



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

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

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

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Service Authority for Freeway Emergencies (SAFE), a component unit of the Los Angeles County Metropolitan Transportation Authority (LACMTA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises SAFE's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAFE as of June 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 4 to the basic financial statements, the governmental activities beginning net position and the special revenue fund beginning fund balance as of July 1, 2017 have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

### *Supplementary Information*

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

The budgetary comparison information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

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

  
Crowe LLP

Los Angeles, California  
December 20, 2018

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

(A Component Unit of the

Los Angeles County Metropolitan Transportation Authority)

Statement of Net Position

June 30, 2018

(Amounts expressed in thousands)

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

See accompanying notes to the basic financial statements.

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**  
(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Statement of Activities  
For year ended June 30, 2018  
(Amounts expressed in thousands)

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

See accompanying notes to the basic financial statements.

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

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

Balance Sheet

June 30, 2018

(Amounts expressed in thousands)

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	<b>Special Revenue Fund</b>	
Assets:		
Cash and cash equivalents	\$	12,836
Investments		10,492
Intergovernmental receivable		698
Interest receivable		63
Total assets	\$	<u>24,089</u>
Liabilities:		
Accounts payable		<u>513</u>
Fund balance:		
Restricted for motorist aid system projects		23,576
Total liabilities and fund balance	\$	<u>24,089</u>

See accompanying notes to the basic financial statements.

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**  
(A Component Unit of the  
Los Angeles County Metropolitan Transportation Authority)  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal year ended June 30, 2018  
(Amounts expressed in thousands)

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

See accompanying notes to the basic financial statements.



# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

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

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The notes to the basic financial statements are a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying basic financial statements.

Unless otherwise indicated, all dollar amounts are expressed in thousands.

## (1) **Summary of Significant Accounting Policies**

### (a) ***Reporting Entity***

The Service Authority for Freeway Emergencies (SAFE) was created in February 1988 pursuant to California Streets and Highway Code Section 2550 et seq., and is responsible for the operation, maintenance, and administration of the Los Angeles County Kenneth Hahn Call Box system. Under the authority of the above section, the Los Angeles County Metropolitan Transportation Authority (LACMTA) is the designated SAFE for Los Angeles County.

As LACMTA's board is SAFE's board, SAFE is a component unit of LACMTA and is included in LACMTA's financial statements as a blended component unit.

### (b) ***Operations***

SAFE is responsible for the implementation, maintenance, operation, and administration of motorist aid on the network of freeways, highways, and unincorporated county roads within Los Angeles County. SAFE operates and maintains approximately 625 (not in thousands) call boxes along 436 (not in thousands) miles of freeways, state highways, and selected county roads in Los Angeles County. SAFE also funds, operates, and manages the Southern California 511 traveler information system. This system provides real-time and planned traffic, transit and other related traveler information to the public via the phone, web and mobile application.

### (c) ***Government-wide Financial Statements***

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

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Notes to the Basic Financial Statements  
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The government-wide financial statements report information on all of the non-fiduciary activities of the agency and are reported using the economic resources measurement focus and the accrual basis of accounting.

The statement of activities demonstrates the degree to which the direct expenses, including centralized expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. License fees and investment earnings not considered program revenues are reported as general revenues.

(d) ***Fund Accounting***

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

Governmental funds are used to account for SAFE's activities. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Additionally, the SAFE fund is considered a special revenue governmental fund. Special revenue funds are used to account for specific revenue sources that are legally restricted to specific purposes. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, SAFE considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred and a valid claim is presented.

(e) ***Fund Balance and Net Position***

Restricted fund balance and net position include amounts that can be spent only for specific purposes stipulated by enabling legislation, by grants, creditors, or by regulations of other governments. SAFE's fund balance and net position were classified as restricted as they can only be used in accordance with the provisions of the California Streets and Highway Code Section 2550 et seq by which the fund was created.

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
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Notes to the Basic Financial Statements  
June 30, 2018

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(f) ***Budgetary Accounting***

Enabling legislation and adopted policies and procedures provide that the SAFE Board of Directors approve an annual budget. The Board of Directors conducts a public hearing for discussion of the proposed annual budget prior to adoption of the final budget. Unexpended appropriations lapse at year-end. The legal level of control is at the fund level, and expenses may not exceed total appropriations without board approval. By policy, the board has provided procedures for management to make revisions within operational or project budgets when there is no net dollar impact to total appropriations. The budget is prepared on a generally accepted accounting principles (GAAP) basis.

(g) ***Cash and Investments***

SAFE maintains a minimum balance with the Los Angeles County Treasurer's external investment pool. Balances in excess of \$50 are withdrawn and deposited into the LACMTA internal investment pool. Cash and investments are reported at fair market value which is the quoted market price.

(h) ***Receivables***

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

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

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

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

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

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

(A Component Unit of the  
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Notes to the Basic Financial Statements  
June 30, 2018

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## (2) Cash and Investments

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

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

SAFE's cash balances are pooled with other LACMTA funds participating in the investment pool by the LACMTA Treasurer. These funds are subject to withdrawal from the Treasurer's pool upon demand. The LACMTA Board of Directors provides regulatory oversight for the LACMTA pool. Each fund maintains an equity interest in the pool and is presented as cash and investments in the Statement of Net Position. The value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2018. Detailed information regarding the LACMTA's pooled cash and investments can be found in the LACMTA Comprehensive Annual Financial Report (CAFR). A copy of the LACMTA's CAFR can be obtained by submitting a written request to the Accounting Department, One Gateway Plaza, Los Angeles, CA 90012-2952.

SAFE's cash balances are also pooled with other County funds and invested by the Los Angeles County Treasurer. These funds are subject to withdrawal from the Treasurer's pool upon demand. The County Board of Supervisors provides regulatory oversight for the Los Angeles County Investment Pool (LACIP). The value of the position in the investment pool is the same as the value of the pool. The investment pool is not rated for purposes of evaluating credit risk as of June 30, 2018. Detailed information regarding the County's pooled cash and investments can be found in the County of Los Angeles Comprehensive Annual Financial Report (CAFR). A copy of the County's CAFR can be obtained by submitting a written request to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.

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

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

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

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## *(a) Concentration of Credit Risk*

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual shares. SAFE maintains investment policies that establish thresholds for holdings of individual securities. SAFE does not have any holdings meeting or exceeding these threshold levels. As of June 30, 2018, SAFE does not have any investments with more than 5% of the total investments under one issuer except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

## *(b) Custodial Credit Risk*

SAFE has no known custodial credit risk for deposits as financial institutions are required by the California Government Code to collateralize deposits of public funds by pledging government securities as collateral. Such collateralization of public funds is accomplished by pooling.

## *(c) Interest Rate Risk*

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. SAFE measures interest rate risk on its short-term investments using the effective duration method. SAFE maintains policy requiring the average duration of the externally managed short-term investments not to exceed 150% of the benchmark duration and the average duration of the internally managed short-term investments not to exceed three years.

## *(d) Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of the cash deposits or investments. As of June 30, 2018, there is no exposure to currency risk as all SAFE cash deposits and investments are denominated in U.S. dollar currency.

# SERVICE AUTHORITY FOR FREEWAY EMERGENCIES

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

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### (3) Significant Commitments

SAFE has entered into a Memorandum of Understanding (MOU) with the Public Transportation Services Corporation (PTSC), a blended component unit of LACMTA, for PTSC to provide cost reimbursable administrative support services to SAFE. The MOU will remain in effect until terminated by either party with a minimum of sixty (60) days written notice.

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

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

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

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

The effect of restatement is as follows:

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

**SERVICE AUTHORITY FOR FREEWAY EMERGENCIES**

(A Component Unit of the

Los Angeles County Metropolitan Authority)

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

For the year ended June 30, 2018

(Amounts expressed in thousands)

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

\*Budget prepared in accordance with GAAP.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the special revenue fund of the Service Authority for Freeway Emergencies (SAFE), a component unit of the Los Angeles County Metropolitan Transportation Authority (LACMTA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SAFE's basic financial statements, and have issued our report thereon dated December 20, 2018. Our report included an emphasis of matter regarding the beginning net position and beginning fund balance as of July 1, 2017 being restated to correct a misstatement. Our opinions are not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SAFE's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SAFE's internal control. Accordingly, we do not express an opinion on the effectiveness of SAFE's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a material weakness.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SAFE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

SAFE's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. SAFE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Crowe LLP

Los Angeles, California  
December 20, 2018

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

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

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

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

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

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

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

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

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