Contributions made by employees represented by ATU, UTU, and TCU are directly remitted to their respective Union Health and Welfare Trusts.

LACMTA Contribution

LACMTA's funding policy is to make annual contributions to cover the pay-as-you-go costs and partial payments against the actuarially required contribution. Actuarially computed costs are determined using the projected unit credit method.

Since LACMTA is funding the pay-as-you-go cost, but less than the ARC, contributions were determined reflecting a "partial" funding approach. LACMTA elected to use a blended discount rate of 4.0 percent, which implicitly assumes the level of funding in excess of current year costs of pay-as-you-go that represents approximately one-third of the ARC in excess of the current year costs and the investment policy of the trust to support a long-term expected rate of return on assets of 7.5 percent. The ARC calculation uses an open 20-year rolling amortization that meets the requirements of GASB Statement No. 45,*"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".*

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts reflect a long-term perspective and are subject to continual revision as results are compared with past expectations, and new estimates are made about the future. The most significant actuarial assumptions include: a) 4.0 percent discount rate, compounded annually; b) increase in future payroll of 3.5 percent per year; c) mortality using RP-2000 Mortality Table (male and female with blue collar adjustments) with mortality improvements projected to year 2010; d) health care cost trend rate of 8.5 percent; and e) an inflation rate of 2.5 percent. The trend assumptions are comprised of three elements: 1) initial trend rate, 2) ultimate trend rate, and 3) the grade-down period. The trend rate assumptions exclude the expected impact of aging since this impact is explicitly reflected elsewhere in the valuation. The initial trend rate is the expected increase in health care costs into the second year of the valuation (i.e. the first assumed annual increase in starting per capita rates). The assumed ultimate trend rate and grade-down period are based on macroeconomic principles reflecting assumed long-term general information, nominal gross domestic product growth rates, and the excess of national health expenditures over other goods and services, and an adjustment for an assumed impact of population growth. LACMTA's contractual contributions, which are assumed to increase in years after the current contract, in accordance with medical trend and retirees' contributions are assumed to increase at the same rate as medical costs.

LACMTA opted to perform biannual valuations of its liabilities under the provision of GASB Statement No. 45,*"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".* As such, the January 1, 2009 valuation is used to determine the Annual Required Contributions (ARC) for the fiscal years beginning July 1, 2009 and 2010. In the January 1, 2009 valuation, the ARC was determined by amortizing the unfunded liability over 20 years as a level percentage of pay equal to 14.86 percent, and aggregate payroll assumed to grow at 3.5 percent per year. The ARC for the period ending June 30, 2010 was determined using the level percentage of pay method.

The following table summarizes the valuation results applying the level percentage of pay method to the valuation date of January 1, 2009:

Summary of Costs	
Normal Cost	$ 39,535
▪ Percentage of Total Payroll	6.81%
Amortization of Unfunded Actuarial Accrued Liability	$ 46,668
▪ Percentage of Total Payroll	8.04%
ARC with 20-year Level Percent of Payroll Amortization	$ 86,203
▪ Percentage of Total Payroll	14.86%

Annual OPEB Cost and Net OPEB Obligation (Asset)

The Annual Required Contributions (ARC) represents a level of funding that if paid on an ongoing basis, is projected to cover normal costs each year, and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. Amounts required but not set aside to pay for these benefits are accumulated as part of the Net OPEB obligation (Assets).

LACMTA's annual OPEB cost for the year, the amount paid on behalf of the plan, and changes in the LACMTA's Net OPEB Obligation (Asset) to the plan for the year ended June 30, 2010 are as follows:

Annual Required Contribution	$ 86,203
Interest on Net OPEB obligation	(2,977)
Adjustment to ARC	4,048
Total Annual OPEB Cost	87,274
Less Contributions made	(31,197)
Increase in Net OPEB Obligation	56,077
Net OPEB Obligation (Asset) – beginning of year	(74,390)
Net OPEB Obligation (Asset) – end of year	$ (18,313)

LACMTA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the Net OPEB Obligation (Asset) for the year ended June 30, 2010, 2009 and 2008 are as follows:

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
2010	$ 87,274	35.75%	$ (18,313)
2009	75,725	37.65%	(74,390)
2008	72,054	268.77%	(121,602)

Funding Progress

The schedule of funding progress presents multi-year trend information on whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded to include three years as actuarial information becomes available.

The LACMTA's funding progress information as of June 30, 2010 is illustrated as follows:

Actuarial Valuation Date	Projected Unit Credit Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
January 1, 2009						
LACMTA	$ 148,150	$ 22,934	$ 125,216	15.48%	$ 165,924	75.47%
ATU	462,109	71,537	390,572	15.48%	142,512	274.06%
TCU	90,227	13,968	76,259	15.48%	35,372	215.59%
UTU	314,221	48,643	265,578	15.48%	236,341	112.37%
Total	$ 1,014,707	$ 157,082	$ 857,625	15.48%	$ 580,149	147.83%

N. Deferred Compensation and 401(k) Savings Plan

Deferred Compensation Plan

LACMTA has a deferred compensation plan for all employees established in accordance with IRC Section 457, which permits employees to defer a portion of their current salary to future years.

Under this plan, employees may contribute up to the lesser of $16,500 (not in thousands) or 100 percent of their earnings in calendar year 2010. A special provision in the law allows an additional $5,500 (not in thousands) for “Baby Boomers” (age 50 or greater by December 31, 2010), and employees eligible for retirement within three years may defer up to a total of $33,000 (not in thousands).

The plan is managed by a third party plan administrator and trustee. Employee deferrals can be allocated among several investment options as directed by the employee. Although the employee is always 100 percent vested in the plan, withdrawals are not available to employees until termination, retirement, death, or unforeseeable emergency. In the opinion of management, LACMTA has no liability for any losses under the plans, but does have the fiduciary responsibility of due professional care that would be required from a prudent investor. Accordingly, the assets of the deferred compensation plan and the related liability to employees are not reported in the fiduciary fund. LACMTA does not match employees’ contributions to the deferred compensation plan. As of June 30, 2010, the deferred compensation plans had assets (at fair value) of $192,604.

401 (k) Savings Plan

LACMTA also offers a deferred savings plan to all employees created in accordance with IRC Section 401(k). Under this, employees may contribute up to the lesser of $16,500 (not in thousands) or 100 percent of their earnings in calendar year 2010. A special provision in the law allows an additional $5,500 (not in thousands) for “Baby Boomers” (age 50 or greater by December 31, 2010).

The savings plan is managed by a third party plan administrator, and the participants can direct the plan administrator to allocate their deferral based on several investment options. Plan benefits are based solely on amounts contributed by employees to their own accounts. Withdrawals are not available to employees until termination, retirement, age 59-1/2, death, or unforeseen emergency. In the opinion of management, LACMTA has no liability for any losses under the plan, but does have the fiduciary responsibility of due professional care that would be required from a prudent investor. Accordingly, the plan’s assets and liability to employees are not reported in the fiduciary fund. LACMTA does not match employees’ contribution to the 401(k) savings plan. As of June 30, 2010, the 401(k) savings plan had assets (at fair value) of $242,267.

Employees may participate in both deferred compensation and 401(k) savings plan. The maximum annual combined contribution per calendar year using both plans is $44,000 (not in thousands), or $55,000 (not in thousands) if an employee falls within the catch up provision.

O. Joint Powers

LACMTA is a member of the Southern California Regional Rail Authority (SCRRA), which was formed as a regional Joint Powers Agency between the transportation commissions of the counties of Los Angeles, San Bernardino, Orange, Riverside, and Ventura. SCRRA's purpose is to plan, design, construct, and administer the operation of regional passenger rail lines serving the participating counties. SCRRA named the regional commuter rail system "Metrolink."

Metrolink's capital acquisition and expansion have been funded by contributions from member agencies and the State of California.

As of June 30, 2010, LACMTA provided funding for the majority of the Metrolink's operating and capital costs. Summary audited financial information for the SCRRA for the year ended June 30, 2009 (most recent data available) was as follows:

Current Assets	$	165,077
Capital Assets, net		847,802
Other Assets		25,829
Total Assets		1,038,708
Total Liabilities		155,168
Net Assets	$	883,540
Total Revenues	$	323,638
Total Expenses		(252,054)
Increase in Net Assets	$	71,584

Additional detailed financial information is available from the Office of Finance and Administration, SCRRA, 700 South Flower Street, 26th Floor, Los Angeles, CA 90017.

P. Derivative Instruments

As of June 30, 2010, LACMTA had the following hedging derivative instruments outstanding within business-type activities:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Fair Value June 30, 2010	Terms
Interest Rate Swap						
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop C Series 2009-A Bonds.	$ 166,900	10/9/2003	7/1/2023	$ (13,470)	Receive 68% LIBOR, pay 3.44%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to 2004 Gateway Bonds.	174,925	9/22/2004	7/1/2027	(13,592)	Receive 64% LIBOR plus 0.21%, pay 3.50%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop A Series 2008-A1/A2.	130,775	8/23/2005	7/1/2031	(11,399)	Receive 63% LIBOR plus 0.14%, pay 3.37%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop A Series 2008-A3/A4.	130,850	8/23/2005	7/1/2031	(11,281)	Receive 63% LIBOR plus 0.14%, pay 3.36%
Pay Fixed Interest Rate Swap	To reduce the risks associated with the change in interest rate associated to Prop C Series 2009-C Bonds.	89,625	7/23/2009	7/1/2025	(6,007)	Receive 68% LIBOR, pay 3.40%
	Sub-total	693,075			(55,749)	
Commodity Swap						
Compressed Natural Gas (CNG)	To reduce the risks associated with the changes in the cost of natural gas.	13,140	7/1/2010	6/30/2011	(2,003)	Receive variable, pay 0.6480
Compressed Natural Gas (CNG)	To reduce the risks associated with the changes in the cost of natural gas.	13,140	7/1/2010	6/30/2011	(2,068)	Receive variable, pay 0.6530
Compressed Natural Gas (CNG)	To reduce the risks associated with the changes in the cost of natural gas.	8,760	7/1/2010	6/30/2011	(982)	Receive variable, pay 0.6075
	Sub-total	35,040			(5,053)	
	Grand Total	$ 728,115			$ (60,802)	

Interest Rate Swap

LACMTA entered interest rate swap agreements to manage the exposure of changes in variable interest rate related to its debt obligations. LACMTA makes a fixed rate payment to the counterparty and receives a variable rate payment in order to achieve a synthetic fixed rate for the bonds and hedge exposure to variable interest rates. LACMTA has entered into these swap agreements at a cost anticipated to be less than what LACMTA would have paid to issue fixed rate debt.

The LACMTA's Board annually adopts an Interest Rate Swap Policy that governs the use and management of interest rate swaps as they are used in conjunction with debt issues. The policy establishes guidelines to be used when considering the use of swaps, as well as in the ongoing management of existing swaps. Guidance is provided specifying appropriate uses: selection of acceptable swap products, swap providers and swap advisors, negotiation of favorable terms and conditions, and stipulating annual surveillance of the swaps and the providers.

LACMTA's Interest Rate Swap Policy specifies that interest rate swaps may be used to lock-in a fixed rate or to create additional variable rate exposure. Interest rate swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.

On July 23, 2009, the Prop C Series 2003-C interest rate swap was partially terminated with the refunding of the Prop C Series 2003-C series bonds by the Prop C Series 2009-C and Prop C Series 2009-D bonds. The Prop C Series 2009-D bonds are fixed rate securities and the underlying portion of the swap was terminated, resulting in the termination fee of $6,125 (i.e. the deferred outflow upon termination of the swap). This amount was included in the balance of the deferral account in the net carrying amount of the old debt for the purpose of calculating the difference between that amount and the reacquisition price of the old debt. The Prop C Series 2009-C bonds are variable rate securities and maintained its portion of the swap: the Prop C Series 2009-C interest rate swap. The swap had a fair value of $5,110 upon association with the new debt.

At of June 30, 2010, LACMTA outstanding interest swap agreements fair value along with the changes in fair values for the year then ended, and the associated counterparty and its credit ratings are as follows:

Bond Series	Fair Value June 30, 2009	Change in Fair Value	Fair Value June 30, 2010	Counterparty	Counterparty Credit Ratings Moody's	S&P
Proposition C Series 2003-C/Proposition C Series 2009-C[1]	$ (11,372)	$ 5,365	$ (6,007)	Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA
Proposition C Series 2009-A	(9,125)	(4,345)	(13,470)	Wachovia Bank	Aa2	AA
2004 Gateway Bonds	(9,179)	(4,413)	(13,592)	Bank of Montreal	Aa2	A+
Proposition A Series 2008-A1/A2	(7,771)	(3,628)	(11,399)	Bank of Montreal	Aa2	A+
Proposition A Series 2008-A3/A4	(7,148)	(4,133)	(11,281)	Deutsche Bank AG	Aa3	A+
Total	$ (44,595)	$ (11,154)	$ (55,749)			

[1]The Proposition C Series 2003-C interest rate swap was partially terminated. The terms for the remaining portion were revised for the Proposition C Series 2009-C interest rate swap.

The increase in fair value of the interest rate swap is reported as a deferred outflow in the Business-type Activities on the Statement of Net Assets.

The fair value represents the theoretical cost to terminate the swap at the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon bond due on the date of each future net settlement on the swap.

LACMTA neither received nor paid any upfront amount when these swaps were initiated. Relevant market interest rates on the valuation date of the swaps reflected in the schedule above were lower than market interest rates on the effective date of the swaps and, consequently, resulted in negative fair values at valuation date.

The following risks are generally associated with swap agreements:

Credit Risk – The counterparty could experience weakening financial condition or insolvency, which could affect its ability to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. Further ratings deterioration by either party below levels agreed-to in each swap agreement could result in a termination event requiring a cash settlement. See "Termination Risk" below. To mitigate credit risk, LACMTA monitors the credit ratings of the counterparties on a quarterly basis. In addition, if the outstanding ratings of the counterparties fall to certain levels, the counterparties must post collateral with a third-party custodian to secure their potential termination payments above certain threshold amounts. Collateral must be cash, U.S. Government securities or certain federal agency securities. As of June 30, 2010, LACMTA was required to post collateral for two of its counterparties: Bank of Montreal and Wachovia Bank for $11.5 and $3.5million, respectively.

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

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

Rollover Risk – When the notional amount under the swap agreement terminates prior to the final maturity of the hedged bonds, the governmental issuer would then be exposed to the current short-term bond interest rates, as well as to current swap pricing in order to continue the benefit of the synthetic fixed rate for the duration of the bond issue. As of June 30, 2010, LACMTA does not have any swap agreements that terminate prior to the final maturity of the hedged bonds.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows. In certain circumstances a swap can have the effect of increasing the risk of loss as a result of changes in interest rates, such as a swap from a fixed rate to a variable rate. As of June 30, 2010, LACMTA does not have any swaps that have any fixed to variable rate swaps.

Market-access Risk – Market-access risk is the risk that a government will not be able to enter credit markets or that credit will become more costly. If a governmental issuer were to enter into a derivative in anticipation of entering the credit market at a later date, but was ultimately unable to do so, there is a risk that the lack of market access would frustrate the purpose of the derivative and could result in a termination payment becoming due. As of June 30, 2010, LACMTA has not entered into a derivative in anticipation of entering the credit market at a later date.

Liquidity Risk – At some point in the future, LACMTA could be unable to obtain liquidity support for its variable rate bonds that require liquidity and are currently hedged with interest rate swaps. This situation could result in LACMTA incurring additional costs to convert the bonds to a different variable rate product that does not require liquidity support or to refund the bonds to a fixed rate mode, which would require the swaps to be either canceled or terminated. LACMTA periodically evaluates the expected availability of liquidity support for hedged and unhedged variable rate debt. As of June 30, 2010, LACMTA has sufficient liquidity support.

As of June 30, 2010, the annual debt service requirements of the variable rate obligations and net swap payments for the Proposition C Series 2009-A, Proposition C Series 2009-C, Proposition A Series 2008-A, and Gateway Series 2004 are as follows:

	Variable-rate Bonds			
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ 3,225	$ 2,553	$ 21,269	$ 27,047
2012	7,600	2,506	21,044	31,150
2013	8,125	2,455	20,804	31,384
2014	8,650	2,400	20,547	31,597
2015	29,175	2,324	19,960	51,459
2016-2020	190,625	9,877	83,533	284,035
2021-2025	299,350	5,709	44,463	349,522
2026-2030	139,025	1,013	7,199	147,237
2031-2032	3,400	10	103	3,513
Total	$ 689,175	$ 28,847	$ 238,922	$ 956,944

As rates vary, variable rate bond interest payments and net swap payments will vary. The debt service requirements are reflected in the table of sales tax revenue bond debt service requirements to maturity can be found on page 58.

Commodity Swap

In FY10, LACMTA has entered into commodity swap agreements to hedge approximately 95 percent of its annual exposure to changes in the cost of natural gas. LACMTA pays a counterparty an amount based on a fixed rate and receives an amount based on a specified variable rate index. The variable rate is intended to be, on average, equal to the rate LACMTA will pay to purchase its natural gas. If the variable rates LACMTA receives from the swap counterparty and actual payments for natural gas fully offset each other, then the fixed rate paid to the counterparty becomes the cost of purchasing natural gas.

At June 30, 2010, LACMTA outstanding commodity swaps fair value along with the changes in fair values for the year then ended, and the associated counterparty and its credit ratings are as follows:

Fair Value June 30, 2009	Changes in Fair Value	Fair Value June 30, 2010	Counterparty	Counterparty Ratings S&P	Moody's	Fitch
$ (3,290)	$ 3 ,290	$ -	Bank of America, N.A			
(4,645)	4,645	-	BP Corp. North America			
(5,088)	5,088	-	BP Corp. North America			
(4,060)	4,060	-	BP Corp. North America			
(3,094)	3,094	-	RBC Capital Market			
(2,206)	2,206	-	BP Corp. North America			
(392)	(1,611)	(2,003)	Barclays Capital	AA-	Aa3	AA-
(452)	(1,616)	(2,068)	Bank of America, Merrill	A+	Aa3	A+
-	(982)	(982)	Barclays Capital	AA-	Aa3	AA-
$ (23,227)	$ 18,174	$ (5,053)				

The net changes in fair value of commodity swap are reported under the Transit Operations in the Business-type Activities on the Statement of Activities.

The negative fair value is the theoretical cost that LACMTA will pay to terminate the swap at the valuation date. The fair values were estimated by discounting the future monthly net cash flows that would be anticipated based on future pricing.

The following risks are generally associated with swap agreements:

Counterparty Risk – the risk that the counterparty fails to make required payments or otherwise comply with the terms of the swap agreement. This non-performance would usually result from financial difficulty, but could also occur for physical, legal, or business reasons. This risk is mitigated by establishing minimum credit quality criteria, establishing maximum credit limits, requiring collateral on counterparty downgrade. To mitigate credit risk, LACMTA monitors the credit ratings of the counterparties on a quarterly basis.

Basis Risk – The risk that there is a mismatch between the variable rate payment received from the swap counterparty and the variable rate paid for gas purchases. LACMTA mitigates this risk by conducting an extensive survey of relevant products and indices, and selecting one that has a strong correlation with the price changes of the cost of gas.

Termination Risk – The risk that there will be a mandatory early termination of the commodity swap that would result in LACMTA either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or LACMTA suffers degraded credit quality, illiquidity, bankruptcy, or failure to perform. LACMTA mitigates this risk by establishing minimum credit quality criteria, establishing maximum credit limits, and requiring collateral on counterparty downgrade and employing credit rating surveillance. LACMTA monitors the credit ratings of the counterparties on a quarterly basis. LACMTA calculates quarterly its termination exposure for all existing and proposed swaps at market value.

Q. Litigation and Other Contingencies

Litigation

LACMTA is named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of LACMTA.

Federal, State, and Other Governmental Funding

LACMTA receives significant funding from Federal, State, and other governmental grant funds as reimbursement for costs incurred. Such grants are subject to review and audit by the grantor agencies. These audits could result in disallowed expenditures under the terms of the grant or in reductions of future grant monies. Based on prior experience, LACMTA's management believes that costs ultimately disallowed, if any, would not materially affect the financial condition of LACMTA.

Excise Tax on Lease/Leaseback Transactions

On May 17, 2006, President Bush signed into law the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). Pursuant to the 2005 Tax Act, a new Section 4965 was added to the Internal Revenue Code of 1986, as amended (the "Code"). Section 4965 imposes a Federal excise tax (the "New Excise Tax") on the net income or proceeds of Sale In/Lease Out transactions entered into by tax-exempt entities, including states and their political subdivisions. On February 7, 2007, the Internal Revenue Service (IRS) released Notice 2007-18, which addresses how the provisions of new section 4965 will be applied. This provision could impact LACMTA's leveraged leasing transactions. The Internal Revenue Service recently released proposed regulations to further clarify which transactions are subject to the New Excise Tax and calculation of the New Excise Tax. Based on the proposed regulations, LACMTA believes that the New Excise Tax will not have a material adverse effect on its financial condition or results of its operation.

R. Pollution Remediation Obligations

LACMTA adopted GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations",* establishing accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

LACMTA is responsible for the pollution remediation obligations for various facilities and capital projects. In general, these facilities and projects include those with known soil and/or groundwater impacts or either current or anticipated future litigation involving contamination of soil or groundwater at locations not controlled by LACMTA.

Identification and reporting of pollution remediation obligations under GASB 49 that do not qualify for capitalization are accrued as a liability and expense when a range of expected outlays is reasonably estimable or expensed upon receipt of goods and services. LACMTA calculates expected outlays related to this pollution remediation using established potential environmental liability estimates for three different cost categories identified below:

External Remediation Costs – costs for goods and services that are provided to LACMTA and represent outlays for services, including subcontracted direct labor, overhead, profit, and fees. Examples of these goods and services include environmental site assessment activities, remedial action planning and design, remedial action implementation, and post-remediation monitoring.

LACMTA Internal Administration Costs – internal administration costs incurred by LACMTA including direct and indirect outlays (e.g. general overhead) associated with technical management and procurement activities.

Litigation and Settlement Costs – litigation and settlement costs for sites where LACMTA has been named as a responsible party and has agreed to pay all or part of the quantified financial obligations to implement environmental mitigations or environmental damages associated with the site.

The remediation obligation estimates accrued as of June 30, 2010 are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to status and regulations and other factors that could result in revisions to these estimates.

Prospective recoveries from responsible parties may reduce LACMTA's obligation. Capital assets may be created when pollution outlays are made under specific circumstances. LACMTA is not expecting recovery from other responsible parties.

As of June 30, 2010, LACMTA has an outstanding pollution remediation liability of $7,700 related to soil and/or groundwater pollution cleanup activities. Of this amount, approximately $3,262 is associated with litigation or settlement costs and approximately $480 is associated with LACMTA's internal administration as presented below:

The following table summarizes the pollution remediation by activity as of June 30, 2010:

Facility Name	External Remediation	Internal Administration	Litigation and Settlements	Assessment/ Remediation Spent	Total Costs
Division 1	$ 198	$ 30	$ -	$ -	$ 228
Division 3	651	80	-	-	731
Division 7	2,160	130	-	(198)	2,092
Division 10	705	70	-	(58)	717
Division 12	300	20	-	-	320
Division 11	100	-	-	-	100
Division 30	-	100	-	-	100
Red Line	100	10	-	-	110
Oil Landfill	-	10	2,937	-	2,947
McArthur Park Remediation	-	-	100	-	100
Omega	-	10	100	-	110
Mountaineer Refinery	-	10	75	-	85
SFV/N Hollywood Former Division 15	-	10	50	-	60
Total	$ 4,214	$ 480	$ 3,262	$ (256)	$ 7,700

External remediation costs noted above were estimated on a lifecycle basis through retirement of the pollution remediation obligation or a forecasted, year-by-year scope of the remaining project lifecycles to No Further Action (NFA) (i.e., closure). The scoping period for newly identified sites and for the continuance of other identified obligation at other sites was assumed to start July 1, 2010.

Internal costs noted above were estimated on a site-specific basis. A full time equivalent (FTE) basis was used to estimate the internal cost of administration and overhead. An FTE value of $200,000 (amount not in thousands) per annum was multiplied by the annual FTE equivalent anticipated for each site and the projected duration required to retire the pollution remediation obligations.

Litigation and settlement costs are based on LACMTA's proportionate share of cleanup and remediation costs at each clean up sites identified in the table above that received LACMTA's generated hazardous waste, based on volume, ongoing remediation costs, and prior years' expenses.

LACMTA does not currently have any pollution remediation activities for liabilities not yet recognized because they are not reasonably estimable.

S. Reclassifications

Comparative data for the prior year has been presented in selected sections of the accompanying financial statements. Also, certain accounts presented in prior year's data have been reclassified in order to be consistent with the current year's presentation.

T. Effects of New Pronouncements

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

In June 2007, GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*." This statement addresses how to establish accounting and financial reporting requirements for intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. LACMTA implemented the new reporting requirements of GASB 51 for the fiscal year ended June 30, 2010. The adoption of GASB 51 did not have a material impact on LACMTA's financial statements.

In June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*." This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by synthetically fixing prices. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swap options, forward contracts, and futures contracts. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. LACMTA implemented the new reporting requirements of GASB 53 for fiscal year ended June 30, 2010. Additional information on GASB 53 can be found on pages 75 to 81.

In March 2009, GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the fund type definitions. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Disclosure of the policies in the notes to the financial statements is required. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. LACMTA plans to implement the new reporting requirements of GASB 54 for fiscal year ending June 30, 2011.

U. Subsequent Events

New LACMTA Fare Structure

Effective July 1, 2010, LACMTA changed its fare structure for bus and rail service. The increase will help LACMTA's financial stability while maintaining quality of service.

The first phase of the fare increase went into effect on July 1, 2007. Prior to the implementation of July 1, 2009 fare increase, the Measure R half-cent sales tax was approved by voters to improve mobility in the region. As a result of the November 4, 2008 ballot initiative, LACMTA was able to defer the July 1, 2009 fare increase until July 1, 2010.

Long-term Debt

As of June 30, 2010, LACMTA had one outstanding auction rate security bond issue: the $171,025 General Revenue Refunding Bonds (Union Station Gateway Projects) Series 2004. Auctions have failed for the Series 2004 Bonds since the third quarter of 2008. This was primarily the result of deteriorating financial strength and credit ratings downgrade of virtually all of the previously AAA-rated monoline bond insurers. In July 2010, LACMTA issued $79,620 General Revenue Refunding Bonds (Union Station Gateway Projects) Series 2010-A for the purchase and cancellation of a portion of the Series 2004 Bonds through a tender offer for purchase at a discount from the par amount of the refunded Series 2004 Bonds. The proceeds of the Series 2010-A bonds together with other funds released as stated in the Series 2010-A Official Statement were used to (1) purchase an aggregate amount of $83,525 outstanding Series 2004 Bonds; (2) pay $6,675 for the partial termination of the notional amount of the Series 2004 Swap Agreement related to the refunded Series 2004 Bonds; (3) make a deposit to the Reserve Account; and (4) pay for costs of issuance. Following the issuance of the Series 2010-A Bonds, the total amount of Series 2004 Bonds outstanding is $86,175.

The Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005-A are fixed rate bonds with rates of 3.13 percent to 5.00 percent, of which $90,155 was outstanding as of June 30, 2010. In October 2010, LACMTA redeemed the entire $90,155 outstanding Capital Grant Receipts Revenue Bonds from capital grant receipts in order to reduce its future debt service requirements.

In November 2010, LACMTA issued $732,410 Measure R Senior Sales Tax Revenue Bonds, composed of $573,950 Series 2010-A Taxable Build America Bonds and $158,460 Series 2010-B Tax-Exempt Bonds. The Series A Bonds mature June 1, 2021 through June 1, 2039 with rates ranging from 4.28% to 5.74%. LACMTA expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Series 2010-A Bonds. The Series 2010-B Bonds mature June 1, 2012 through June 1, 2020 at rates ranging from 0.50% to 5.00%.

Commercial Paper Notes

In August 2010, LACMTA entered into two direct-pay irrevocable letters of credit for $50,000 for each bank, to support the Proposition A commercial paper program. Each bank is required to have a short term credit rating of at least A-1/P-1. The letters of credit are drawn upon at each note maturity to pay the principal and interest due. Principal that has been advanced by the banks and paid to the holders of the matured notes is reimbursed to the banks either by issuing new notes or by direct payment from LACMTA. Interest is reimbursed to the banks on a current basis from sales tax revenues. In the event that the CPN dealers are unable to remarket the commercial paper and/or LACMTA is unable to repay the interest or principal, the banks will incur an unreimbursed draw on the letters of credit. Unreimbursed draws are converted to term loans following a specified period of time. The term loan for Proposition A CPN is repayable beginning nine months after the commencement of the term loan, with quarterly principal payments over a period of two years and three months. Interest is charged at rates specified in the applicable Reimbursement Agreement. The letters of credit supporting the Proposition A commercial paper program will expire in January 2012.

LOS ANGELES COUNTY METROPOLITIAN TRANSPORTATION AUTHORITY
Required Supplementary Schedule
Schedule of Funding Progress – Pension Plans
For the Fiscal Year Ended June 30, 2010

The schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for the pension funds contributed to by:

Valuation Date	Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (Excess Assets) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll (a)-(b)/ (c)
PTSC *						
06/30/08	$ 282,568	$ 276,752	$ 5,816	97.94%	$ 123,548	4.71%
06/30/07	247,609	246,342	1,267	99.49%	115,303	1.10%
06/30/06	215,195	213,556	1,639	99.24%	108,085	1.52%
LACMTA **						
UTU						
12/31/09	512,887	362,222	150,665	70.62%	190,212	79.21%
12/31/08	488,327	306,525	181,802	62.77%	192,718	94.34%
12/31/07	439,532	310,067	129,465	70.54%	188,648	68.63%
TCU						
12/31/09	90,027	61,866	28,161	68.72%	27,578	102.11%
12/31/08	86,148	53,052	33,096	61.58%	27,057	122.32%
12/31/07	72,981	53,142	19,839	72.82%	26,735	74.21%
ATU						
12/31/09	295,021	211,174	83,847	71.58%	109,214	76.77%
12/31/08	275,021	174,733	100,288	63.53%	115,504	86.83%
12/31/07	257,642	181,305	76,337	70.37%	100,643	75.85%
Non-Contract						
12/31/09	131,773	114,115	17,658	86.60%	6,206	284.53%
12/31/08	129,195	101,878	27,317	78.86%	6,855	398.50%
12/31/07	121,427	105,987	15,440	87.28%	7,291	211.77%
AFSCME						
12/31/09	50,675	44,653	6,022	88.12%	6,161	97.74%
12/31/08	48,528	40,120	8,408	82.67%	6,951	120.96%
12/31/07	46,482	41,364	5,118	88.99%	7,095	72.14%
LACMTA TOTAL						
12/31/09	$ 1,080,383	$ 794,030	$ 286,353	73.50%	$ 339,371	84.38%
12/31/08	1,027,219	676,308	350,911	65.84%	349,085	100.52%
12/31/07	938,064	691,865	246,199	73.75%	330,412	74.51%

Annual Financial Report can be obtained by writing to:

* *CalPERS, PO BOX 942709, Sacramento, CA 94229-2709 or visit CalPERS's website at www.calpers.ca.gov*

** *Finance Department, LACMTA, One Gateway* Plaza, Los Angeles, CA 90012-2952 or visit LACMTA's website at www.metro.net.

See accompanying independent auditors' report.

LOS ANGELES COUNTY METROPOLITIAN TRANSPORTATION AUTHORITY
Required Supplementary Schedule
Schedule of Funding Progress – OPEB
For the Fiscal Year Ended June 30, 2010

The schedule of Funding Progress below shows the recent history of actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for the OPEB fund established by LACMTA:

Actuarial Valuation Date	Projected Unit Credit Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (a)-(b)/(c)
January 1, 2009						
LACMTA	$ 148,150	$ 22,934	$ 125,216	15.48%	$ 165,924	75.47%
ATU	462,109	71,537	390,572	15.48%	142,512	274.06%
TCU	90,227	13,968	76,259	15.48%	35,372	215.59%
UTU	314,221	48,643	265,578	15.48%	236,341	112.37%
Total	$ 1,014,707	$ 157,082	$ 857,625	15.48%	$ 580,149	147.83%
January 1, 2007						
LACMTA	$ 104,433	$ -	$ 104,433	-%	$ 144,609	72.22%
ATU	351,541	-	351,541	-%	122,385	287.24%
TCU	62,883	-	62,883	-%	31,242	201.28%
UTU	214,585	-	214,585	-%	233,331	91.97%
Total	$ 733,442	$ -	$ 733,442	-%	$ 531,567	137.98%

Annual Financial Report can be obtained by writing to:
Finance Department, LACMTA, One Gateway Plaza, Los Angeles, CA 90012-2952 or visit LACMTA's website at www.metro.net.

See accompanying independent auditors' report.

Los Angeles County Metropolitan Transportation Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2010
(Amounts expressed in thousands)

	Budgeted Amounts*			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Intergovernmental	$ 3,335	$ 3,234	$ 2,525	$ (709)
Investment income	2,172	2,172	5,201	3,029
Net appreciation in fair value of investments	-	-	1,049	1,049
Lease and rental	16,563	16,563	15,713	(850)
Licenses and fines	500	500	446	(54)
Other	11,243	11,423	16,764	5,341
TOTAL REVENUES	33,813	33,892	41,698	7,806
EXPENDITURES				
Current:				
Administration and other	24,075	24,075	19,842	4,233
Transportation subsidies	-	-	149	(149)
Debt and interest expenditures:				
Principal	-	-	1,025	(1,025)
Interest and fiscal charges	2,262	2,262	1,249	1,013
TOTAL EXPENDITURES	26,337	26,337	22,265	4,072
EXCESS OF REVENUES OVER EXPENDITURES	7,476	7,555	19,433	11,878
OTHER FINANCING SOURCES (USES)				
Transfers in	12,111	12,261	12,878	617
Transfers out	(10,700)	(11,420)	(12,484)	(1,064)
TOTAL OTHER FINANCING SOURCES AND USES	1,411	841	394	(447)
NET CHANGE IN FUND BALANCES	8,887	8,396	19,827	11,431
Fund balances – beginning of year	160,627	160,627	160,627	-
FUND BALANCES – END OF YEAR	$ 169,514	$ 169,023	$ 180,454	$ 11,431

**Budget prepared in accordance with GAAP*

See accompanying independent auditors' report.