



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

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

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

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

### **AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS**

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

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

### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters regarding the planned scope and timing of the audit were discussed with you.

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

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

**SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES**

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

<b>Accounting Standard</b>	<b>Impact of Adoption</b>
<p><b>GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance"</b></p> <p>This Statement was issued to provide relief to governments in light of COVID-19 pandemic by postponing the effective dates of provisions in almost all standards and implementation guides due to be implemented for fiscal years 2019 and later.</p>	Adoption of this Statement did not have a material impact on LACMTA's financial position or results of operations.
<p><b>Change in Accounting Principle</b></p>	Management changed the method of accounting for nonexchange revenue in accordance with the clarified guidance provided in GASB Implementation Guide No. 2019-01, <i>Implementation Guidance Update---2019</i> . As a result, an adjustment to reduce business-type activities net position at July 1, 2019 of \$367,890,674 was made to reflect the cumulative effect of the change in accounting principle.
<p><b>Significant Unusual Transactions.</b></p>	No such matters noted.
<p><b>Significant Accounting Policies in Controversial or Emerging Areas.</b></p>	No such matters noted.

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

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

<b>Significant Accounting Estimate</b>	<b>Process Used by Management</b>	<b>Basis for Our Conclusions</b>
Fair Values of Investment Securities and Other Financial Instruments	The disclosure of fair values of securities and other financial instruments requires management to use certain assumptions and estimates pertaining to the fair values of its financial assets and financial liabilities.	We tested the propriety of information underlying management's estimates.
Loss Contingencies	LACMTA consults with legal counsel to evaluate outstanding litigation, claims and assessments. Factors that affect management's evaluation of litigation contingencies requiring disclosure include the nature of the contingencies and whether the outcome could have an effect on the consolidated financial statements.	Based on information obtained from LACMTA's legal counsel regarding this matter and discussions with management, we concur with management's determination that the loss contingency does not meet conditions for accrual of being both probable and estimable, and, thus, no accrual is recorded and no specific disclosures are required.
Pension and Postretirement Obligations	Amounts reported for pension and postretirement obligations require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets.	We reviewed the reasonableness of these estimates and assumptions.
Accrual for Self-Insured Claims	Accruals for self-insured claims are based on management's estimate of the ultimate incurred losses and losses that have been incurred but not yet reported. Management determines the self-insured reserves for estimated claims based historical rate of claims, actual claims experience and projected claims experience.	We tested the propriety of information underlying management's estimates and the reasonableness of estimates and assumptions.

#### **AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES**

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

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.

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

## **CORRECTED AND UNCORRECTED MISSTATEMENTS**

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

Refer to the discussion below as well as the attached summary of corrected misstatements.

1. Management posted an adjustment of \$5.5 million to correct the deferral of revenue on the General fund.
2. Management posted an adjustment of \$1.9 million to record revenue for low carbon fuel standards (LCFS) credits sold that was inadvertently posted to the incorrect fund.

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

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

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

The first known waived adjustment is to reverse the revenue recorded from the sale of credits in FY 2020 in the General fund and present it as an operating transfer from the Enterprise fund in the amount of \$34.7 million. The second waived adjustment records the \$34.7 million of revenue on the Enterprise fund and the transfer of the funds to the General fund in operating transfers out.

In addition to reclassifying the revenue between LACMTA's funds, we also noted that the number of credits held as of the reporting date, multiplied by their estimated fair value, should be recorded as an asset based on the GASB's definition of an asset. This resulted in a likely misstatement that understated Enterprise fund assets by approximately \$43.0 million, understated revenue by approximately \$13.8 million, and understated net position by approximately \$56.8 million. The misstatement of net position represents the estimated value of LCFS credits that were held as of June 30, 2019, which was reported as waived adjustment in the FY 2019 audit.

2. A known prior period misstatement was waived by management relating to construction expenses that were improperly recorded to the Enterprise fund instead of the Proposition C fund streets and highways expenditures. Management identified and corrected the error in FY 2020, therefore amounts that should have been corrected in prior years are recorded in the current year. Approximately \$26.7 million of expenditures/expenses related to prior periods, resulting in a current period overstatement of expenditures/expenses of \$26.7 million in the Proposition C fund and governmental activities opinion unit and an understatement of expenses in the Enterprise fund.
3. Known misstatements were waived by management to properly defer revenue relating to receivables not collected within 90 days of the reporting date. The error resulted in overstatement of revenue and understatement of deferred inflows of resources of \$1.1 million for the General fund and \$8.4 million for the Measure M fund.
4. A known misstatement was waived by management to recognize revenue for amounts that had been improperly deferred. The error resulted in an understatement of revenue and overstatement of deferred inflows of resources of \$2.2 million for the Measure R fund.

## OTHER COMMUNICATIONS

Communication Item	Results
<p><b>Other Information In Documents Containing Audited Financial Statements</b> Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p>	<p>We understand that management has not prepared such information to accompany the audited financial statements.</p>
<p><b>Significant Difficulties Encountered During the Audit</b> We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p>
<p><b>Disagreements With Management</b> We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to LACMTA' financial statements or the auditor's report.</p>	<p>During our audit, there were no such disagreements with management.</p>
<p><b>Consultations With Other Accountants</b> If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p>	<p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p>

Communication Item	Results
<p><b>Representations The Auditor Is Requesting From Management</b> We are to provide you with a copy of management's requested written representations to us.</p>	<p>We direct your attention to a copy of the letter of management's representation to us provided separately.</p>
<p><b>Significant Issues Discussed, or Subject to Correspondence, With Management</b> We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.</p>	<p>There were no such significant issues discussed, or subject to correspondence, with management.</p>
<p><b>Significant Related Party Findings and Issues</b> We are to communicate to you significant findings and issues arising during the audit in connection with LACMTA's related parties.</p>	<p>There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>
<p><b>Other Findings or Issues We Find Relevant or Significant</b> We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>	<p>There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>

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

*Crowe LLP*

Crowe LLP

Los Angeles, California  
December 17, 2020

**Los Angeles County Metropolitan Transportation Authority**  
**Schedule of Corrected Misstatements**  
**June 30, 2020**  
 (amounts in thousands)

Opinion Unit	Account Name	Debit	Credit	Increase (Decrease)					
				Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Revenues	Expenses / Expenditures	Other Financing S&U
1 General fund	Unavailable revenue	\$ 5,469			\$ (5,469)				
	Local grant revenue		\$ 5,469				\$ 5,469		
2 General fund / Governmental activities	Due from other funds	\$ 1,945		\$ 1,945					
	Other revenue		\$ 1,945				\$ 1,945		
Enterprise fund / Business- type activities	Other revenue	\$ 1,945					\$ (1,945)		
	Due to other funds		\$ 1,945		\$ 1,945				

**Los Angeles County Metropolitan Transportation Authority**  
**Schedule of Uncorrected Misstatements**  
**June 30, 2020**  
(amounts in thousands)

Opinion Unit	Account Name	Debit	Credit	Increase (Decrease)					
				Assets / Deferred Outflows	Liabilities / Deferred Inflows	Net Position / Fund Balance	Revenues	Expenses / Expenditures	Other Financing S&U
1 Enterprise fund / Business-type activities	LCFS asset	\$ 43,047		\$ 43,047					
	Other revenue	\$ 13,765					\$ (13,765)		
	Net position		\$ 56,812			\$ 56,812			
	Operating transfers out	\$ 34,762							\$ (34,762)
	Other revenue		\$ 34,762				\$ 34,762		
General fund / Governmental activities	Miscellaneous revenue	\$ 34,762					\$ (34,762)		
	Operating transfers in		\$ 34,762						\$ 34,762
2 Proposition C fund / Governmental Activities	Fund Balance	\$ 26,680				\$ (26,680)			
	Expenditures		\$ 26,680					\$ (26,680)	
Enterprise fund / Business-type activities	Expenses	\$ 26,680						\$ 26,680	
	Net Position		\$ 26,680			\$ 26,680			
3 General fund	Intergovernmental revenue	\$ 1,127					\$ (1,127)		
	Deferred revenue		\$ 1,127		\$ 1,127				
Measure M fund	Intergovernmental revenue	\$ 8,432					\$ (8,432)		
	Deferred revenue		\$ 8,432		\$ 8,432				
4 Measure R fund	Deferred revenue	\$ 2,162			\$ (2,162)				
	Intergovernmental revenue		\$ 2,162				\$ 2,162		

**Total impact on change in fund balance / net position:**

Governmental activities	\$ 26,680
Business-type activities	\$ (40,445)
General fund	\$ (1,127)
Proposition C fund	\$ 26,680
Measure R fund	\$ 2,162
Measure M fund	\$ (8,432)
Enterprise fund	\$ (40,445)