements described in the Transportation Development Act Guidelines, including California Code of Regulations (Sections 6640-6662) (Transportation Development Act [TDA]) that could have a direct and material effect on LACMTA's compliance with the Transportation Development Act for the fiscal year ended June 30, 2018.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the Transportation Development Act.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for LACMTA's TDA program 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 the Transportation Development Act. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the TDA 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 the TDA program. However, our audit does not provide a legal determination of LACMTA's compliance.

***Opinion on the Transportation Development Act 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 the TDA program for the fiscal year ended June 30, 2018.

## 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 the TDA program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance on the TDA program and to test and report on internal control over compliance in accordance with the TDA program, 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 TDA 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 the TDA 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 the TDA 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 the Transportation Development Act. Accordingly, this report 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 fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise LACMTA's basic financial statements. We issued our report thereon dated December 19, 2018, 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 LLP*  
Crowe LLP

Los Angeles, California  
December 19, 2018

**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, 2018**  
(Amounts expressed in thousands)

	<u>Transportation Development Act</u>			<u>PTMISEA</u>
	<u>Planning</u>	<u>Administration</u>	<u>Total</u>	
<b>Revenues:</b>				
Local grants and contracts	\$ 5,015	\$ 3,485	\$ 8,500	\$ —
<b>Expenditures:</b>	<u>5,015</u>	<u>3,485</u>	<u>8,500</u>	<u>—</u>
Excess of revenues over expenditures	—	—	—	—
<b>Other financing uses:</b>				
Transfers out	—	—	—	(10)
Net change in fund balances	—	—	—	(10)
Fund balances - beginning of year	—	—	—	10
Fund balances - end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to Schedule of Revenues Expenditures, and Changes in Fund Balances.

**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, 2018**

**(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 California Department of Tax and Fee Administration 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.

**(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 fare box revenue and 50% to Regional Entities based on population. LACMTA has fully drawn down the Prop 1B PTMISEA fund in fiscal year 2017. The residual balance of \$10 was transferred to the LACMTA enterprise fund for capital projects. As of June 30, 2018, the Prop 1B PTMISEA fund has no fund balance.

**(3) Basis of Accounting**

The TDA Fund and PTMISEA fund use 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  
Fiscal Years Ended June 30, 2018 and 2017**

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

**Table of Contents**

	<b>Page</b>
Independent Auditor's Report	1
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 <i>Government Auditing Standards</i>	3
Management's Discussion and Analysis (Unaudited)	5
Financial Statements:	
Balance Sheets	8
Statements of Revenues, Expenditures, and Changes in Fund Balances	9
Notes to the Financial Statements	10
<b>Supplementary Information (Unaudited)</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	13
Supplemental Schedule of Allocations	14
Supplemental Schedule of Expenditures and Transfers	15
Independent Auditor's Report on Compliance	16

## 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 years ended June 30, 2018 and 2017, 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 audits. We conducted our audits 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 the STA Fund, of the LACMTA, as of June 30, 2018 and 2017, and the changes in financial position thereof for the years 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 the Los Angeles County Metropolitan Transportation Authority, as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years 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 Matter***

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management's discussion and analysis, budgetary comparison information, schedule of allocations, and schedule of expenditures and transfers are presented for purposes of additional analysis and are not a required part of the financial statements.

The management's discussion and analysis, as listed in the table of contents, 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. Such 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 management's discussion and analysis is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The budgetary comparison information, schedule of allocations, and schedule of expenditures and transfers, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018 on our consideration of the STA Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the STA Fund's internal control over financial reporting and compliance.

*Crowe LLP*  
Crowe LLP

Los Angeles, California  
December 4, 2018

**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**

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), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the STA Fund's basic financial statements, and have issued our report thereon dated December 4, 2018. 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 LACMTA, the changes in its financial position, or where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the STA Fund'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 the STA Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the STA Fund'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. 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 the STA Fund'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*.

## **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 LLP

Los Angeles, California  
December 4, 2018

**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

Management's Discussion and Analysis (Unaudited)  
Fiscal years ended June 30, 2018 and 2017

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 diesel fuel and gas fuel collected by the California Department of Tax and Fee Administration. 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, 2018 and 2017. We encourage readers to consider information presented here in conjunction with the financial statements (beginning on page 8). 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.

**2018 Financial Highlights**

- Sales tax collected for the year increased by \$76,913 or 103.90% compared with prior year. The increase was mainly due to additional sales tax received with the passage of Senate Bill 1 (SB 1). The bill created the Road Maintenance and Rehabilitation Program that addressed the maintenance on the state highway system and the local street and road system. The bill required the California Transportation Commission to adopt performance criteria, consistent with the specified asset management plan, to ensure efficient use of certain funds available for the program. The bill provided for the deposit of various funds for the program in the Road Maintenance and Rehabilitation Account which creates revenue in the State Transportation Fund, including revenues attributable to a \$0.12 per gallon increase in the motor vehicle fuel (gasoline) tax imposed by the bill with an inflation adjustment, as provided, 50% of a \$0.20 per gallon increase in the diesel excise tax, with an inflation adjustment, as provided, a portion of a new transportation improvement fee imposed under the Vehicle License Fee Law with a varying fee between \$25 (amount not in thousand) and \$175 (amount not in thousand) based on vehicle value and with inflation adjustment, as provided, and a new \$100 (amount not in thousand) annual vehicle registration fee applicable only to zero-emission vehicles model year 2020 and later, with an inflation adjustment, as provided. The fuel excise tax increases took effect on November 1, 2017, the transportation improvement fee took effect on January 1, 2018, and the zero-emission vehicle fee takes effect on July 1, 2020.
- Actual sales tax received from the State totaled \$150,940 compared with original and final budget of \$60,000 resulting in a favorable variance of \$90,940 due mainly to the supplemental allocation received as a result of passage of SB 1 which was not budgeted during the fiscal year 2018.

**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

Management's Discussion and Analysis (Unaudited)  
Fiscal years ended June 30, 2018 and 2017

- Total other financing uses of funds increased by \$11,480 or 30.59% compared with the prior year brought about by an increase in State allocation received and made available to subsidize the LACMTA Enterprise Fund for bus and rail operation and maintenance.

**2017 Financial Highlights**

- Sales tax collected for the year decreased by \$4,659 or 5.92% compared with prior year. The decrease was mainly due to lower allocations received from the State brought about by changes in consumer purchases and price of the diesel fuel. Actual sales tax received from the State totaled \$74,027 compared to original and final budget of \$52,855 resulting in a favorable variance of \$21,172.
- Total other financing uses of funds decreased by \$54,981 or 59.43% compared with prior year due mainly to prior year negative fund balances which resulted in the decrease in the subsidy to the LACMTA Enterprise Fund for bus and rail operation and maintenance.

**Overview of Financial Statements**

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

The condensed balance sheets show the STA Fund's assets and liabilities as of June 30, 2018, 2017, and 2016. The differences between the assets and liabilities are reported as fund balances. 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 years show the underlying events or activities of the fund that impacted the fund balances.

**Condensed Balance Sheets**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total assets	\$ 114,973	\$ 33,829	\$ 43,801
Total liabilities	9,544	24,224	56,895
Fund balances	105,429	9,605	(13,094)
Total liabilities and fund balances	<u>\$ 114,973</u>	<u>\$ 33,829</u>	<u>\$ 43,801</u>

Total assets increased by \$81,144 or 239.86% as of June 30, 2018 compared to June 30, 2017 primarily due to higher allocation and larger receivable accrued in FY18 compared to the prior year. Total liabilities decreased by \$14,680 or 60.60% as of June 30, 2018 compared to June 30, 2017 mainly due to

**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

Management's Discussion and Analysis (Unaudited)  
Fiscal years ended June 30, 2018 and 2017

the disbursement in FY17 of the amounts due to Enterprise Fund for its operating and capital expenses.

Total assets decreased by \$9,972 or 22.77% as of June 30, 2017 compared to June 30, 2016 primarily due to lower allocation receipts from the State and smaller receivable accrued in FY17 compared to the prior year. Total liabilities decreased by \$32,671 or 57.42% as of June 30, 2017 compared to June 30, 2016 mainly due to higher subsidy to the Enterprise Fund for its bus and rail operating and capital expenses.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues	\$ 151,635	\$ 74,170	\$ 78,863
Expenditures and other financing uses of funds	<u>(55,811)</u>	<u>(51,471)</u>	<u>(100,511)</u>
Net change in fund balances	95,824	22,699	(21,648)
Fund balances – beginning of year	<u>9,605</u>	<u>(13,094)</u>	<u>8,554</u>
Fund balances – end of year	<u><u>\$ 105,429</u></u>	<u><u>\$ 9,605</u></u>	<u><u>\$ (13,094)</u></u>

Total revenues increased \$77,465 or 104.44% during fiscal year 2018 compared to fiscal year 2017 primarily due to the supplemental sales tax allocations received from the State as a result of passage of SB 1. Expenditures and other financing uses increased \$4,340 or 8.43% during fiscal 2018 compared to fiscal year 2017 mainly due to higher bus and rail operating subsidies to the LACMTA Enterprise Fund.

Total revenues decreased by \$4,693 or 5.95% during fiscal year 2017 compared to fiscal year 2016 primarily due to lower sales tax allocation received from the State. Expenditures and other financing uses decreased \$49,040 or 48.79% during fiscal 2017 compared to fiscal year 2016 mainly due to lower bus and rail operating subsidies to the LACMTA Enterprise Fund.

**Los Angeles County**  
**Metropolitan Transportation Authority**  
**State Transit Assistance**  
**Special Revenue Fund**  
Balance Sheets  
June 30, 2018 and 2017  
(Amounts expressed in thousands)

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 66,803	\$ 13,175
Interest receivable	266	32
Sales tax receivable	47,866	20,622
Due from other funds	38	—
Total assets	114,973	33,829
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2,655	1,670
Due to other funds	6,889	22,554
Total liabilities	9,544	24,224
<b>Fund balances</b>		
Restricted	105,429	9,605
Total fund balances	105,429	9,605
Total liabilities and fund balances	\$ 114,973	\$ 33,829

See accompanying notes to financial statements.

**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

Statements of Revenues, Expenditures, and Changes in Fund Balances  
Fiscal years ended June 30, 2018 and 2017  
(Amounts expressed in thousands)

	<b>2018</b>	<b>2017</b>
Revenues:		
Sales tax	\$ 150,940	\$ 74,027
Investment income	695	143
Total revenues	151,635	74,170
Expenditures:		
Transportation subsidies	6,803	13,943
Excess of revenues over expenditures	144,832	60,227
Other financing uses:		
Transfers out	(49,008)	(37,528)
Net change in fund balances	95,824	22,699
Fund balances - beginning of year	9,605	(13,094)
Fund balances - end of year	\$ 105,429	\$ 9,605

See accompanying notes to financial statements.



**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

Notes to Financial Statements  
June 30, 2018 and 2017

**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 diesel fuel and gas fuel collected by the California Department of Tax and Fee Administration. 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 purposes.

***(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 LACMTA as of June 30, 2018 and 2017, the changes in its financial position, or where applicable, its cash flows for the year 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, 2018 and 2017

***(e) Cash and Cash Equivalents***

The STA Fund's cash and cash equivalents include deposits with the Los Angeles County Investment Pool (LACIP). 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 diesel fuel and gas fuel collected by the California Department of Tax and Fee Administration. As of June 30, 2018 and 2017, the STA Fund had receivables of \$47,866 and \$20,622, respectively.

**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.

STA Fund's pooled cash and investments with the LACIP amounted to \$66,803 at June 30, 2018 and \$13,175 at June 30, 2017. The County Board of Supervisors provides regulatory oversight for the LACIP. The 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, 2018 and 2017.

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, 2018 and 2017, the STA Fund had a net payable to LACMTA's Enterprise Fund for \$6,851 and \$22,554, respectively, for various unpaid operating and capital subsidies.

**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 fiscal years ended June 30, 2018 and 2017, the STA Fund transferred \$49,008 and \$37,528 to LACMTA Enterprise Fund, respectively.

**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

Notes to Financial Statements  
June 30, 2018 and 2017

**5. Sales Tax Revenue**

Sales tax revenue represents amounts from the allocation of retail sales tax on diesel fuel and gas fuel collected by the California Department of Tax and Fee Administration. For the years ended June 30, 2018 and 2017, the STA Fund received an allocation of \$150,940 and \$74,027, respectively.

**6. Payable to Cities and Jurisdictions**

As of June 30, 2018 and 2017, the STA Fund had accrued liabilities to various cities and jurisdictions of \$2,655 and \$1,670, respectively. These accrued liabilities represented claims for the current 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**

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual  
(Unaudited)  
Fiscal year ended June 30, 2018

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final budget</b>
Revenues:				
Sales tax	\$ 60,000	\$ 60,000	\$ 150,940	\$ 90,940
Investment income	—	—	695	695
Total revenues	60,000	60,000	151,635	91,635
Expenditures:				
Transportation subsidies	3,516	3,516	6,803	(3,287)
Excess of revenues over expenditures	56,484	56,484	144,832	88,348
Other financing sources (uses):				
Transfers out	(42,119)	(42,119)	(49,008)	(6,889)
Net change in fund balances	14,365	14,365	95,824	81,459
Fund balances – beginning of year	9,605	9,605	9,605	—
Fund balances – end of year	\$ 23,970	\$ 23,970	\$ 105,429	\$ 81,459

**Los Angeles County**  
**Metropolitan Transportation Authority**  
**State Transit Assistance**  
**Special Revenue Fund**  
Supplemental Schedule of Allocations (Unaudited)  
Fiscal years ended June 30, 2018 and 2017  
(Amounts expressed in thousands)

<u>CCR Code</u>	<u>Operating 6730(a)</u>	<u>Capital 6730(b)</u>	<u>Rail 6730(c)</u>	<u>2018 Total</u>	<u>2017 Total</u>
<b>Jurisdiction</b>					
Arcadia	\$ 42	\$ —	\$ —	\$ 42	\$ 22
Claremont	24	—	—	24	14
Commerce	65	—	—	65	30
Culver City	807	—	—	807	415
Foothill Transit	3,606	—	—	3,606	1,842
Gardena	798	—	—	798	410
La Mirada	18	—	—	18	9
Long Beach	3,494	—	—	3,494	1,813
LACMTA	41,885	—	42,205	84,090	51,397
Montebello	1,237	—	—	1,237	653
Norwalk	449	—	—	449	234
Redondo Beach	109	—	—	109	56
Santa Monica	2,989	—	—	2,989	1,547
Torrance	956	—	—	956	500
Antelope Valley	410	—	—	410	—
LADOT	839	—	—	839	—
Santa Clarita	416	—	—	416	—
Foothill –BSCP	183	—	—	183	—
Total STA fund allocations	<u>\$ 58,327</u>	<u>\$ —</u>	<u>\$ 42,205</u>	<u>\$ 100,532</u>	<u>\$ 58,942</u>

**Los Angeles County  
Metropolitan Transportation Authority  
State Transit Assistance  
Special Revenue Fund**

**Supplemental Schedule of Expenditures and Transfers (Unaudited)  
Fiscal years ended June 30, 2018 and 2017  
(Amounts expressed in thousands)**

CCR Code	Jurisdiction	FY2018			FY2017			Total
		Operating 6730(a)	Capital 6730(b)	Rail 6730(c)	Operating 6730(a)	Capital 6730(b)	Rail 6730(c)	
\$	Arcadia	16	\$ —	\$ —	16	\$ —	\$ —	41
	Claremont	3	—	—	3	29	—	39
	Commerce	46	—	—	46	—	—	56
	Culver City	195	37	—	232	—	—	798
	Foothill Transit	1,991	—	—	1,991	—	—	3,531
	Gardena	441	—	—	441	9	—	801
	La Mirada	6	—	—	6	—	—	16
	Long Beach	1,930	—	—	1,930	—	—	3,490
	LACMTA	10,119	—	38,889	49,008	—	15,796	37,528
	Montebello	299	—	—	299	—	—	1,261
	Norwalk	369	—	—	369	—	—	395
	Redondo Beach	82	—	—	82	—	—	54
	Santa Monica	722	—	—	722	—	—	2,996
	Torrance	666	—	—	666	—	—	465
	<b>Total STA fund expenditures</b>	<b>16,885</b>	<b>\$ 37</b>	<b>\$ 38,889</b>	<b>\$ 55,811</b>	<b>\$ 38</b>	<b>\$ 15,796</b>	<b>\$ 51,471</b>

## 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, 2018 and 2017, 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 4, 2018.

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 LACMTA, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe LLP

Los Angeles, California  
December 4, 2018



**Crowe LLP**  
Independent Member Crowe Global

# **Crenshaw Project Corporation**

**(A Component Unit of the Los Angeles County  
Metropolitan Transportation Authority)**

## **Financial Statements**

**For the Year Ended June 30, 2018**



**Crenshaw Project Corporation**  
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)  
**Financial Statements**  
**For the Fiscal Year Ended June 30, 2018**

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**Table of Contents**

	Page
<b>Independent Auditor's Report</b> .....	1
<b>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</b> .....	3
<b>Management's Discussion and Analysis</b> .....	5
<b>Financial Statements:</b>	
Statement of Net Position .....	7
Statement of Revenues, Expenses and Changes in Net Position .....	8
Statement of Cash Flows .....	9
Notes to the Financial Statements .....	10



## 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 financial statements of the Crenshaw Project Corporation (CPC), a blended component unit of the Los Angeles County Metropolitan Transportation Authority, as of and for the year ended June 30, 2018 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 the CPC, as of June 30, 2018, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018 on our consideration of the CPC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CPC's internal control over financial reporting and compliance.

*Crowe LLP*

Crowe LLP

Los Angeles, California  
October 5, 2018

**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**

To the Board of Directors  
Crenshaw Project Corporation  
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 Crenshaw Project Corporation (CPC) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the CPC's basic financial statements, and have issued our report thereon dated October 5, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the CPC'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 the CPC's internal control. Accordingly, we do not express an opinion on the effectiveness of the CPC'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. 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 the CPC'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*.

## **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 LLP

Los Angeles, California  
October 5, 2018

**Crenshaw Project Corporation**  
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)  
**Management's Discussion and Analysis (Unaudited)**  
**For the Fiscal Year Ended June 30, 2018**

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As management of the Crenshaw Project Corporation (CPC), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the CPC for the fiscal year ended June 30, 2018. This discussion and analysis is designed to assist the readers in focusing on the significant financial issues and activities of the CPC.

We encourage the readers to consider the information presented herein in conjunction with the financial statements beginning on page 7. The financial statements, the notes to the 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).

The 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 Corridor Project (Project).

### **Financial Highlights**

- In September, 2012, the 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. As of June 30, 2018, CPC has drawn down the full amount of TIFIA loan proceeds.
- Total assets of \$580,664 represent advances to LACMTA and total liabilities of \$580,664 consist of the principal amount of \$545,900 and interest accretion of \$34,764 on the TIFIA loan. Therefore, there is no net position as of June 30, 2018.
- Total expenses of \$23 consisted mostly of loan fees and other administration charges, which were reimbursed by LACMTA.
- As of June 30, 2018, \$1.8 billion has been expended on the Project, which is recorded in LACMTA's Comprehensive Annual Financial Report (CAFR) under the Capital Assets section of the Statement of Net Position of the Enterprise fund.

**Crenshaw Project Corporation**  
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)  
**Management's Discussion and Analysis (Unaudited)**  
For the Fiscal Year Ended June 30, 2018

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**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 Financial Statements.

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

The Statement of Net Position presents information on all of the CPC's assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the CPC's operations. The Statement of Cash Flows presents the cash flows generated by the CPC to meet its current maturing obligations. The Notes to the 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 and for the year ended June 30, 2018.

<b>Condensed Statement of Net Position</b>	
<b>Non-current assets</b>	\$ 580,664
Total assets	<u>580,664</u>
<b>Non-current liabilities</b>	580,664
Total liabilities	<u>580,664</u>
Net position	<u>—</u>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Position</b>	
Revenues	\$ 23
Expenses	<u>23</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>\$ —</u></u>

**Crenshaw Project Corporation**  
(A Component Unit of the Los Angeles Metropolitan Transportation Authority)  
**Statement of Net Position**  
**June 30, 2018**  
(Amounts expressed in thousands)

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**Assets**

Non-current assets	
Advances to LACMTA	\$ 580,664
Total Assets	<u>580,664</u>

**Liabilities**

Non-current liabilities	
Notes payable	580,664
Total Liabilities	<u>580,664</u>

<b>Net Position</b>	<u><u>\$ —</u></u>
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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 Net Position**  
**For the Fiscal Year Ended June 30, 2018**  
 (Amount expressed in thousands)

<hr/>	
<b>Operating revenues</b>	
Charges for services	\$           23
<b>Operating expenses</b>	
Professional, technical and other services	<u>                  23</u>
<b>Change in net position</b>	—
Net position - beginning of year	<u>                  —</u>
<b>Net position - end of year</b>	<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

For Fiscal Year Ended June 30, 2018

(Amounts expressed in thousands)

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<b>Cash flows from operating activities</b>		
Receipts from LACMTA	\$	23
Payments to vendors		<u>(23)</u>
Net cash flows from operating activities		<u>—</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		—
<b>Cash and cash equivalents - beginning of year</b>		—
<b>Cash and cash equivalents - end of year</b>	\$	<u><u>—</u></u>
<b>Non-cash financing activity</b>		
Interest accretion on notes payable	\$	13,895

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)  
**Notes to the Financial Statements**  
**June 30, 2018**

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The notes to the 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 - Summary of Significant Accounting Policies**

**Reporting Entity**

The 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 Corridor 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 Light Rail Transit (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. The expected revenue operation for this Project is October 2019.

The CPC is governed by a Board of Directors (CPC Board) consisting of the same members of the Board of Directors of LACMTA (Metro Board). The Chair, First-Chair and Second-Chair of the Metro Board shall have the corresponding positions on the CPC Board. The Board members may serve 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. The CPC is a blended component unit of LACMTA because it is financially dependent upon LACMTA, and LACMTA's approval is needed for the CPC to expend its budgets or charges and issue long-term debt. Although the CPC is a legally separate entity, it is in-substance part of LACMTA's operations, and therefore the data from the CPC is included in LACMTA's financial data. These financial statements present only the CPC and do not purport to, and do not, present fairly the financial position of LACMTA, as of June 30, 2018, or the changes in the financial position for the year then ended.

**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. The 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 revenues and expenses from non-operating items. Operating revenues include reimbursements from LACMTA for operating expenses. Operating expenses include professional services and administrative expenses. The CPC applies all applicable Government Accounting Standard Board (GASB) pronouncements in accounting and reporting for its

**Crenshaw Project Corporation**  
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)  
**Notes to the Financial Statements**  
**June 30, 2018**

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proprietary operations. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

**Cash and Cash Equivalents**

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

**Receivables and Payables**

Interagency receivables/payables are amounts owed to/due from other LACMTA funds for services performed. Payables are amounts due to vendors for goods or services received.

**Note 2 - Advances to LACMTA**

Advances to LACMTA consist of cash advances to partially finance the construction of the Project. As of June 30, 2018, the outstanding balance of advances to LACMTA totaled \$580,664.

**Note 3 - Notes Payable**

In September, 2012, the CPC secured a loan not to exceed \$545,900 from the 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 maturity date of June 1, 2034. On each June 1 and December 1, interest accrued in the six-month period ending on such date is capitalized and added to the outstanding balance of the TIFIA loan. The principal amount is payable in annual installments on June 1 of each year commencing on June 1, 2021, while the interest payments are payable semi-annually on June 1 and December 1 of each year commencing on December 1, 2020. As of June 30, 2018, the outstanding balance of the TIFIA loan, including \$34,764 in interest accretion, was \$580,664.

**Crenshaw Project Corporation**  
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)  
**Notes to the Financial Statements**  
**June 30, 2018**

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

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ (13,010)	\$ 13,010	—
2020	(14,534)	14,534	—
2021	(59)	14,759	14,700
2022	8,619	14,781	23,400
2023	8,829	14,571	23,400
2024-2028	156,383	67,217	223,600
2029-2033	348,642	37,658	386,300
2034	85,794	2,085	87,879
	<u>\$ 580,664</u>	<u>\$ 178,615</u>	<u>\$ 759,279</u>

The annual debt service requirements were calculated based on allocation of loan payments from the principal amount of \$545,900.



**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**  
(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Financial Statements  
June 30, 2018

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

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

**Table of Contents**

	<b>Page</b>
<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet	5
Statement of Revenues, Expenditures, and Change in Fund Balance	6
Notes to the Basic Financial Statements	7
<b>Supplementary Information</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual [Unaudited]	13
<b>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 <i>Government Auditing Standards</i></b>	14
Schedule of Findings and Responses	16

## 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 special revenue fund of the 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, 2018, 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 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 opinions.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAFE as of June 30, 2018, and the changes in financial position thereof 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 4 to the basic financial statements, the governmental activities beginning net position and the special revenue fund beginning fund balance as of July 1, 2017 have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SAFE's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information, as listed in the table of contents, 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. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of SAFE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SAFE's internal control over financial reporting and compliance.

  
Crowe LLP

Los Angeles, California  
December 20, 2018

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

(A Component Unit of the

Los Angeles County Metropolitan Transportation Authority)

Statement of Net Position

June 30, 2018

(Amounts expressed in thousands)

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	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 12,836
Investments	10,492
Intergovernmental receivable	698
Interest receivable	63
Total assets	<u>24,089</u>
<b>Liabilities:</b>	
Accounts payable and accrued expenses	513
Total liabilities	<u>513</u>
<b>Net position:</b>	
Restricted for motorist aid system projects	<u>23,576</u>
Total net position	<u><u>\$ 23,576</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)

Statement of Activities

For year ended June 30, 2018

(Amounts expressed in thousands)

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	<u><b>Governmental Activities</b></u>
Program expenses, net of revenues:	
Transit operations:	
Congestion relief operations	\$ 4,687
Subsidies to LACMTA	500
Total program expenses	<u>5,187</u>
General revenues:	
License fees	8,223
Investment income	208
Total general revenues	<u>8,431</u>
Change in net position	3,244
Net position – beginning of year	18,874
Prior period adjustment (Note 4)	1,458
Net position – beginning of year, as restated	<u>20,332</u>
Net position – end of year	<u><u>\$ 23,576</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 Sheet

June 30, 2018

(Amounts expressed in thousands)

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	<b>Special Revenue Fund</b>	
Assets:		
Cash and cash equivalents	\$	12,836
Investments		10,492
Intergovernmental receivable		698
Interest receivable		63
Total assets	\$	<u>24,089</u>
Liabilities:		
Accounts payable		<u>513</u>
Fund balance:		
Restricted for motorist aid system projects		<u>23,576</u>
Total liabilities and fund balance	\$	<u>24,089</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)  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal year ended June 30, 2018  
(Amounts expressed in thousands)

---

	<b>Special Revenue Fund</b>
Revenues:	
License fees	\$ 8,223
Investment income	208
Total revenues	8,431
Expenditures:	
Administration and other transportation projects	4,687
Subsidies to LACMTA	500
Total expenditures	5,187
Net change in fund balance	3,244
Fund balance – beginning of year	18,874
Prior period adjustment (Note 4)	1,458
Fund balance – beginning of year, as restated	20,332
Fund balance – end of year	\$ 23,576

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, 2018

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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 625 (not in thousands) call boxes along 436 (not in thousands) 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.

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Notes to the Basic Financial Statements  
June 30, 2018

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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. License fees and investment earnings not considered program revenues are reported as general revenues.

(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.

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Notes to the Basic Financial Statements  
June 30, 2018

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(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 generally accepted accounting principles (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.

(h) ***Receivables***

Receivables are net of estimated allowances for uncollectible accounts which are determined based on past experience. Receivables include license fees due from the State Department of Motor Vehicles. As of June 30, 2018, SAFE has a receivable for license fees of \$698.

(i) ***Vehicle Registration Fees***

Vehicle registration fees revenue is recognized when earned and is generated by a \$1 (amount not in thousands) per each car registered in Los Angeles County, which is collected by the State Department of Motor Vehicles.

(j) ***Effects of New GASB Pronouncements***

There were no new GASB Pronouncements applicable to SAFE for the year ended June 30, 2018.



# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Notes to the Basic Financial Statements  
June 30, 2018

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## (2) Cash and Investments

The following is a breakdown of SAFE's cash and investments as of June 30, 2018.

LACMTA investment pool	\$	21,870
Los Angeles County investment pool		1,458
Total	<u>\$</u>	<u>23,328</u>

SAFE's 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 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, 2018. 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's 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 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, 2018. 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:

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Notes to the Basic Financial Statements  
June 30, 2018

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## *(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, 2018, 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.

## *(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.

## *(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, 2018, there is no exposure to currency risk as all SAFE cash deposits and investments are denominated in U.S. dollar currency.

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Notes to the Basic Financial Statements  
June 30, 2018

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### (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 \$580 of outstanding contractual commitments as of June 30, 2018 that had not been claimed or disbursed.

### (4) Restatement of Prior Year Financial Statements

Subsequent to the issuance of the June 30, 2017 financial statements, management determined that it had improperly excluded certain transactions related to its June 30, 2017 financial statements.

The 2017 financial statements excluded \$1,458 in License Fees revenues which related to May 2017 and June 2017. Beginning special revenue restricted fund balance and beginning governmental activities restricted net position have been restated to reflect this adjustment.

The effect of restatement is as follows:

Net position / fund balance at July 1, 2017	\$	18,874
Prior period adjustment		1,458
Net position / fund balance at July 1, 2017, as restated	\$	<u>20,332</u>

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

(A Component Unit of the

Los Angeles County Metropolitan Authority)

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the year ended June 30, 2018

(Amounts expressed in thousands)

	Original Budget*	Final Budget*	Actual	Variance with Final Budget
Revenues:				
License fees	\$ 7,500	\$ 7,500	\$ 8,223	\$ 723
Investment income	75	75	208	133
<b>Total revenues</b>	<b>7,575</b>	<b>7,575</b>	<b>8,431</b>	<b>856</b>
Expenditures:				
Administration and other transportation projects	7,935	7,962	4,687	3,275
Subsidies to LACMTA	1,000	1,000	500	500
<b>Total expenditures</b>	<b>8,935</b>	<b>8,962</b>	<b>5,187</b>	<b>3,775</b>
Net change in fund balance	(1,360)	(1,387)	3,244	4,631
Fund balances – beginning of year	18,874	18,874	18,874	—
Prior period adjustment (Note 4)	—	—	1,458	1,458
Fund balances – beginning of year, as restated	18,874	18,874	20,332	1,458
<b>Fund balances – end of year</b>	<b>\$ 17,514</b>	<b>\$ 17,487</b>	<b>\$ 23,576</b>	<b>\$ 6,089</b>

\*Budget prepared in accordance with GAAP.

**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**

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 governmental activities and the special revenue fund of the 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, 2018, and the related notes to the financial statements, which collectively comprise SAFE's basic financial statements, and have issued our report thereon dated December 20, 2018. Our report included an emphasis of matter regarding the beginning net position and beginning fund balance as of July 1, 2017 being restated to correct a misstatement. Our opinions are not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SAFE'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 SAFE's internal control. Accordingly, we do not express an opinion on the effectiveness of SAFE'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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SAFE'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*.

### **SAFE's Response to Finding**

SAFE's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. SAFE'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 LLP

Los Angeles, California  
December 20, 2018

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**  
(A Component Unit of the Los Angeles County Metropolitan Transportation Authority)  
Schedule of Findings and Responses  
Year ended June 30, 2018

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

**Finding 2018-001 – Accounting for Revenue in the Proper Period (Material Weakness)**

Condition: May 2017 and June 2017 license fee revenue, totaling \$1,458,262, were improperly accounted for as fiscal year 2018 revenue.

Criteria: As per GASB Statement No. 33 par. 16, revenue is to be recognized when the underlying exchange has occurred and the resources are available.

Effect: Prior year revenue and net position were understated and current year revenue was overstated by \$1,458,262. Management corrected this error through a restatement of beginning net position and fund balance.

Cause: Management had not obtained the appropriate supporting documentation to ensure revenue is recorded in the proper period. Warrants, which identify the appropriate period the revenue was earned, are sent directly to the Los Angeles County Treasurer and had not been requested by management. The error was identified in the current year as management began requesting the warrants for the current year receipts.

Recommendation: We recommend that management obtain all relevant documentation for revenue to support the proper application of revenue recognition.

Management's Response: Management has modified their monthly process to include securing the warrants to identify the applicable month the remittances are recorded.

**LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY**

**LOW CARBON TRANSIT OPERATIONS PROGRAM  
COMPLIANCE REPORT**

Fiscal year ended June 30, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH RULES AND  
REGULATIONS OF THE LOW CARBON TRANSIT OPERATIONS PROGRAM (LCTOP) AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

**Report on Compliance with Low Carbon Transit Operations Program Guidelines**

We have audited the Los Angeles County Metropolitan Transportation Authority (LACMTA) compliance with the types of compliance requirements described in the Low Carbon Transit Operations Program (LCTOP) Guidelines adopted by the California Department of Transportation that could have a direct and material effect on LACMTA's compliance with the LCTOP Guidelines for the fiscal year ended June 30, 2018.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the LCTOP Guidelines.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for LACMTA's LCTOP program 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 the LCTOP Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the LCTOP 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 the LCTOP program. However, our audit does not provide a legal determination of LACMTA's compliance.

***Opinion on the LCTOP Guidelines***

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 the LCTOP program for the fiscal year ended June 30, 2018.

## 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 the LCTOP program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance on the LCTOP program and to test and report on internal control over compliance in accordance with the LCTOP program, 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 LCTOP 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 the LCTOP 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 the LCTOP 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 the LCTOP Guidelines. Accordingly, this report is not suitable for any other purpose.

*Crowe LLP*

Crowe LLP

Los Angeles, California  
December 19, 2018