



Metro ExpressLanes
An Enterprise Fund of the
Los Angeles County Metropolitan Transportation Authority

Financial Statements with Report of Independent Auditors
For the Year Ended June 30, 2014 and the Period
From November 10, 2012 to June 30, 2013

Metro ExpressLanes

An Enterprise Fund of the Los Angeles County Metropolitan Transportation Authority

Financial Statements with Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

Board of Directors Los Angeles County Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Metro ExpressLanes, an enterprise fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA), as of June 30, 2014 and 2013, and for the year end June 30, 2014 and the period from November 10, 2012 to June 30, 2013, 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.

Auditors' 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 audits 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 Metro ExpressLanes as of June 30, 2014 and 2013 and the changes in financial position and cash flows for the year ended June 30, 2014 and the period from November 10, 2012 to June 30, 2013 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 Metro ExpressLanes Fund and do not purport to, and do not, present fairly the financial position of LACMTA as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the year ended June 30, 2014 and the period from November 10, 2012 to June 30, 2013 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015 on our consideration of Metro ExpressLanes 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 Metro ExpressLanes Fund's internal control over financial reporting and compliance.

Vasquez + Company LLP

Los Angeles, California
January 7, 2015

Metro ExpressLanes

An Enterprise Fund of the Los Angeles County Metropolitan Transportation Authority

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and the
Period from November 10, 2012 to June 30, 2013
(Amounts expressed in thousands)

As management of the Metro ExpressLanes, an Enterprise Fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA), we offer readers of our financial statements this narrative overview and analysis of the financial activities of Metro ExpressLanes for the fiscal year ended June 30, 2014 and the period from November 10, 2012 to June 30, 2013.

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

Background

The first Metro ExpressLanes commenced revenue operations in November 2012 on the I-110 Harbor Freeway, between Adams Blvd. and the 91 freeway. The second Metro ExpressLanes commenced revenue operations in February 2013 on the I-10 El Monte Freeway, between Alameda Street and the 605 Freeway.

Metro ExpressLanes started as a one-year congestion reduction demonstration (CRD) program that tested innovations to improve existing transportation systems in three sub-regions: the San Gabriel Valley, Central Los Angeles and the South Bay Cities. These three sub-regions represent nearly 50 percent of both population and employment in Los Angeles County. The High Occupancy Vehicle (HOV) lanes were converted into High Occupancy Toll (HOT) lanes that accommodate tolled single-occupant vehicles during all peak hours of the day. Carpools, vanpools, buses, and motorcycles travel toll free.

The Federal Transit Administration (FTA) through the U.S. Department of Labor awarded LACMTA, a grant of \$210.6 million for its Metro Express Lanes fund. The one-year congestion reduction demonstration grant funding ended in February 2014 for the I-110 and I-10.

In April 2014, LACMTA's Board of Directors voted unanimously for the ExpressLanes on the I-110 and I-10 Freeways to become permanent in Los Angeles. In September 2014, the California State Legislature approved the motion that the toll lanes be permanent in Los Angeles and that Governor of California sign it to become official.

Financial Highlights

- Metro ExpressLanes started operation in November 2012. Comparative statements for 2013 are for the period from November 10, 2012 to June 30, 2013.
- Metro ExpressLanes' total assets exceeded its liabilities as of June 30, 2014 and 2013 by \$134,827 and \$114,747, respectively.

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and the
Period from November 10, 2012 to June 30, 2013
(Amounts expressed in thousands)

- For the year ended June 30, 2014 and the period from November 10, 2012 to June 30, 2013, Metro ExpressLanes operating revenues totaled \$34,466 and \$12,994, respectively, and total operating expenses totaled \$16,677 and \$10,101, respectively, with a net operating income of \$17,789 and \$2,893, respectively.
- Total capital grants and contributions received for the year ended June 30, 2014 and the period from November 10, 2012 to June 30, 2013 amounted to \$0 and \$103,355, respectively.

Overview of the Financial Statements

This management discussion and analysis serves as an introduction to the Metro ExpressLanes' financial statements. Metro ExpressLanes' financial statements include: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Fund Net Position, (3) Statement of Cash Flows, and (4) the Notes to the Financial Statements.

Metro ExpressLanes' financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). Metro ExpressLanes fund is structured as an enterprise fund with revenues recognized when earned. Expenses are recognized when they are incurred. See notes to financial statements for a summary of Metro ExpressLanes significant accounting policies on pages 10 and 11.

Statement of Net Position

The Statement of Net Position presents information on all Metro ExpressLanes' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Metro ExpressLanes is improving or deteriorating. The Statements of Net Position can be found on page 7.

Statement of Revenues, Expenses, and Changes in Fund Net Position

This statement presents information on Metro ExpressLanes' revenues and expenses with the difference being the changes in net position during the year. This statement presents the results of Metro ExpressLanes' operations. The Statements of Revenues, Expenses and Changes in Fund Net Position can be found on page 8.

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Management's Discussion and Analysis
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Period from November 10, 2012 to June 30, 2013
(Amounts expressed in thousands)

Statement of Cash Flows

The Statement of Cash Flows presents the cash flows generated by Metro ExpressLanes. This statement presents detailed information on Metro ExpressLanes' main sources and uses of funds, which are classified as from operating activities, non-capital financing activities and capital and related financing activities. The Statements of Cash Flows can be found on page 9.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and Statement of Cash Flows. The Notes to the Financial Statements can be found on pages 10 through 14 of this report.

Fund Financial Statements

A fund is a group of related accounts that is distinguished by specific activities or objectives in accordance with special regulations or restrictions. Metro ExpressLanes uses fund accounting to ensure and demonstrate compliance with legal requirements.

ANALYTICAL OVERVIEW

The following table presents a condensed Statements of Net Position:

	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 72,000	\$ 35,043
Capital assets (net)	<u>106,648</u>	<u>101,752</u>
Total assets	<u>178,648</u>	<u>136,795</u>
Liabilities and Net Position		
Current and other liabilities	<u>43,821</u>	<u>22,048</u>
Total liabilities	<u>43,821</u>	<u>22,048</u>
Net position	<u>\$ 134,827</u>	<u>\$ 114,747</u>

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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014 and the
Period from November 10, 2012 to June 30, 2013
(Amounts expressed in thousands)

The following table presents a condensed Statements of Revenues, Expenses, and Changes in Net Position:

	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 34,466	\$ 12,994
Operating expenses	<u>(16,677)</u>	<u>(10,101)</u>
Operating income	17,789	2,893
Non-operating revenues	<u>2,291</u>	8,499
Net income before capital grants and contribution	20,080	11,392
Capital grants and contributions	<u>-</u>	103,355
Net changes in net position	20,080	114,747
Net position – beginning of period	<u>114,747</u>	-
Net position – end of period	<u>\$ 134,827</u>	<u>\$ 114,747</u>

The increase in operating revenues is mainly due to the increase in customers' usage of MetroExpresslanes. In addition, FY2013 reporting period is only for seven (7) months while FY2014 is for full 12-month period. MetroExpresslanes I-110 started in November 2012 and I-10 started in February 2013.

Capital Assets

As of June 30, 2014, Metro ExpressLanes had \$106,648, net of accumulated depreciation, invested in capital assets, a 4.8% increase from 2013.

The increase is due to the additional labor, design and system programming costs incurred in FY14 on the tollway construction of the ExpressLanes.

Further Information

This report has been designed to provide our stakeholders with a general overview of Metro ExpressLanes' financial condition and related issues. Inquiries should be directed to the Accounting Department, Mail Stop 99-20-5, One Gateway Plaza, Los Angeles, CA 90012-2952.

Metro ExpressLanes
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Statements of Net Position
June 30, 2014 and 2013
(Amounts expressed in thousands)

	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 37,722	\$ 13,756
Accounts receivable	29,420	20,526
Due from other toll agencies	518	211
Intergovernmental receivable	3,852	-
Prepaid and other current assets	488	550
Total current assets	72,000	35,043
Noncurrent assets		
Capital Assets		
Structures and improvements, net	106,648	101,752
Total noncurrent assets	106,648	101,752
Total assets	178,648	136,795
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	6,142	3,126
Unearned revenues and credits	37,679	18,922
Total current liabilities	43,821	22,048
Total liabilities	43,821	22,048
Net position	\$ 134,827	\$ 114,747

See accompanying notes to the financial statements

Metro ExpressLanes
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Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014 and the
Period from November 10, 2012 to June 30, 2013
(With Comparative Totals for 2013)
(Amounts expressed in thousands)

	<u>2014</u>	<u>2013</u>
Operating revenues		
Toll revenues	\$ 24,889	\$ 10,191
Violations and fines	9,577	2,803
Total operating revenues	<u>34,466</u>	<u>12,994</u>
Operating expenses		
Professional and technical services	11,897	8,055
Depreciation	3,874	1,603
Other operating expenses	906	443
Total expenses	<u>16,677</u>	<u>10,101</u>
Operating income	<u>17,789</u>	<u>2,893</u>
Non-operating revenues (expenses)		
Federal grants	1,423	8,349
State grants	5	150
Local grants	909	-
Other non-operating expenses	(46)	-
Total non-operating revenues	<u>2,291</u>	<u>8,499</u>
Income before capital grants and contributions	20,080	11,392
Capital grants and contributions	<u>-</u>	<u>103,355</u>
Net changes in net position	20,080	114,747
Net position – beginning of period	<u>114,747</u>	<u>-</u>
Net position – end of period	<u>\$ 134,827</u>	<u>\$ 114,747</u>

See accompanying notes to the financial statements.

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Statements of Cash Flows
For the Year Ended June 30, 2014 and the
Period November 10, 2012 to June 30, 2013
(Amounts expressed in thousands)

	2014	2013
Cash flows from operating activities		
Receipts from customers	\$ 40,232	\$ 18,983
Payments to employees	(711)	(270)
Payments to suppliers	(9,076)	(5,102)
Net cash flows provided by operating activities	30,445	13,611
Cash flows from non-capital financing activities		
Receipts from federal ,state, and local grants	2,291	145
Net cash flows provided by non-capital financing activities	2,291	145
Cash flows from capital and related financing activities		
Capital Grants	-	103,355
Acquisition and construction of capital assets	(8,770)	(103,355)
Net cash flows provided by (used in) capital and related financing activities	(8,770)	-
Net increase in cash and cash equivalents	23,966	13,756
Cash and cash equivalents – beginning of period	13,756	-
Cash and cash equivalent – end of period	\$ 37,722	\$ 13,756
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 17,789	\$ 2,893
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,874	1,603
Increase in receivables	(8,894)	(12,172)
Increase in due from other toll agencies	(307)	(211)
Increase in intergovernmental receivables	(3,852)	-
Increase (decrease) in prepaid and other current assets	62	(550)
Increase in accounts payable and accrued liabilities	3,016	3,126
Increase in unearned revenues and other credits	18,757	18,922
Total adjustments	12,656	10,718
Net cash flows provided by operating activities	\$ 30,445	\$ 13,611

See accompanying notes to the financial statements.

Metro ExpressLanes
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Notes to Financial Statements
June 30, 2014 and 2013
(Amounts expressed in thousands)

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 financial statements. Unless otherwise stated, all dollar amounts are expressed in thousands.

Note 1 – Reporting Entity

Metro ExpressLanes is an enterprise fund of the Los Angeles County Metropolitan Transportation Authority (LACMTA).

LACMTA obtained legislative authority in 2008 with Senate Bill 1422 which authorizes LACMTA, in cooperation with California Department of Transportation (Caltrans), to undertake the conversion of High occupancy Vehicle (HOV) lanes into High occupancy Toll (HOT) lanes on I-110 and I-10.

LACMTA contracted Atkinson Contractors, LP to design, build, operate, and maintain Metro ExpressLanes. The Atkinson Contractors, LP sub-contracted AECOM for the design and sub-contracted Xerox for tolling integration and operations.

Note 2 - Summary of Significant Accounting Policies

The Metro ExpressLanes' financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Metro ExpressLanes' significant accounting policies are described below.

Measurement Focus, Basic of Accounting, and Financial Statement Presentation

The 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.

Fund Accounting

The proprietary fund type is used to account for Metro ExpressLanes' 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. Metro ExpressLanes implemented the provisions of GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements effective July 1, 2012.*

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June 30, 2014 and 2013
(Amounts expressed in thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 when purchased, and amounts on deposit in the LACMTA pooled cash accounts are considered to be cash and cash equivalents.

Receivables and Payables

Interagency receivables/payables are amounts owed to/due from another agency for services performed. Payables are the amounts due to vendors for goods or services received.

Capital Assets and Depreciation

Capital assets acquired and/or constructed are recorded at historical cost. Capital assets are defined by Metro ExpressLanes as assets with an initial individual cost of more than \$5,000 (amount not in thousands). 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 are carried at cost and depreciation is provided using the straight-line method based on the estimated useful life of the asset. Metro ExpressLanes uses 30 years as useful life of the structures/improvements. Depreciation expense on capital assets is included in the accompanying statement of revenues, expenses, and changes in net position.

Operating Revenues and Non-Operating Revenues

Operating revenues represents toll revenues and income from violations and fines of the Metro Expresslanes. Non-operating revenues are related to Federal Congestion Mitigation and Air Quality Improvement (CMAQ) and State grants received.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Metro ExpressLanes
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Notes to Financial Statements
June 30, 2014 and 2013
(Amounts expressed in thousands)

Note 3 - Cash and Cash Equivalents

As of June 30, 2014 and 2013, the carrying amounts of cash are \$37,722 and \$13,756, respectively, in cash and checking accounts used primarily to pay suppliers and for cash refunds. Accounts with the bank were insured by Federal Deposit Insurance Corporation (FDIC) for up to \$250.

Metro ExpressLanes' cash and cash equivalents balances were pooled with various other LACMTA funds for deposit and investment purposes. The share of each fund in the pooled cash account was separately maintained and interest income was apportioned to the participating funds based on the relationship of their average monthly balances to the total of the pooled cash and investments.

Please refer to LACMTA Comprehensive Annual Financial Report (CAFR) for a full description of risks relating to cash and investments.

Note 4 - Receivables

Receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Accounts	\$ 29,420	\$ 20,526
Intergovernmental	3,852	-
Total	<u>\$ 33,272</u>	<u>\$ 20,526</u>

Accounts receivable include uncollected violation tolls and penalties and retail order receivables. If open violations remain uncollected for more than 90 days, per State law and Metro Ordinance, Metro ExpressLanes can place a DMV hold on the registered owner's vehicle to collect the amounts owed.

Note 5 - Due from Other Toll Agencies

Due from Other Toll Agencies as of June 30, 2014 and 2013 totaled \$518 and \$211, respectively, and represent net receivables from other agencies from motorists who used Metro Expresslanes with transponders issued by other agencies.

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Notes to Financial Statements
June 30, 2014 and 2013
(Amounts expressed in thousands)

Note 6 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2014 is as follows:

	Beginning Balance	Increases	Decrease s	Ending Balance
Capital assets, being depreciated:				
Structures and improvements	\$ 103,355	\$ 8,770	\$ -	\$ 112,125
Total capital assets, being depreciated	103,355	8,770	-	112,125
Less accumulated depreciation	(1,603)	(3,874)	-	(5,477)
Total capital assets, being depreciated	<u>\$ 101,752</u>	<u>\$ 4,896</u>	<u>\$ -</u>	<u>\$ 106,648</u>

A summary of changes in capital assets for the period November 10, 2012 to June 30, 2013 is as follows:

	Beginning Balance	Increases	Decrease s	Ending Balance
Capital assets, being depreciated:				
Structures and improvements	\$ -	\$ 103,355	\$ -	\$ 103,355
Total capital assets, being depreciated	-	103,355	-	103,355
Less accumulated depreciation	-	(1,603)	-	(1,603)
Total capital assets, being depreciated	<u>\$ -</u>	<u>\$ 101,752</u>	<u>\$ -</u>	<u>\$ 101,752</u>

Note 7 - Accounts Payable and Accrued Liabilities

Accounts payables and accrued liabilities as of June 30, 2014, and 2013 of \$6,142 and \$3,126, respectively, represent amount owed to suppliers for professional and technical services rendered.

Note 8 – Unearned Revenues and Credits

Unearned revenue and credits as of June 30, 2014 and 2013 of \$37,679 and \$18,922, respectively, are uncollected violation and tolls, customer advance payments (prepaid tolls) and transponder deposits.

Metro ExpressLanes
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Notes to Financial Statements
June 30, 2014 and 2013
(Amounts expressed in thousands)

Note 9 – Adoption of New Pronouncements

In December 2010, GASB issued Statement No. 62, *Statement Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Metro ExpressLanes implemented GASB 62 for the fiscal year ended June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows of resources and deferred inflow of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Metro ExpressLanes implemented GASB 63 for the fiscal year ended June 30, 2013. As of June 30, 2014 and 2013, Metro ExpressLanes has no deferred outflows of resources and deferred inflow of resources.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items there were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2012. Metro ExpressLanes implemented the new reporting requirements of GASB 65 for the fiscal year ended June 30, 2014.

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Note 10 – Subsequent Events

In April 2014, LACMTA's Board of Directors voted unanimously for the ExpressLanes on the I-110 and I-10 Freeways to become permanent in Los Angeles. In September 2014, the California State Legislature approved the motion that the toll lanes be permanent in Los Angeles and that Governor of California sign it to become official.

Metro ExpressLanes has evaluated events subsequent to June 30, 2014 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 7, 2015, the date the financial statements were available to be issued. Based on this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

**Report of Independent Auditors on Compliance and on Internal Control
over Financial Reporting 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**

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 Metro ExpressLanes, an enterprise fund of the Los Angeles County Metropolitan Transportation Authority, as of June 30, 2014 and for the year then, and the related notes to the financial statements, as listed in the table of contents, and have issued our report thereon dated January 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metro ExpressLanes' 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 Metro ExpressLanes' internal control. Accordingly, we do not express an opinion on the effectiveness of Metro ExpressLanes' 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 Metro ExpressLanes' financial statements are free from 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 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.

Vasquez + Company LLP

Los Angeles, California
January 7, 2015



www.vasquezcpa.com

Vasquez & Company LLP has over 40-years experience in performing audit, accounting & consulting services. Vasquez is a member of the McGladrey Alliance. The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. McGladrey Alliance member firms maintain their respective names, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

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