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

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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is governed by a 14-member Board of Directors (Board). The Board is composed of five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, three members appointed by the Mayor, four members who are either mayors or members of a city council and have been appointed by the Los Angeles County City Selection Committee to represent the other cities in the County, and a non-voting member appointed by the Governor of the State of California.

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

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

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

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

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

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B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fund Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The LACMTA also has the following nonmajor special revenue funds:

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

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

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

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

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

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

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

D. Assets, Liabilities, and Net Assets

Deposits and Investments

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

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

Receivables and Payables

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

Inventories and Prepaid Items

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

Restricted and Designated Assets

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

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

Capital Assets

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

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

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

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

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

Compensated Absences

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

Long-term Obligations

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

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

Deferred Revenues and Credits

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

The deferred credits represent unamortized bond premiums.

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

Enabling legislation and adopted policies and procedures provide that LACMTA's Board approve an annual budget. Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP) for all governmental and proprietary funds. The Board also approves the life of project budget whenever new capital projects are approved. All non-capital appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund, cost center, expense type, and project. The legal level of control is at the fund level and the Board must approve additional appropriations. By policy, the Board has provided procedures for management to make revisions within operational or project budgets only when there is no net dollar impact to the total appropriations at the fund level. Budget amendments are made when needed.

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

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B. Encumbrances

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

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

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

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

Reported in the Statement of Net Assets and Balance Sheet:

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

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

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

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

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

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

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

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

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

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

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

Cash Deposits

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

Short-term Investments

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

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

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

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

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

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

Bond Proceeds and Debt Service Investments

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

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

Risk

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

Credit Risk

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

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Concentration of Credit Risk

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

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

Custodial Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

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B. Lease Accounts

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

C. Interfund Receivables, Payables and Transfers

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

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

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

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

Transfers in and out by fund are as follows:

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

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D. Receivables

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

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

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

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

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E. Capital Assets

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

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

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

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