METROLINK®

25

KEEPING SOCAL'S FUTURE ON TRACK.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 & 2016

SERVING THE CALIFORNIA COUNTIES OF: LOS ANGELES, ORANGE, RIVERSIDE, SAN BERNARDINO & VENTURA

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METROLINK

SOUTHERN CALIFORNIA
REGIONAL RAIL AUTHORITY

A Joint Exercise of Powers Agreement Among:

Los Angeles County Metropolitan Transportation Authority
Orange County Transportation Authority
Riverside County Transportation Commission
San Bernardino County Transportation Authority
Ventura County Transportation Commission

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2017 and 2016

Prepared by:

Finance Department

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

For the Year Ended June 30, 2017

Table of Contents

I Introductory

Letter of Transmittal i
Metrolink System Map ix
Board of Directors xi
Management Team xv
Organizational Structure xvii
Certificate of Achievement for Excellence in Financial Reporting xix
Mission Statement xxi

II Financial

Report of the Independent Auditors 2
Management's Discussion and Analysis (Required Supplementary Information) 4
Basic Financial Statements:
Statements of Net Position 14
Statements of Revenues, Expenses and Changes in Net Position 15
Statements of Cash Flows 16
Notes to Basic Financial Statements 18
Required Supplementary Information 46

III Supplementary Information (Unaudited)

Unearned Revenue and Advances on Capital Purchases 57

IV Statistical

Statistical Section Overview 62
Financial Trends:
Changes in Net Position, Net Positions by Component and Percentages of Operating Costs Covered by Revenues 63
Table of Revenues, Expenses and Changes in Net Position 64
Sources of Capital Contributions 65
Revenue Capacity:
Passenger Fares and Farebox Recovery Ratio 66
Subsidy/Passenger Mile 67
Demographic and Economic Information 68
Operating Information:
Ridership, Annual and Average Weekday 69
Total Train Miles 70
Service Hours and On-Time Performance 71
Miscellaneous Statistics 72
Ticket Categories 73

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INTRODUCTORY

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METROLINK.
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
One Gateway Plaza Twelfth Floor Los Angeles, CA 90012
metrolinktrains.com

December 31, 2017

The Board of Directors
Southern California Regional Rail Authority
One Gateway Plaza, 12th Floor
Los Angeles, CA 90012

Dear Board Members:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the Southern California Regional Rail Authority (SCRRA) for the fiscal year ended June 30, 2017 with comparative information for the fiscal year ended June 30, 2016.

This report consists of management's representations concerning the finances of SCRRA. Management is responsible for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive system of internal controls that is designed both to protect SCRRA's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of SCRRA's basic financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh its benefits, SCRRA's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. We assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects. The enclosed data reports the financial position and results of operations of the business-type activity of SCRRA, an enterprise fund. Disclosures necessary to allow the reader to understand SCRRA's basic financial activities have been included.

Moss Adams LLP, a firm of licensed certified public accountants, has audited SCRRA's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of SCRRA for the fiscal year ended June 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, the evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, Moss Adams LLP concluded that SCRRA's FY 2017 basic financial statements are fairly presented in conformity with GAAP. The report of independent auditors is presented as the first component of the financial section of this report.

The independent audit of SCRRA's basic financial statements was part of a broader, federally mandated Single Audit, under the guidelines of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), designed to meet the requirements of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report on the fair presentation of the financial statements in accordance with GAAP, with a special emphasis on internal controls. Tests of transactions and account balances are performed to ensure that the information presented in the basic financial statements, and notes thereof, is accurate. In addition, SCRRA must prepare a Schedule of Expenditures of Federal Awards, which is considered supplementary financial information and is unique to recipients of federal assistance. It details all the federal assistance expended by the recipient during the year, categorized by federal program. The resulting schedules and audit results are available in SCRRA's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. SCRRA's MD&A can be found immediately following the report of the independent auditors.

Profile of the Agency

During the late 1980s, several agencies conducted studies and developed plans for commuter rail transportation in the Southern California region. These efforts gained momentum with the passage of local sales tax measures for transportation in Riverside and San Bernardino counties, and in 1990, in Los Angeles and Orange counties. In June 1990, at the request of local officials, the California Legislature enacted Senate Bill 1402, Chapter 4 of Division 12 of the Public Utilities Code. This bill required the county transportation commissions of Los Angeles, Orange, Riverside, and San Bernardino to jointly develop a plan for regional transit services within the multi-county region. Many of the supporters of commuter rail worked on State rail bond measures that passed in November 1990, and which, combined with local sources and other State funds, provided for the purchase of rail rights-of-way and construction of what was to become the Metrolink system.

In June 1991, following an eight-month cooperative planning effort, the four transportation commissions mentioned above, in conjunction with the Ventura County Transportation Commission, Los Angeles-San Diego Rail Corridor Agency, and Southern California Association of Governments, produced a report entitled, "Southern California Commuter Rail, 1991 Regional System Plan." The report outlined plans for a system to connect Southern California with six commuter rail lines comprised of more than 400 miles of track and 60 stations by 1995. This ambitious plan would define the nation's sixth largest commuter rail system.

In August 1991, SCRRA, a regional Joint Powers Authority (JPA), was formed. Voting members with their respective number of votes are the Los Angeles County Metropolitan Transportation Authority (LACMTA), four votes; Orange County Transportation Authority (OCTA), two votes; Riverside County Transportation Commission (RCTC), two votes; San Bernardino County Transportation Authority (SBCTA), two votes; and Ventura County Transportation Commission (VCTC), one vote. Ex-officio members of SCRRA

include the Southern California Association of Governments (SCAG), the San Diego Association of Governments (SANDAG), and the State of California Department of Transportation (Caltrans).

SCRRA is a separate entity apart from any Member Agency, each of which has an independent board. The Member Agencies and other public entities provide transportation within the counties serviced by SCRRA. SCRRA is not considered to be a component unit of any other reporting entity.

SCRRA's purpose is to plan, design, construct, and administer the operation of regional commuter rail lines serving the counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura. SCRRA named the regional commuter rail system "Metrolink." The first three lines (San Bernardino, Santa Clarita, and Ventura) started operation in October 1992. The Riverside Line was added in June 1993, and the Orange County Line that extends 19 miles into northern San Diego County was added in April 1994. The sixth line, Inland Empire-Orange County, the nation's first suburb-to-suburb commuter rail line, was added in October 1995. In May 2002, the 91 Line was added to provide an alternative to Inland Empire and western Orange County commuters traveling through Fullerton and into Los Angeles. During FY 2007, Metrolink carried its hundred-millionth passenger and opened its 55th station, maintaining its place as one of the fastest growing commuter rail systems in the nation. In June 2016, the 91 Line was extended to Perris Valley to provide service to an additional section of the Inland Empire.

Metrolink continues to connect the Southern California region, giving people access to jobs and new housing opportunities, while providing significant benefits to improving the efficiency of the transportation system and air quality. Metrolink is the first passenger railroad in the nation to complete implementation of Positive Train Control (PTC) technology and submit for federal certification. Metrolink launched mobile ticketing in 2016 and modified its fare system to improve ridership. Metrolink also began replacing its aging locomotive fleet with emission-reducing Tier 4 locomotives. With these changes, SCRRA continues its role as the established leader for safety among commuter rail systems in the United States.

The Metrolink commuter rail system's six-county service area encompasses approximately 2,300 square miles, with a population of over 20 million, and provides service over 534 route miles. Each year, Metrolink trains travel 2.8 million miles, and 60% of Metrolink riders travel across county lines. Most notably, Metrolink takes cars off the freeways because 82% of Metrolink riders have an automobile, but choose to take the train, thereby creating more room on the region's freeways.

Economic Condition and Outlook

SCRRA receives approximately 45% of its operations funding from fares and other operating revenues, and the balance of its funding comes from its Member Agencies. The majority of sources for transportation funds in these counties are local sales taxes (with the exception of Ventura County), State Rail Bond funds, State Transit Assistance funds, State Highway Account funds, State Transit Capital Improvement funds, and Federal Transit Administration Capital funds.

Member funding for Metrolink's rehabilitation and new capital programs is primarily supplemented by discretionary grant awards. Recent large awards include $41.2 million in State Cap and Trade funding and $110 million in South Coast Air Quality Management District (SCAQMD) Carl Moyer Memorial Air Quality Standards Attainment funding. Both funding sources contributed to the procurement of 40 Tier 4 locomotives. Discretionary grant sources are highly variable and always extremely competitive. However, consistent with the capital needs identified in the Board-adopted Strategic Plan, the federal transit capital investment grant program appears to be a promising source of funding, as do new programs created under SB 1. These could be viable means of leveraging member contributions to investments that both improve reliability and increase capacity on the Metrolink network.

SCRRA's revenue sources are sensitive to the economic conditions of the Southern California region, and State funding is influenced by statewide economic conditions. The toll of the recession in California has been most visible in the labor markets. However, the unemployment rate has trended down since the end of 2010. California's unemployment rate has decreased from 11.7% in June 2011 to 4.9% in June 2017. Similarly, the unemployment rate in the counties Metrolink serves has dropped from a high of 12.2% in 2010 to 4.8% in 2017.

Southern California's growing transit needs provide an opportunity for additional rail services through the six counties served by Metrolink. Our new Southern California Optimized Rail Expansion (SCORE) plan responds to this growth opportunity with a series of transformative service recommendations to be implemented in 2023 and 2028. Metrolink offers the only high speed, long-distance transit service to 2028 Summer Olympic venues located across the region, including Anaheim Honda Center for volleyball; Lake Perris for rowing and canoe sprints; Bonelli Regional Park in San Dimas for mountain biking; and the Sepulveda Dam for archery, equestrian riding and long-distance canoeing. SCRRA continues to plan for these exciting new growth opportunities with its federal, state and regional funding partners.

Long-term Financial Planning

Proactive financial planning is a critical element for SCRRA's success as it builds for the future. Continually reviewing revenues and projecting expenses ensures that expectations are realistic and goals are achievable. In today's economic environment, along with governmental agencies at all levels, SCRRA continues to face a number of challenges with respect to funding. As an agency without a direct base of significant discretionary revenues, SCRRA must rely heavily on the contributions, both operating and capital, of its funding partners, each of which face multiple priorities. Thus, their challenges become SCRRA's challenges.

The federal government provides funding through various surface transportation programs. The Fixing America's Surface Transportation (FAST) Act was enacted in December 2015, and provides long-term funding for surface transportation. It will maintain current program structures and funding shares between highways and transit while increasing funding by eleven percent over five years. In May 2017, SCRRA was awarded a $3.2 million grant from the Federal Railroad Administration for Positive Transit Control for implementation of security enhancements.

In April 2017, the State of California enacted Senate Bill 1 (SB 1), a landmark transportation funding bill that will generate new revenues to repair and maintain the state highway system and local roads, improve trade corridors, and support public transportation. Incremental sales tax on diesel fuel, a phased-in gas tax increase, and vehicle registration fees supply the funding for SB 1. There are multiple SB 1 programs including State Rail Assistance (SRA), the State Transit Assistance (STA) program, the Transit and Intercity Rail Capital Program (TIRCP), and Trade Corridors and Solutions for Congested Corridors that can help support Metrolink commuter rail operations, state of good repair, and new capital improvements.

At the regional level, SCRRA supports SCAQMD's mission statement and strives to assist in the promotion of clean air in Southern California. In partnership with SCAQMD, SCRRA is working towards the reduction of locomotive emissions through the acquisition of 40 Tier 4 locomotives, some of which were delivered in June 2017, with the balance arriving in 2018.

At the county/Member Agency level, portions of county sales taxes and State and federal grants are directed to SCRRA. Future renewals of sales taxes, new sales taxes, or additional new revenue beyond SB 1, such as from high-occupancy and toll lanes, may provide opportunities for funding. The continued pursuit of dependable, reliable, and predictable funding sources remains an ongoing and significant priority for SCRRA in order to ensure and improve both current and future operations and the necessary capital infrastructure.

Major Initiatives

In the past year, SCRRA achieved a number of significant milestones:

- Repaid the remaining $8 million of long-term debt related to an $18 million promissory note payable to LACMTA, issued in 2011 for the acquisition of 20 additional railcars.

- Early retirement of a $93.8 million lease/leaseback agreement entered into in FY 2003 as a means to purchase 27 railcars and 4 locomotives.

- Received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the FY 2016 Comprehensive Annual Financial Report.

- Developed a 25-year Maintenance Infrastructure Replacement Plan (MIRP), which will guide long-term planning efforts for sustaining a safe rail system for passengers.

Awards and Acknowledgements

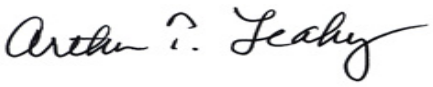
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Southern California Regional Rail Authority for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. To be awarded a Certificate of Achievement, SCRRA published an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR is a collaborative effort by SCRRA staff and its independent auditors. We wish to acknowledge the willingness to expend the effort necessary to ensure the financial information contained reflects the highest professional standards. Special thanks are extended to the SCRRA Finance Department, in particular Controller Tom Schamber, Senior Managers of Finance Amanda Cagle, Michael Naoum, and Christine Wilson, Senior Accountants Roger Pak and Jeri Stoyanoff, Accountant II Emily Truong, and Finance Analyst II Rupa Parameswaran, who are to be commended for their high level of performance. Special thanks also to our Internal and External Auditors, Executive Management and staff for their assistance and continued support. Their commitment and support is vital of the final completion of the CAFR in a timely manner.

Special appreciation is extended to the Board of Directors and their leadership for providing a vision that will ensure SCRRA is prepared for the challenges and opportunities of the future.

Respectfully,



Arthur T. Leahy
Chief Executive Officer

Ronnie Campbell
Chief Financial Officer

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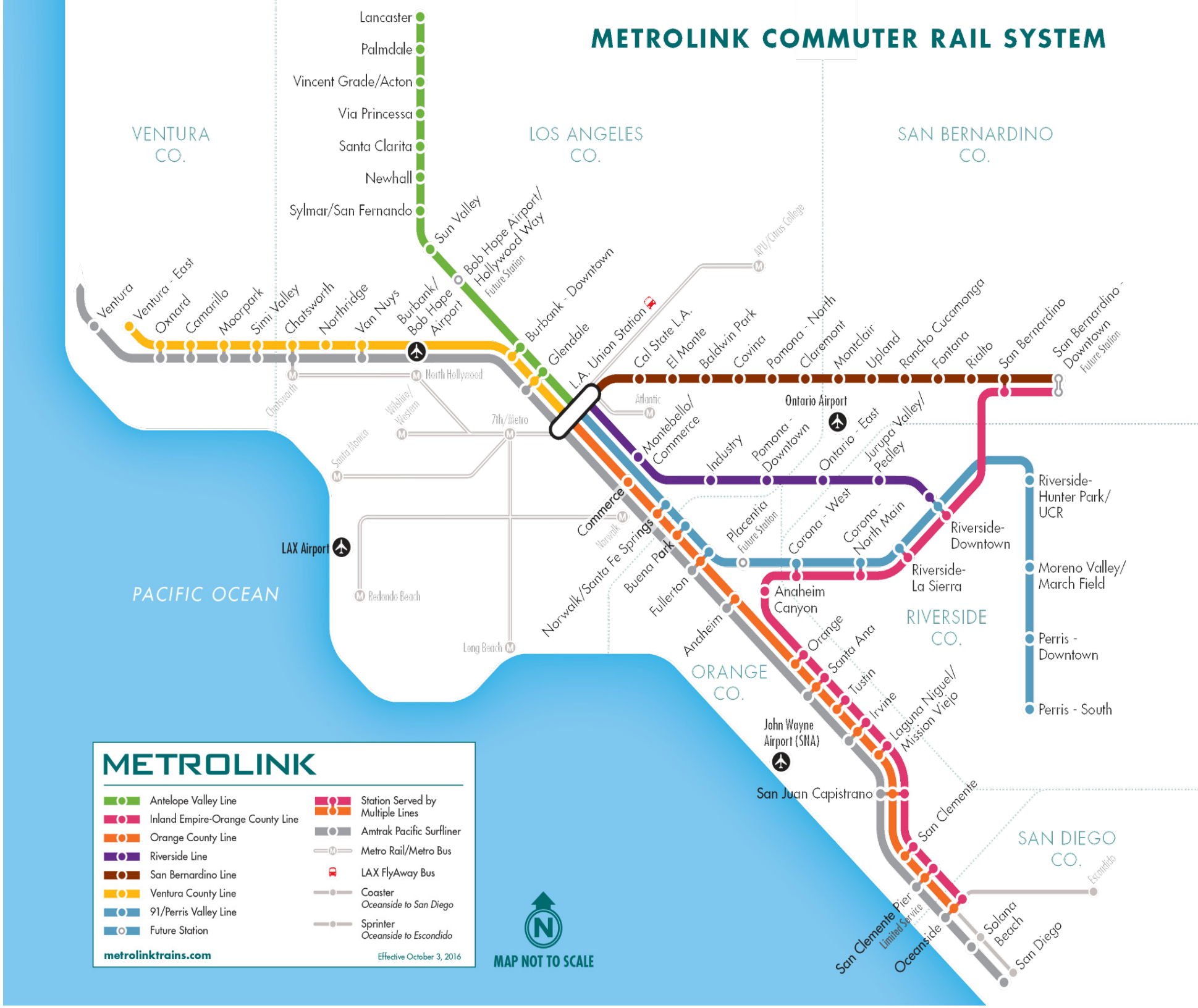
METROLINK COMMUTER RAIL SYSTEM
VENTURA CO.
LOS ANGELES CO.
SAN BERNARDINO CO.
RIVERSIDE CO.
ORANGE CO.
SAN DIEGO CO.
PACIFIC OCEAN
Lancaster
Palmdale
Vincent Grade/Acton
Via Princessa
Santa Clarita
Newhall
Sylmar/San Fernando
Sun Valley
Bob Hope Airport/ Hollywood Way Future Station
Burbank - Downtown
Glendale
L.A. Union Station
APU/Citrus College
Cal State L.A.
El Monte
Baldwin Park
Covina
Pomona - North
Claremont
Montclair
Upland
Rancho Cucamonga
Fontana
Rialto
San Bernardino
San Bernardino - Downtown Future Station
Ventura
Ventura - East
Oxnard
Camarillo
Moorpark
Simi Valley
Chatsworth
Northridge
Van Nuys
Burbank/ Bob Hope Airport
North Hollywood
Chatsworth
Wilshire/ Western
7th/Metro
Santa Monica
Atlantic
Montebello/ Commerce
Ontario Airport
Industry
Pomona - Downtown
Ontario - East
Jurupa Valley/ Pedley
Riverside- Hunter Park/ UCR
Moreno Valley/ March Field
Perris - Downtown
Perris - South
Riverside- Downtown
Riverside- La Sierra
Corona - West
Corona - North Main
Placentia Future Station
Commerce
Norwalk
Norwalk/Santa Fe Springs
Buena Park
Fullerton
Anaheim
Anaheim Canyon
Orange
Santa Ana
Tustin
Irvine
Laguna Niguel/ Mission Viejo
LAX Airport
Redondo Beach
Long Beach
John Wayne Airport (SNA)
San Juan Capistrano
San Clemente
San Clemente Pier Limited Service
Oceanside
Escondido
Solana Beach
San Diego
METROLINK
Antelope Valley Line
Inland Empire-Orange County Line
Orange County Line
Riverside Line
San Bernardino Line
Ventura County Line
91/Perris Valley Line
Future Station
Station Served by Multiple Lines
Amtrak Pacific Surfliner
Metro Rail/Metro Bus
LAX FlyAway Bus
Coaster Oceanside to San Diego
Sprinter Oceanside to Escondido
metrolinktrains.com
Effective October 3, 2016
MAP NOT TO SCALE

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

BOARD OF DIRECTORS

As of June 30, 2017

MEMBERS	ALTERNATES
Los Angeles County Metropolitan Transportation Authority (Metro)	
Kathryn Barger Supervisor, 5th District Los Angeles County Board of Supervisors Metro Board of Directors	Roxana Martinez Metro Appointee
Hilda Solis Supervisor, 1st District Los Angeles County Board of Supervisors, Chair Metro Board of Directors	Joseph Gonzalez Councilmember City of South El Monte Metro Appointee
Paul Krekorian Councilmember, 2nd District City of Los Angeles Metro Board of Directors	Borja Leon Metro Appointee
Ara Najarian (*2nd Vice-Chair*) Councilmember City of Glendale Metro Board of Directors	Walter Allen, III Councilmember City of Covina Metro Appointee
Orange County Transportation Authority (OCTA)	
Shawn Nelson Supervisor, 4th District Orange County Board of Supervisors OCTA Board of Directors	Laurie Davies Councilmember City of Laguna Niguel OCTA Board of Directors
Gregory Winterbottom OCTA Board of Directors	Richard D. Murphy Councilmember City of Los Alamitos OCTA Board of Directors
Riverside County Transportation Commission (RCTC)	
Andrew Kotyuk, (*Chair*) Mayor City of San Jacinto RCTC Board of Directors	Brian Berkson Councilmember City of Jurupa Valley RCTC Board of Directors
Debbie Franklin Mayor Pro Tem at Large City of Banning RCTC Board of Directors	Adam Rush Councilmember City of Eastvale RCTC Board of Directors

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

BOARD OF DIRECTORS

As of June 30, 2017

MEMBERS	ALTERNATES

San Bernardino County Transportation Authority (SBCTA)

Larry McCallon Mayor Pro Tem City of Highland SBCTA Board of Directors	Alan D. Wapner Councilmember City of Ontario SBCTA Board of Directors
Paul Eaton Mayor City of Montclair SBCTA Board of Directors	

Ventura County Transportation Commission (VCTC)

Brian Humphrey (*Vice-Chair*) Commissioner VCTC Board of Directors	Ginger Gherardi Vice-Mayor City of Santa Paula VCTC Board of Directors

EX-OFFICIO MEMBERS

Southern California Association of Governments

Art Brown
Councilmember
City of Buena Park

San Diego Association of Governments

Currently awaiting appointment	Contact: Linda Culp Principal Planner – Rail

State of California

Ryan Chamberlain Director, Caltrans District 12	Gary Slater Deputy District Director, District 7

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

MANAGEMENT TEAM

As of June 30, 2017

EXECUTIVE LEADERSHIP TEAM

Chief Executive Officer	Arthur T. Leahy
Deputy Chief Executive Officer	Elissa K. Konove
Chief of External Affairs	Patricia Torres Bruno
Chief Financial Officer	Ronnie Campbell
Chief Operating Officer	Gary Lettengarver
Deputy Chief Operating Officer, Dispatch and Operator Services	Rod Bailey
Deputy Chief Operating Officer, Planning Project and Delivery	Kimberly Yu
Deputy Chief Operating Officer, PTC and Engineering	Darrell Maxey

LEGAL COUNSEL

General Counsel	Don O. Del Rio
Associate General Counsel	Geoffrey Forgione
Senior Counsel, Risk Manager	William Garrett

INTERNAL AUDIT

Senior Manager, Audit	Elisabeth Lazuardi

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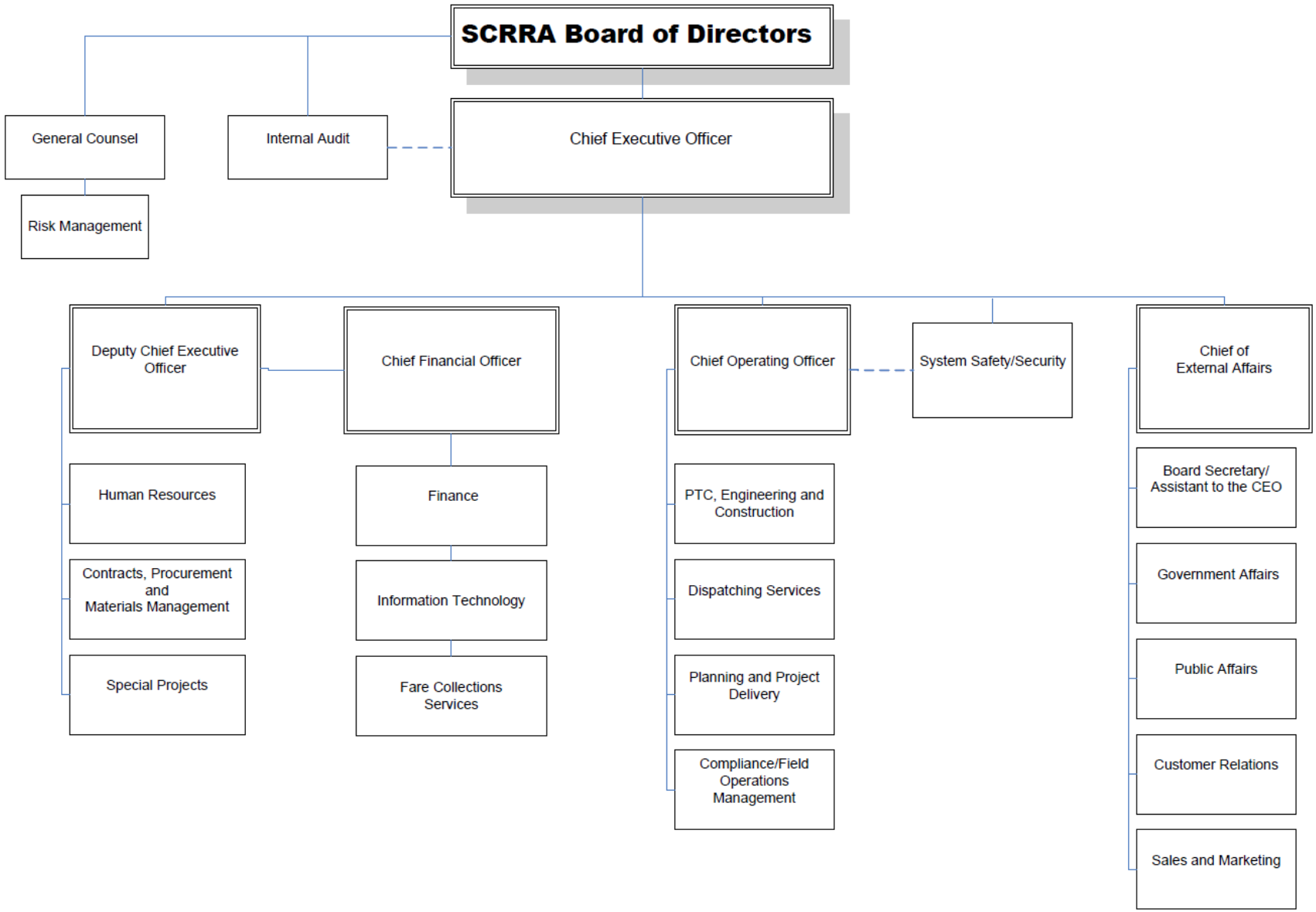
Southern California Regional Rail Authority

Fiscal Year 2016-2017 Organizational Structure

As of June 30, 2017



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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Southern California Regional Rail Authority

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Christopher P. Morrill

Executive Director/CEO

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METROLINK®

MISSION STATEMENT

Metrolink is a premier regional rail system, including commuter and other passenger services, linking communities to employment and activity centers. Metrolink provides reliable transportation and mobility for the region, leading toward more livable communities. Metrolink accomplishes its mission by providing technically superior and safe operations, customer focus and accessibility, dependable, high quality service, cost-effective and high-value service, strategically located network of lines and stations, integration with other transit modes, environmental sensitivity and community involvement and partnerships with both public and private sectors.

The Heart of Metrolink

Mission to Excellence

To provide an outstanding passenger experience on every ride with safe, clean, dependable and on-time operations.

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FINANCIAL

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MOSSADAMS

Report of Independent Auditors

The Board of Directors
Southern California Regional Rail Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Southern California Regional Rail Authority (SCRRA), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise SCRRA'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 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. 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 auditors' 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 Southern California Regional Rail Authority as of June 30, 2017 and 2016, and the respective changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 5 through 13, basis for condition measurement under the modified approach for infrastructure, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of funding progress on pages 47 through 55, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SCRRA's basic financial statements. The other information, such as the introductory, statistical sections, and unearned revenue and advances on capital purchases are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory, statistical sections, and unearned revenue and advances on capital purchases have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2017, on our consideration of SCRRA'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 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 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 SCRRA's internal control over financial reporting and compliance.

Los Angeles, California
December 31, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

INTRODUCTION

The following discussion and analysis of the financial performance and activity of Southern California Regional Rail Authority (SCRRA) is offered to the reader to provide an introduction to and understanding of the basic financial statements of SCRRA for the years ended June 30, 2017 and 2016. This Management's Discussion and Analysis (MD&A) is presented in conjunction with the letter of transmittal, the basic financial statements, notes to the basic financial statements, and other required supplementary information.

The basic financial statements include (1) the Statements of Net Position, (2) the Statements of Revenues, Expenses and Changes in Net Position, (3) the Statements of Cash Flows and (4) Notes to the Basic Financial Statements. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board (GASB).

The Statements of Net Position provide information about the nature and amounts of investments in assets, liabilities, and deferred outflows and inflows of resources of SCRRA, with the residual of these elements being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position provide information about SCRRA's changes in net position and account for the current year's revenue and expenses. The statements present SCRRA's operations during the period, and can be used to determine how the agency funded its costs.

The Statements of Cash Flows provide information about SCRRA's cash receipts, disbursements, and net changes in cash resulting from operating, financing, and investing activities.

The notes to the basic financial statements provide information that is essential to understanding the financial statements, such as SCRRA's accounting methods and policies, details of cash and investments, employee benefits, lease transactions, and future commitments and contingencies of the Authority and information about other events or developing situations that could materially affect SCRRA's financial position.

Required supplementary information provides information concerning SCRRA's infrastructure assets and progress in funding its obligation to provide pension benefits to its employees.

Supplementary information provides additional detail about unearned revenue and advances on capital purchases by Member Agencies.

FINANCIAL REPORTING ENTITY

SCRRA is an independent entity created in August 1991 through a joint exercise of powers agreement (JPA). SCRRA began operating the "Metrolink" regional commuter rail system in October 1992. As part of the JPA, the Member Agencies (Los Angeles County Metropolitan Transportation Authority [LACMTA], Orange County Transportation Authority [OCTA], Riverside County Transportation Commission [RCTC], San Bernardino County Transportation Authority [SBCTA], and Ventura County Transportation Commission [VCTC]) acquired the rail network in existence at the time the JPA was established for use in Metrolink's commuter rail operations. This initial railroad network is not included as part of SCRRA's railroad network capital assets. The

member agencies retain title to and ownership of those assets. As part of the JPA, SCRRA is responsible for the related maintenance and operation of members' assets and rail right-of-way used in operations.

In addition, certain members retain responsibility to maintain segments of their railroad network. The Metrolink railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects. Currently there are 534 route miles with 60 stations in the Metrolink system throughout Los Angeles, Orange, Riverside, San Bernardino, Ventura, and San Diego counties.

The governing body of SCRRA is a Board of Directors comprised of 11 members appointed by the voting members of the JPA. The Member Agencies with their respective number of votes are as follows:

Los Angeles County Metropolitan Transportation Authority (LACMTA)	4
Orange County Transportation Authority (OCTA)	2
Riverside County Transportation Commission (RCTC)	2
San Bernardino County Transportation Authority (SBCTA)	2
Ventura County Transportation Commission (VCTC)	1

SCRRA is not considered to be a component unit of any other reporting entity.

CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in SCRRA's financial position for the fiscal years ended June 30, 2017, June 30, 2016, and June 30, 2015. An analysis of major economic factors and industry trends that have contributed to these changes is provided. For purposes of the MD&A, summaries of the financial statements and various exhibits presented are in conformance with SCRRA's financial statements. For more information regarding SCRRA's capital assets, please refer to Note 4 of the Notes to Basic Financial Statements.

TOTAL ASSETS DISTINGUISHED BETWEEN CAPITAL, OTHER ASSETS, AND DEFERRED OUTFLOWS OF RESOURCES (in thousands)

	2017		2016		2015	
Current assets	$ 115,621	8%	$ 102,264	7%	$ 92,533	6%
Capital assets, net	1,368,157	88%	1,370,625	88%	1,356,723	89%
Other noncurrent assets	65,370	4%	79,284	5%	79,415	5%
Total assets	1,549,148		1,552,173		1,528,671	
Deferred outflows of resources	6,570	0%	4,096	0%	2,850	0%
Total assets and deferred outflows of resources	$ 1,555,718	100%	$ 1,556,269	100%	$ 1,531,521	100%

Following is more detailed information about SCRRA's capital assets:

CAPITAL ASSETS (in thousands)

ASSET TYPE	2017		2016		2015	
Land, easements, and infrastructure assets	$ 670,345	49%	$ 670,345	49%	$ 669,790	49%
Construction in progress	149,010	11%	108,976	8%	60,376	5%
Total non-depreciable capital assets	819,355	60%	779,321	57%	730,166	54%
Rolling stock, net	295,895	22%	310,004	23%	324,113	24%
Building and improvements, net	102,424	7%	110,692	8%	118,718	9%
Positive train control, net	142,001	10%	159,552	11%	170,043	12%
Other, net	8,483	1%	13,637	1%	13,683	1%
Total depreciable capital assets, net	548,803	40%	591,304	43%	626,557	46%
Total capital assets, net	$ 1,368,158	100%	$ 1,370,625	100%	$ 1,356,723	100%

JUNE 30, 2017 VERSUS JUNE 30, 2016

Capital assets decreased by $2.5 million, or 0.2%, from the prior year. This consists of additions to construction in progress of $40.7 million and additions to positive train control (PTC), computer and other equipment, and support vehicles of $0.5 million, which was more than offset by an increase in accumulated depreciation of $43.5 million. Major projects comprising the addition to construction in progress include Tier 4 locomotive acquisition ($18.2 million), acquisition of radio spectrum ($6.1 million), Empire Avenue widening ($2.9 million), and a platform addition and siding extension at Vincent/Acton ($4.0 million).

JUNE 30, 2016 VERSUS JUNE 30, 2015

Capital assets increased by $13.9 million, or 1.0%, from the prior year. The increase is primarily comprised of an increase in construction in progress of $48.6 million and net additions of $8.4 million of other depreciable and non-depreciable assets ($6.5 million being PTC). This increase is partially offset by a net increase in accumulated depreciation of $43.1 million.

TOTAL LIABILITIES DISTINGUISHED BETWEEN CURRENT AND NONCURRENT LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES (in thousands)

	2017		2016		2015	
Current liabilities	$ 132,658	79%	$ 139,267	80%	$ 114,372	68%
Noncurrent liabilities	32,451	19%	28,268	16%	46,763	28%
Total liabilities	165,109		167,535		161,135	
Deferred inflows of resources	2,649	2%	6,591	4%	6,625	4%
Total liabilities and deferred inflows of resources	$ 167,758	100%	$ 174,126	100%	$ 167,760	100%

Following is more detail about liabilities and deferred inflows of resources by type:

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES BY TYPE	2017		2016		2015	
Accounts payable and accrued liabilities	$ 48,406	29%	$ 58,838	33%	$ 56,937	34%
Advances for construction and retention payable	11,202	7%	13,386	8%	9,272	5%
Unearned revenue	67,619	40%	53,828	31%	43,840	26%
Other current liabilities	1,691	1%	1,620	1%	1,411	1%
Note payable	-	0%	8,000	5%	18,000	11%
Compensated absences	3,565	2%	3,253	2%	2,570	2%
Net pension liability	10,151	6%	7,232	4%	5,740	3%
Other postemployment benefits liability	12,175	7%	12,178	7%	12,140	7%
Claims and judgments payable	10,300	6%	9,200	5%	11,225	7%
Total liabilities	165,109		167,535		161,135	
Deferred lease proceeds	-	0%	3,333	2%	3,538	2%
Pension deferred inflows	2,649	2%	3,258	2%	3,087	2%
Total liabilities and deferred inflows of resources	$ 167,758	100%	$ 174,126	100%	$ 167,760	100%

JUNE 30, 2017 VERSUS JUNE 30, 2016

The decrease in total liabilities and deferred inflows of resources of $6.4 million, or 3.7%, is due primarily to a decrease in note payable of $8 million as a result of final repayment of a loan SCRRA obtained from LACMTA in December 2011 for the purchase of 20 additional railcars, and the completion of amortization of deferred lease proceeds of $3.3 million. In addition, accounts payable and accrued liabilities decreased by $10.4 million as liabilities for operations services and locomotive acquisition outstanding in FY 2016 were fully paid in FY 2017, and advances for construction and retention for various projects decreased by $2.2 million. These decreases were somewhat offset by an increase in unearned revenue from Member Agencies of $13.8 million resulting from funded operating expenditures being less than budgeted, an increase in the net pension liability of $2.9 million as a result of the CalPERS actuarial valuation, and an increase in claims and judgments of $1.1 million based upon periodic review of the Authority's risk exposures.

JUNE 30, 2016 VERSUS JUNE 30, 2015

The increase in total liabilities and deferred inflows of resources of $6.4 million, or 3.8%, is comprised of an increase in accounts payable and accrued liabilities of $1.9 million, primarily attributable to certain invoices on which payment has been withheld as a result of pending litigation, increases in advances for construction and retention for various projects of $4.1 million, an increase in unearned revenue of $10 million resulting from actual costs coming in under budget as compared to member contributions received. These increases were somewhat offset by a decrease in note payable of $10 million as a result of a prepayment on an $18 million loan SCRRA obtained from LACMTA in December 2011 for the purchase of 20 additional railcars, and decreases in claims and judgments of $2 million related to the periodic review of the Authority's risk exposures.

TOTAL NET POSITION DISTINGUISHED BETWEEN AMOUNTS INVESTED IN CAPITAL AND UNRESTRICTED (in thousands)

	2017		2016		2015	
Net investment in capital assets	$ 1,368,157	99%	$ 1,362,625	99%	$ 1,338,723	98%
Unrestricted	19,803	1%	19,518	1%	25,038	2%
Total net position	$ 1,387,960	100%	$ 1,382,143	100%	$ 1,363,761	100%

Total net position increased by $5.8 million, or 0.4%. This is due to an increase in net investment in capital assets of $5.5 million (0.4%) that is attributable to the change in capital assets discussed above, along with repayment of the note payable to LACMTA.

CHANGE IN NET POSITION (in thousands)

	2017	2016	2015
Operating loss	($ 198,650)	($ 190,661)	($ 157,703)
Non-operating revenues, net	132,631	126,773	108,439
Capital grants and subsidies	71,836	82,270	56,485
Change in net position	5,817	18,382	7,221
Net position, beginning of year	1,382,143	1,363,761	1,362,880
Cumulative effect of change in accounting principle	-	-	(6,340)
Net position, end of year	$ 1,387,960	$ 1,382,143	$ 1,363,761

JUNE 30, 2017 VERSUS JUNE 30, 2016
The increase in total net position to $1,388.0 million is comprised of an operating loss of $198.6 million that is more than offset by $132.6 million in non-operating revenues and $71.8 million in capital grants and subsidies. This results in a change in net position of $5.8 million. These various components are discussed in more detail below.

JUNE 30, 2016 VERSUS JUNE 30, 2015
The increase in total net position to $1,382.1 million is comprised of an operating loss of $190.7 million that is more than offset by $126.8 million in non-operating revenues and $82.3 million in capital grants and subsidies. This results in a change in net position of $18.4 million. These various components are discussed in more detail on the next page.

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION (in thousands)

	2017	2016	2015
Operating revenues and expenses:			
Operating revenues	$ 115,674	$ 127,232	$ 125,328
Operating expenses	314,324	317,893	283,031
Operating loss	(198,650)	(190,661)	(157,703)
Non-operating revenues and expenses:			
Subsidies and grants	129,498	127,173	110,257
Net (loss) gain in fair value of investments	(61)	8	5
Amortization of deferred gain on lease/leaseback	3,333	205	712
Interest income	61	233	10
Interest expense	(216)	(590)	(650)
Net gain (loss) on disposal of capital assets	16	(256)	(1,895)
Total non-operating revenues, net	132,631	126,773	108,439
Loss before capital grants and subsidies	(66,019)	(63,888)	(49,264)
Capital grants and subsidies	71,836	82,270	56,485
Change in net position	5,817	18,382	7,221
Net position, beginning of year	1,382,143	1,363,761	1,362,880
Cumulative effect of change in accounting principle	-	-	(6,340)
Net position, end of year	$ 1,387,960	$ 1,382,143	$ 1,363,761

Following is information about revenues and expenses by major source:

REVENUES AND EXPENSES BY MAJOR SOURCE (in thousands)

	2017	2016	2015
Revenues:			
Fares	$ 83,398	$ 84,506	$ 83,111
Other operating revenues	32,276	42,726	42,217
Grants and subsidies	201,334	209,443	166,742
Other non-operating revenues	3,410	446	727
Total revenues	$ 320,418	$ 337,121	$ 292,797
Expenses:			
Train operations	$ 175,618	$ 172,310	$ 158,796
Maintenance-of-way	38,596	39,558	34,230
Capital program	20,815	25,406	22,586
Other operating expenses	79,295	80,619	67,419
Non-operating expenses	277	846	2,545
Total expenses	$ 314,601	$ 318,739	$ 285,576

JUNE 30, 2017 VERSUS JUNE 30, 2016

Revenue decreased $16.7 million, or 5.0%, primarily because of the absence of grants and subsidies of $11.5 million provided for acquisition of rolling stock in FY 2016 and a decrease in third party revenue of $7.4 million resulting from the completion of several significant projects. Fare revenue was essentially flat, with a decrease of 1.3%.

Train operation expenses increased 1.9% as a result of an increase in the number of service hours from 80,125 in FY 2016 to 85,436 in FY 2017. Maintenance-of-way, and other operating expenses were essentially flat, decreasing by 2.4% and 1.6%, respectively. Capital program costs decreased by $4.6 million, or 18.1%, due to a net decrease in Tier 4 locomotive acquisition expenses from the prior year, which included exercise of a $21.4 million purchase option for an additional 17 locomotives.

JUNE 30, 2016 VERSUS JUNE 30, 2015

Revenue increased $44.3 million, or 15%, primarily because of increases in grants and subsidies of $42.7 million as a result of an increase in member contributions recognized as revenue for operations of $21.5 million. Fare revenue and other operating revenues were essentially flat, with increases of 1.7% and 1.2%, respectively.

Train operation expenses increased $13.5 million, or 8.5%, primarily because of the need to lease BNSF locomotives in the amount of $10.4 million as a result of Oxnard accident. Maintenance-of-way expenses increased as a result of greater needs for equipment and parts necessary to maintain SCRRA's aging infrastructure, in addition to PTC-related maintenance-of-way costs.

Other operating expenses increased $13.2 million, or 19.6%. The most significant component of this change is an increase in depreciation of $17.1 million, primarily as a result of placing PTC into service.

CAPITAL ASSETS

INFRASTRUCTURE ASSETS – MODIFIED APPROACH

SCRRA elected to use the modified approach in reporting its railroad network (track, tunnel and bridge structures, and signals and communications). Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as certain requirements (which are disclosed in the accompanying basic financial statements and required supplementary information) are met. One such requirement is that the infrastructure be maintained at an established condition level. SCRRA adopted a condition rating of 75 points as the minimum acceptable Railroad Condition Index (RCI) for the entire railroad network (including subsystems). In accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, a full condition assessment must be performed on all infrastructure assets every three years. SCRRA performed condition assessments on track, bridges and tunnels in FY 2016. Signal and communication assessments were performed in parts during FYs 2015 and 2016. The system-wide condition assessment conducted as of the two-year period ended June 30, 2015, resulted in an overall rating of 81 points. This is in compliance with SCRRA's adopted condition rating of 75 points as the minimum acceptable Railroad Condition Index (RCI) rating for the entire network (including subsystems). The next system-wide condition assessment will be conducted in FY 2018. As an approved alternative to conducting a system-wide assessment

every three years, SCRRA has chosen to perform annual assessments of a third of its infrastructure so that all assets will have been reviewed over the three-year period.

Management seeks to maintain infrastructure above the minimum required level approved by the Board and above minimum standards required by the Federal Railroad Administration. SCRRA estimated the amount for FY 2016 needed to maintain or preserve the infrastructure assets to be $95.0 million. Actual expenses were $59.1 million. SCRRA also estimated the amount for FY 2017 needed to maintain or preserve the infrastructure asset to be $67.6 million. Actual expenses were $55.8 million. See Required Supplementary Information, Note 1 for more information.

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

As with most transit organizations, Metrolink ridership remains sensitive to economic change and employment shifts in the area it serves. General economic conditions have shown improvement. The region's employment base grew 2% compared to the prior year, and many industries are considered to be at full employment. Job growth in Los Angeles County has slowed due to a tight labor market, while the Inland Empire shows the fastest job growth. Automobile traffic on the region's freeways is up, with vehicle miles traveled at an all-time high in 2017. Key reasons for this include low gas prices and eased lending requirements for new car buyers. Despite the strong economy, transit ridership, both locally and nationally, continues to decline. However, while other regional transportation agencies have shown declines in ridership of 6.5%, Metrolink ridership has shown a modest growth of 1%.

In 2015, SCRRA announced fare reductions for several local station-to-station trips in an effort to better serve Southern California commuters by making travel more affordable. Also, the 91 Line was in the process of being extended 24 miles into Perris Valley. This expansion increased Metrolink's service area to 534 total miles, connecting six counties throughout the region.

SCRRA's commitment to provide a reliable commute that enhances quality of life is the cornerstone of its plan to purchase 40 lower emission F125 locomotives at a projected cost of $280 million. Delivery of 15 locomotives was made in December 2018, with the remainder expected to be delivered by the end of FY 2019.

The FY 2017 budget included $337.1 million in new and outstanding project authority. Of this amount, $67.6 million was allocated to rehabilitation projects and $269.4 million was allocated to new capital projects. SCRRA is responsible for the safety and performance of the railroad network asset and the right-of-way and all that travel upon it. Projects are selected based on the principle of minimizing and managing the risk of failure among system components, including rail vehicle equipment.

The FY 2017 budget also contained several important new capital and rehabilitation projects that will more efficiently operate passenger and freight services on Member Agency-owned routes. These projects included $120 million for 19 locomotives. Service train miles were projected to increase by 1.2%, to 2.8 million miles, as a result of a full year of new service on the Perris Valley portion of the 91 Line.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

FY 2018 ADOPTED BUDGET

The FY 2018 budget includes $359.8 million in new and outstanding project authority. Of this amount, $144.1 million is allocated to rehabilitation projects and $215.7 million was allocated to new capital projects.

MEASURE M

On November 8, 2016, Los Angeles County voters approved Measure M, a half-cent transportation sales tax measure placed on the ballot by the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors. This measure calls for a sustained funding approach for a variety of transit and highway projects, roadway improvements, pedestrian and bike paths, paratransit services for the disabled, and affordable fares for seniors. The passage of Measure M will provide billions of dollars for commuter rail and transit operations, and projects to keep buses, trains, and facilities in good repair. Metrolink will receive up to 2% of this half-cent sales tax over the life of the measure.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of SCRRA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Southern California Regional Rail Authority, One Gateway Plaza, 12th Floor, Los Angeles, CA 90012.

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Net Position
June 30, 2017 and 2016
(Dollar Amounts in Thousands)

	2017	2016
Assets and deferred outflows of resources:		
Current assets:		
Cash and investments	$ 51,432	$ 24,668
Due from other agencies, net of allowance for uncollectible accounts of $1,657 and $2,401, respectively	42,495	49,240
Prepaid expenses	1,039	1,019
Trade and other receivables, net of allowance for uncollectible accounts of $351 and $210, respectively	5,783	7,097
Inventory	14,872	20,240
Total current assets	115,621	102,264
Noncurrent assets:		
Restricted cash and investments	39,373	48,307
Due from other agencies, net of current	25,996	30,977
Capital assets:		
Non-depreciable	819,355	779,321
Depreciable, net of accumulated depreciation of $430,171 and $386,662, respectively	548,803	591,304
Total noncurrent assets	1,433,527	1,449,909
Total assets	1,549,148	1,552,173
Deferred outflows of resources:		
Pensions	6,570	4,096
Total assets and deferred outflows of resources	$ 1,555,718	$ 1,556,269
Liabilities, deferred inflows of resources and net position:		
Current liabilities:		
Accounts payable and accrued liabilities	$ 48,406	$ 58,838
Advances for construction	9,519	11,213
Retention payable	1,683	2,173
Unearned revenue and advances on capital purchases	67,619	53,828
Other current liabilities	1,691	1,620
Note payable	-	8,000
Compensated absences	3,565	3,253
Claims and judgments payable	175	342
Total current liabilities	132,658	139,267
Noncurrent liabilities:		
Net pension liability	10,151	7,232
Other postemployment benefits liability	12,175	12,178
Claims and judgments payable	10,125	8,858
Total noncurrent liabilities	32,451	28,268
Total liabilities	165,109	167,535
Deferred infows of resources:		
Deferred lease proceeds	-	3,333
Pensions	2,649	3,258
Total deferred infows of resources	2,649	6,591
Net position:		
Net investment in capital assets	1,368,157	1,362,625
Unrestricted	19,803	19,518
Total net position	1,387,960	1,382,143
Total liabilities, deferred inflows of resources and net position	$ 1,555,718	$ 1,556,269

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2017 and 2016
(Dollar Amounts in Thousands)

	2017	2016
Operating revenues:		
Fares	$ 83,398	$ 84,506
Dispatching	2,078	2,194
Third-party agreements	17,503	26,951
Maintenance of way	12,387	12,437
Public liability and property damage recovery	5	576
Miscellaneous	303	568
Total operating revenues	115,674	127,232
Operating expenses:		
Train operations	175,618	172,310
Maintenance-of-way	38,596	39,558
Rehabilitation and renovation - capital	20,815	25,406
Third-party agreements	19,602	24,864
Insurance	11,018	11,634
Provision (benefit) for claims, judgments and other	1,197	(1,323)
Public liability and property damage	3,775	1,686
Depreciation	43,703	43,758
Total operating expenses	314,324	317,893
Operating loss	(198,650)	(190,661)
Non-operating revenues (expenses):		
Subsidies and grants - trains and maintenance of way	112,711	111,264
Subsidies and grants - public liability and property damage	16,787	15,909
Net (depreciation) appreciation in fair value of investments	(61)	8
Amortization of deferred gain on lease / leaseback	3,333	205
Interest income	61	233
Interest expense	(216)	(590)
Net gain (loss) on disposal of capital assets	16	(256)
Total non-operating revenues, net	132,631	126,773
Loss before capital grants and subsidies	(66,019)	(63,888)
Capital grants and subsidies	71,836	82,270
Increase in net position	5,817	18,382
Net position at beginning of year	1,382,143	1,363,761
Net position at end of year	$ 1,387,960	$ 1,382,143

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Cash Flows
For the years ended June 30, 2017 and 2016
(Dollar Amounts in Thousands)

	2017	2016
Cash flows from operating activities:		
Cash received from fares	$ 82,958	$ 86,138
Cash received from dispatching and maintenance of way	15,965	15,768
Cash received from third-party agreements and public liability and property damage	16,585	23,282
Cash paid to employees	(38,589)	(36,604)
Cash paid to suppliers	(237,496)	(236,823)
Cash received from miscellaneous sources	304	568
Net cash used in operating activities	(160,273)	(147,671)
Cash flows from noncapital financing activities:		
Operating subsidies and grants - trains and maintenance of way	120,912	121,439
Operating subsidies and grants - public liability and property damage	16,787	15,909
Net cash provided by noncapital financing activities	137,699	137,348
Cash flows from capital and related financing activities:		
Capital grants and subsidies received	89,852	77,842
Construction and purchases of capital assets	(41,218)	(57,916)
Repayment of note payable	(8,000)	(10,000)
Interest paid	(216)	(590)
Net cash provided by capital and related financing activities	40,418	9,336
Cash flows from investing activities:		
Net change in investments	47	212
Sale / maturity of investments	(61)	8
Net cash (used in) provided by investing activities	(14)	220
Net increase (decrease) in cash and investments	17,830	(767)
Cash and investments at beginning of year	72,975	73,742
Cash and investments at end of year	$ 90,805	$ 72,975
Reconciliation to cash and investments on the Statement of Net Position:		
Cash and investments	$ 51,432	$ 24,668
Restricted cash and investments	39,373	48,307
Total cash and investments on the Statement of Net Position	$ 90,805	$ 72,975

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Cash Flows, Continued
For the years ended June 30, 2017 and 2016
(Dollar Amounts in Thousands)

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (198,650)	$ (190,661)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	43,703	43,758
Pension adjustment	(164)	417
(Increase) decrease in:		
Due from other agencies	(934)	(4,411)
Prepaid expenses	(20)	(914)
Trade and other receivables, net	1,327	3,079
Inventory	5,368	(2,364)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(10,432)	1,901
Compensated absences	312	683
Advances for construction	(1,694)	2,896
Claims and judgments payable	1,100	(2,025)
Unearned revenue	(257)	(277)
Other post employment benefits	(3)	38
Other liabilities	71	209
Total adjustments	38,377	42,990
Net cash used in operating activities	$ (160,273)	$ (147,671)
Noncash investing, capital and financing activities:		
Amortization of deferred gain on lease / leaseback	$ 3,333	$ 205
Net gain (loss) on disposal of capital assets	16	(256)

See accompanying notes to basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Southern California Regional Rail Authority (SCRRA) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of SCRRA's accounting policies are described below.

A. Financial Reporting Entity

In June 1990, the California Legislature enacted Senate Bill 1402, Chapter 4 of Division 12 of the Public Utilities Code. This bill required the transportation commissions of the Counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura to jointly develop a plan for regional transit services within the multi-county region. The Southern California Regional Rail Authority (SCRRA) was established on August 1, 1991 through a Joint Exercise of Powers Agreement (JPA) among the following public agencies (Member Agencies):

- Los Angeles County Metropolitan Transportation Authority (LACMTA)
- Orange County Transportation Authority (OCTA)
- Riverside County Transportation Commission (RCTC)
- San Bernardino County Transportation Authority (SBCTA)
- Ventura County Transportation Commission (VCTC)

SCRRA's independent governing Board consists of 11 members appointed by the Member Agencies, as follows:

Los Angeles County Metropolitan Transportation Authority	4
Orange County Transportation Authority	2
Riverside County Transportation Commission	2
San Bernardino County Transportation Authority	2
Ventura County Transportation Commission	1

The purpose of SCRRA is to plan, design, construct, and administer the operation of regional commuter rail lines serving the counties of Los Angeles (L.A.), Orange, Riverside, San Bernardino, Ventura, and northern San Diego. The operation of the commuter rail lines is referred to as Metrolink. Its services include the operation of seven commuter rail passenger lines, as follows:

- San Bernardino Line – running from San Bernardino to L.A. Union Station
- Antelope Valley Line – running from Lancaster to L.A. Union Station
- Ventura County, Burbank Airport/Downtown Line – running from Oxnard to L.A. Union Station
- Orange County Line – running from Oceanside to L.A. Union Station
- Inland Empire-Orange County Line – running from San Bernardino to Oceanside
- 91/Perris Valley Line – running from South Perris to L.A. Union Station via Fullerton
- Riverside Line – running from Riverside to L.A. Union Station via City of Industry

Passenger fares, dispatching and maintenance-of-way revenues, Member Agency operating and capital subsidies, and State and federal grant programs fund SCRRA. The Member Agencies and other public entities provide transportation within the counties served by SCRRA. SCRRA is not considered a component unit of any other reporting entity. As required by U.S. GAAP, the accompanying basic financial statements include all financial activities of SCRRA.

In accordance with GAAP, SCRRA has considered all potential organizations for which the nature and significance of their relationships with SCRRA are such that exclusion would cause SCRRA's financial statements to be misleading or incomplete. The GASB has established criteria to be considered in determining financial accountability. These criteria include appointing the majority of an organization's governing body and (1) the ability of SCRRA to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on SCRRA. Based on these criteria, there are no other organizations or agencies that should be included in these basic financial statements.

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The accompanying basic financial statements of SCRRA have been prepared in conformity with GAAP as promulgated by GASB, the accepted standard setting body for establishing governmental accounting and financial reporting principles, and the State Controller's *Minimum Audit Requirements and Reporting Guidelines*.

SCRRA distinguishes operating revenues and expenses from non-operating items. All revenues and expenses not meeting the definitions noted below are reported as non-operating revenues and expenses. Operating revenues and expenses generally result from providing goods and services, and producing and delivering goods in connection with SCRRA's principal ongoing operations. SCRRA's principal operating revenues include passenger fares charged for commuter rail services, dispatching fees, third-party agreements, and maintenance-of-way revenues.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of revenues and expenses. Actual results could differ from those estimates and assumptions.

D. Effects of New Accounting Pronouncements

SCRRA adopted the following GASB statements in the fiscal year ended June 30, 2017:

GASB Statement No. 73

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this Statement is to improve the usefulness of information related to pensions. The Statement is effective for financial statements for fiscal years beginning after June 15, 2015, except for provisions that address employers and governmental non-employer contributing entries for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. This statement did not have a significant impact on SCRRA.

GASB Statement No. 74

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The objective of this Statement is to improve information related to postemployment benefits (generally healthcare benefits). The Statement is effective for financial statements for fiscal years beginning after June 15, 2016. This statement did not have a significant impact on SCRRA.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. This statement is effective for reporting periods beginning after December 15, 2015. This statement did not have a significant impact on SCRRA.

GASB Statement No. 78

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. It amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement is effective for reporting periods beginning after December 15, 2015. This statement did not have a significant impact on SCRRA.

GASB Statement No. 79

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and

shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. This statement did not have a significant impact on SCRRA.

GASB Statement No. 80

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement is effective for reporting periods beginning after June 15, 2016. This statement did not have a significant impact on SCRRA.

GASB Statement No. 82

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

SCRRA is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The objective of this Statement is to improve information related to postemployment benefits (generally healthcare benefits). The Statement is effective for financial statements for fiscal years beginning after June 15, 2017.

GASB Statement No. 81

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for periods beginning after December 15, 2016. This statement is not expected to have a significant impact on SCRRA.

GASB Statement No. 83

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for legally enforceable liabilities associated with the retirement of tangible capital assets. This Statement is effective for periods beginning after June 15, 2018.

GASB Statement No. 84

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. It establishes criteria for identifying fiduciary activities, the focus of which generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement is effective for periods beginning after December 15, 2018.

GASB Statement No. 85

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is effective for periods beginning after June 15, 2017.

GASB Statement No. 86

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement is effective for periods beginning after June 15, 2017.

GASB Statement No. 87

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for periods beginning after December 15, 2019.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

1. Cash and Investments

Cash and investments consist of cash in demand deposit accounts and investments in the State Treasurer's Local Agency Investment Fund (LAIF), money market funds, and treasury reserves. Note 2 provides information about SCRRA's deposits and investments, interest sensitive investments, and the credit quality of the investments held at year-end. Investments are presented at fair value, except for certain investments that are considered to be short-term

and highly liquid instruments that have a remaining maturity at time of purchase of one year or less, which may be reported at amortized cost.

Cash and cash equivalents are considered to be cash on hand, amounts in demand deposits, and short-term investments with original maturities of three months or less from the date acquired by SCRRA.

2. Restricted Cash and Investments

Restricted cash and investments represent advanced funds received whereby constraints have been either (1) imposed by the creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

3. Prepaid Expenses

Payments made to vendors for expenses that will benefit future periods beyond fiscal year end are recorded as prepaid expenses.

4. Inventory

Inventory consists of railroad operating spare parts that are recorded when purchased and expensed when used. SCRRA maintains inventory for rolling stock, track, and signal maintenance. SCRRA's inventory is valued using the lower of average cost or market. A reserve of $3.9M was established in FY 2017 to reduce the valuation of inventory items identified as obsolete to market values which are significantly lower than their cost.

5. Capital Assets

Capital assets reported by SCRRA include land, buildings, vehicles, equipment, right-of-way easement, and the Metrolink railroad network. As part of the JPA, the Member Agencies acquired the rail network in existence at the time of the creation of the JPA for use in SCRRA's commuter rail operations. The initial railroad network is not included as part of Metrolink's railroad network. The Member Agencies retained title and ownership to those assets.

As part of the JPA, SCRRA is responsible for the related maintenance and operation of members' assets and rail right-of-way used in operations. Additionally, certain agencies retain responsibility to maintain segments of their railroad network. SCRRA's railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects and are recorded in the financial statements as Metrolink infrastructure. Capital assets are defined by SCRRA as assets with an individual cost of at least $5,000 and a minimum useful life of greater than one year.

Purchased or constructed capital assets are valued at cost where records are available and at estimated historical cost where no records exist. Assets donated to SCRRA are valued at the estimated acquisition value on the date received. Costs related to the acquisition of easement rights are recorded as part of capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Buildings and improvements, rolling stock, vehicles, fare collection equipment, and computer and other equipment are depreciated using the straight-line method over the following useful lives:

Asset Description	Useful Life
Building and improvements	10-30 years
Rolling stock	25-30 years
Fare collection systems and Positive Train Control	10 years
Computer and other equipment	3-10 years
Support vehicles	5-7 years

SCRRA defines infrastructure as the basic physical assets that allow SCRRA to function. These assets constitute the Metrolink railroad network (tracks, tunnel and bridge structures, and communication signals), for which SCRRA has elected to use the modified approach, as defined by GASB Statement No. 34.

Pursuant to the modified approach to accounting for infrastructure assets, SCRRA has committed to preserving and maintaining its railroad network at an appropriate condition level as determined by the Board of Directors. Consequently, no depreciation expense is reported for the capital assets comprising the railroad network, nor are amounts capitalized in connection with improvements that lengthen the lives of those capital assets, unless those improvements also increase their service capacity. SCRRA maintains an inventory of its railroad network infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. In addition, SCRRA makes annual estimates of the amount that must be expended to preserve and maintain the railroad network at the predetermined condition level.

6. Compensated Absences

Substantially all employees earn paid time-off (PTO) for vacation, illness, and certain other qualifying absences each pay period. The number of hours accrued is generally based on length of service not to exceed three times an employee's annual accrual. When employees reach their maximum accrual balance, they will not continue to accrue PTO hours until their PTO accounts are below the maximum accrual balance. A liability for compensated absences has been accrued in the accompanying basic financial statements.

7. Deferred Lease Proceeds

Deferred lease proceeds represent the balance of the deferred gain recorded from the fiscal years 1999 and 2003 lease/leaseback transactions (Note 6). The deferred gains are being amortized in proportion to the amortization of the lease payments on a straight-line basis. The amount of current amortization has been included in the accompanying statements of revenues, expenses and changes in net position. The remaining amount of unamortized gain was recognized in its entirety during FY 2017.

8. Unearned Revenue

Unearned revenues arise when SCRRA receives resources before it has a legal claim to them, such as when grant monies are received prior to the incurrence of the qualifying expenses. In addition, Member Agencies contribute funds in advance for their annual operating subsidy. In subsequent periods, when SCRRA has met all eligibility requirements, the liability for unearned revenue is removed from the statement of net position and the revenue is recognized.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of SCRRA's California Public Employees' Retirement System (CalPERS) plan (Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

11. Components of Net Position

Net position is reported in one of three categories:

Net Investment in Capital Assets – groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance of this category.

Restricted – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, netting to zero dollars for the years ended June 30, 2017 and 2016.

Unrestricted – represents net position that is not restricted for any project or purpose.

12. Use of Restricted/Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, SCRRA's policy is to apply restricted resources first.

F. Revenues and Expenses

1. Third-Party Agreements

SCRRA receives revenues from third-party agreements – items such as charter train services, construction of major capital facilities on behalf of third parties, and flagging personnel provided by SCRRA for the safety of non-SCRRA personnel accessing the rail right-of-way. SCRRA recognizes revenue in the period to the extent of eligible expenses incurred. Any fees determined to be nonrefundable are recognized as revenue upon receipt.

2. Operating and Maintenance Agreements

SCRRA operates Metrolink services through the use of several operating agreements with various vendors. Under these operating agreements, services are provided for the maintenance of track, structures, and communications signals and equipment, as well as outsourced staffing for the operation of passenger train services.

3. Operating and Non-operating Revenues and Expenses

Operating revenues are those revenues that are generated from SCRRA's primary operations and generally include passenger fares charged for commuter rail services, dispatching fees, third-party agreements, and maintenance-of-way revenues. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to SCRRA's primary operations. All other expenses are reported as non-operating expenses.

SCRRA reserves 50% of its trade receivables and accounts receivable due from other agencies that are over 180 days old.

G. Reclassifications

Certain amounts presented in the 2016 financial statements have been reclassified to be consistent with the current year's presentation. Such reclassifications have no effect on the increase in net position as previously reported.

2. CASH AND INVESTMENTS

SCRRA's Investment Policy (Investment Policy) sets forth the investment guidelines for all funds of SCRRA. The Investment Policy conforms to California Government Code (Code) Section 53600 et. seq. The authority to manage SCRRA's investment program is granted by the Board of Directors. Pursuant to Section 53607 of the California Government Code, the Board of Directors annually appoints the Chief Financial Officer as Treasurer and approves SCRRA's Investment Policy. The Treasurer is authorized to delegate this authority as deemed appropriate. No person may engage in investment transactions except as provided under the terms of the Investment Policy and the procedures established by the Treasurer.

The Investment Policy requires that investments be made with the prudent person standard, that is, when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer and designated staff will act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to the general economic conditions and the anticipated needs of SCRRA.

A. Authorized Investments

SCRRA's Investment Policy is adopted annually by the Board of Directors in accordance with California Government Code Section 53601, and has as its objectives the following (in order of priority):

- **Safety of Principal:** Safety of principal is the foremost objective of SCRRA. Each investment transaction shall seek to ensure capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of securities.

- **Liquidity:** Liquidity is the second most important objective of SCRRA. It is important the portfolio contain investments for which there is an active secondary market and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.

- **Total Return:** SCRRA's portfolio shall be designed to attain a market-average rate of return through economic cycles.

Under provisions of SCRRA's Investment Policy, the Treasurer may invest in the following types of investments:

- **U.S. Treasuries:** Direct obligations of the United States and securities that are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States; U.S. Treasury coupon and principal Separate Trading of Registered Interest and Principal of Securities (STRIPS);
- **Federal Agencies and U.S. Government Sponsored Enterprises:** Senior debt obligations, participation certificates, or other instruments of, or issued by or guaranteed by, the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Farm Credit Bank (FFCB), the Student Loan Marketing Association (SLMA or Sallie Mae), the Government National Mortgage Association (GNMA or Ginnie Mae), the Small Business Administration (SBA), the Export-Import Bank of the United States, or the U.S. Department of Housing and Urban Development. Any federal agency or U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment;
- **State of California and Local Agency Obligations:** Registered state warrants, treasury notes, or bonds of the State of California and bonds, notes, warrants, or other forms of indebtedness of any local agency within California;
- **Bankers Acceptances:** Bankers acceptances with a maximum term of 180 days;
- **Commercial Paper:** Prime commercial paper with a maximum term of 180 days;
- **Negotiable Certificates of Deposit:** Negotiable certificates of deposit with a maximum term of 270 days, issued by a nationally- or state-chartered bank or state or federal association or by a state licensed branch of a foreign bank;
- **Repurchase Agreements:** Repurchase agreements with a maximum term of one year that comply with statutory requirements, are documented by a written agreement, are fully collateralized by delivery to an independent third-party custodian or the counterparty's bank's trust department or safekeeping department;
- **Medium-term Maturity Corporate Securities:** Corporate securities with a maximum term of 5 years, rated AA (the Government Code allows A ratings or better) or better by a nationally recognized rating service;

- **Money Market Funds:** Shares of beneficial interest issued by diversified management companies (commonly called money market funds), subject to certain conditions and limitations;
- **Other Mutual Funds:** Shares of beneficial interest issued by diversified management companies (commonly called mutual funds), subject to certain conditions and limitations;
- **Mortgage or Asset-backed Securities:** Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment and other mortgage and consumer receivable pass-through certificates, or consumer receivable-backed bonds with a maximum stated final maturity of 5 years, subject to the credit rating of the issuer;
- **Investment Agreements:** Investment agreements are permitted with any bank, insurance company, or broker-dealer, subject to certain limitations;
- **State of California Local Agency Investment Fund (LAIF):** LAIF is a pooled fund maintained by the State of California and managed by the State Treasurer;
- **Variable and Floating Rate Securities:** Variable and floating rate securities, which are restricted to investments in permitted Federal Agencies and U.S. Government Sponsored Enterprises securities, with a final maturity not to exceed 3 years;
- **Derivatives:** Derivatives are to be used as a tool for bona fide hedging investments only where deemed appropriate; and
- **Equity Securities:** Equity securities are to be used for the sole purpose of funding the Supplemental Executive Retirement Plan, specifically the provisions contained in the Internal Revenue Code (IRC) Section 457(f) plan.

All investments, unless otherwise specified, are subject to a maximum stated term of 5 years.

In accordance with Section 53651 of the California Government Code, SCRRA cannot invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued under the Investment Company Act of 1940 that are authorized investments under Section 53601 of the California Government Code.

The following is a summary of cash and investments as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Cash and investments	$ 51,432	$ 24,668
Restricted cash and investments	39,373	48,307
Total cash and investments	$ 90,805	$ 72,975

Restricted cash and investments for the years ended June 30, 2017 and 2016 are summarized, as follows (in thousands):

	2017	2016
Unexpended Proposition 1B funds (Note 7):		
Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA)	$ 20,324	$ 30,096
California Transit Security Grant Program	8,687	4,414
Low-Carbon Transit Operations Program	801	2,541
Total unexpended Proposition 1B funds	29,812	37,051
Advances for construction	9,519	11,213
Other	42	43
Total restricted cash and investments	$ 39,373	$ 48,307

B. Risk Disclosures – Deposits

At June 30, 2017 and 2016, the carrying amounts of SCRRA cash on hand and deposits were $55.3 million and $34.5 million, respectively, while the bank balances were $55.8 million and $34.5 million, respectively. The book to bank differences include outstanding checks, deposits in transit, and amounts held on consignment by the revenue-servicing contractor. As of June 30, 2017 and 2016, the Federal Deposit Insurance Corporation (FDIC) covered $250,000 of the bank balance. California Government Code Section 53652 requires California financial institutions to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by governmental entities by pledging first trust deed mortgage notes having a value equal to 150% of a governmental unit's total deposit.

C. Investment Valuation

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB Statement No. 72 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. The standard describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow

methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

SCRRA has no investments that were subject to the fair value hierarchy.

D. Risk Disclosures – Investments

Investments are subject to a number of risks, as follows:

1. Interest Rate Risk

Interest rate risk is the potential loss due to the fair value of an investment falling due to interest rates rising. At June 30, 2017 and 2016, SCRRA did not hold investments that are "highly sensitive to interest rate fluctuations," as defined by GASB Statement No. 40. As a means of limiting exposure to fair value losses arising from increasing interest rates, SCRRA's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. SCRRA's portfolio as of June 30, 2017 and 2016, approximated $39.2 million and $41.1 million, respectively; 100% of the portfolios have maturities of one month or less.

2. Credit Risk

Credit risk is the risk that an issuer will not fulfill its obligation to the holder of the investment. It is SCRRA's policy that State of California and local agency obligations must be issued by an entity whose general obligation debt rating is P-1 by Moody's and A-1 by Standard & Poor's equivalent or better for short-term obligations, or A by Moody's or Standard & Poor's or better for long-term debt. Bankers acceptances must be drawn on and accepted by a bank rated B or better by Thomson BankWatch or International Bank Credit Analysis, or are rated A-1 for short-term for deposits by Standard & Poor's and P-1 for short-term deposits by Moody's, or are comparably rated by a nationally recognized rating agency. Commercial paper must be issued by corporations rated A-2 by Moody's and A or better by Standard & Poor's for issuer's debt, other than commercial paper, and be rated P-1 by Moody's and A-1 or better by Standard & Poor's. Negotiable certificates of deposit must be rated A-1 for short-term deposits by Standard & Poor's or P-1 for short-term investments by Moody's.

Money market funds and other mutual funds must be rated AAA (or equivalent highest rating) by two of the three largest nationally recognized rating agencies. Mortgage or asset-backed securities must be rated AAA (AA, according to the Government Code) by a nationally recognized rating agency. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2, that provides credit standards for its investments.

The following schedules indicate the credit and interest rate risks as of June 30, 2017 and 2016, respectively. The credit ratings listed are from Moody's Investor Services and Standard & Poor's. Certain investments, such as obligations that are backed by the full faith and credit of the United States Treasury, are not subjected to credit rating (in thousands).

June 30, 2017	Interest Rate Range	Credit rating Moody's/ S&P	Maturity Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Carrying value as of 6/30/2017
In custody of Treasurer:							
Cash and cash deposits:							
Cash on hand							$ 437
Cash in banks							51,107
Money market funds							3,721
Total cash and cash deposits							55,265
Investments held by Treasurer:							
Local Agency Investment Funds	0.59% - 0.98%	Not rated	35,540				35,540
Total cash and investments							$ 90,805

June 30, 2016	Interest Rate Range	Credit rating Moody's/ S&P	Maturity Under 30 Days	31-180 Days	180-365 Days	1-5 Years	Carrying value as of 6/30/2016
In custody of Treasurer:							
Cash and cash deposits:							
Cash on hand							$ 469
Cash in banks							31,364
Money market funds							3,718
Total cash and cash deposits							35,551
Investments held by Treasurer:							
Local Agency Investment Funds	0.32% - 0.46%	Not rated	37,424				37,424
Total cash and investments							$ 72,975

3. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, SCRRA will not be able to recover the value of its investments or collateral securities that are in the possession of outside party. All of SCRRA's investment securities are held by LAIF.

4. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. SCRRA diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name to 5%. Investments in LAIF are not subject to this limit on credit concentration; however, SCRRA limits the percentage of the portfolio that can be invested in any one federal agency or government-sponsored enterprise security to 30%.

E. External Investment Pool

SCRRA invests in the California Local Agency Investment Fund (LAIF), a State of California external investment pool that is not rated. The pool is valued using pricing models that maximize the use of observable inputs for similar securities that make up the investment pool, which includes basing value on yields currently available on comparable securities of issuers with similar credit

ratings. At June 30, 2017 and 2016, the total amount reported by all public agencies in LAIF was approximately $22.8 billion and $22.7 billion, respectively.

SCRRA reports its investment in LAIF at the fair value amount provided by LAIF. The fair value of LAIF was calculated by applying a factor of 0.998940671 and 1.000621222 at June 30, 2017 and 2016, respectively, to the total investments held by LAIF. As of June 30, 2017 and 2016, SCRRA had $35.6 million and $37.4 million, respectively, invested in LAIF, and the fair value of SCRRA's investment in LAIF was $35.5 million and $37.4 million, respectively.

3. DUE FROM OTHER AGENCIES

The amounts due from other agencies consist of construction costs, capital grants and subsidized receivables, and operating subsidies based on expenses incurred on their behalf. The table below summarizes the total amounts due from other agencies as of June 30, 2017 and 2016 (in thousands):

	2017	2016
Third-party agreements	$ 4,377	$ 5,975
Subsidies and grants – federal, State, and local:		
Los Angeles County Metropolitan Transportation Authority (LACMTA)	32,621	26,789
Orange County Transportation Authority (OCTA)	2,638	3,173
Riverside County Transportation Commission (RCTC)	2,589	5,213
San Bernardino County Transportation Authority (SBCTA)	2,859	1,341
Ventura County Transportation Commission (VCTC)	1,185	200
California Department of Transportation (Caltrans)	18,258	27,996
Federal Transit Administration (FTA)	2,849	11,878
Federal Railroad Administration (FRA)	253	-
Other	2,519	53
Total due from other agencies	70,148	82,618
Allowance for uncollectible accounts	(1,657)	(2,401)
Total due from other agencies, net	$ 68,491	$ 80,217

	2017	2016
Due in one year	$ 42,495	$ 49,240
Due in more than one year	25,996	30,977
Total due from other agencies, net	$ 68,491	$ 80,217

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	June 30, 2015	Additions	Transfers/ Deletions	June 30, 2016	Additions	Transfers/ Deletions	June 30, 2017
Non-depreciable capital assets:							
Land	$ 168	$ -	$ -	$ 168	$ -	$ -	$ 168
Easement	2,413	-	-	2,413	-	-	2,413
Construction in progress	60,376	57,916	(9,316)	108,976	40,758	(724)	149,010
Railroad network	667,209	-	555	667,764	-	-	667,764
Total non-depreciable capital assets	730,166	57,916	(8,761)	779,321	40,758	(724)	819,355
Depreciable capital assets:							
Building and improvements	177,626	-	222	177,848	-	-	177,848
Positive train control (PTC)	170,043	-	6,513	176,556	25	80	176,661
Rolling stock	582,840	-	-	582,840	-	-	582,840
Fare collection systems	16,547	-	(111)	16,436	-	-	16,436
Computer and other equipment	17,444	-	853	18,297	70	644	19,011
Support vehicles	5,582	-	407	5,989	382	(193)	6,178
Total depreciable capital assets	970,082	-	7,884	977,966	477	531	978,974
Less accumulated depreciation for:							
Building and improvements	(58,908)	(8,248)	-	(67,156)	(8,268)	-	(75,424)
Positive train control (PTC)	-	(17,004)	-	(17,004)	(17,656)	-	(34,660)
Rolling stock	(258,727)	(14,109)	-	(272,836)	(14,109)	-	(286,945)
Fare collection systems	(11,798)	(1,512)	622	(12,689)	(1,579)	-	(14,268)
Computer and other equipment	(9,427)	(2,594)	-	(12,021)	(1,708)	-	(13,729)
Support vehicles	(4,665)	(291)	-	(4,956)	(382)	193	(5,145)
Less accumulated depreciation	(343,525)	(43,758)	622	(386,662)	(43,702)	193	(430,171)
Total depreciable assets, net	626,557	(43,758)	8,506	591,304	(43,225)	724	548,803
Capital assets, net of depreciation	$ 1,356,723	$ 14,158	($ 256)	$1,370,625	($ 2,467)	$ -	$1,368,158

SCRRA elected to use the modified approach, as defined by GASB Statement No. 34, for infrastructure reporting for its railroad network. As a result, no accumulated depreciation expense has been recorded for this network. A more detailed discussion of the modified approach is presented in the Required Supplementary Information section of this report.

5. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	June 30, 2016	Increases	Decreases	June 30, 2017	Due in 1 Year
Claims and judgments	$ 9,200	$ 1,169	($ 69)	$ 10,300	$ 175
Net pension liability	7,232	2,919	-	10,151	-
Other postemployment benefits	12,178	-	(3)	12,175	-
Total	$ 28,610	$ 4,088	($ 72)	$ 32,626	$ 175
Current portion				(175)	
Total long-term obligations				$ 32,451	

	June 30, 2015	Increases	Decreases	June 30, 2016	Due in 1 Year
Claims and judgements	$ 11,225	$ -	($ 2,025)	$ 9,200	$ 342
Net pension liability	5,740	1,492	-	7,232	-
Other postemployment benefits	12,140	38	-	12,178	-
Total	$ 29,105	$ 1,530	($ 2,025)	$ 28,610	$ 342
Current portion				(342)	
Total long-term obligations				$ 28,268	

Note Payable – In November 2010, SCRRA exercised option number four related to the rolling stock procurement that secured 20 additional railcars. In December 2010, the LACMTA Board of Directors approved a plan to enter into a loan agreement with SCRRA for the purpose of providing funding necessary for exercising the option to purchase the additional railcars. On December 15, 2011, SCRRA and LACMTA formally entered into and executed a promissory note in the amount of $18.0 million to assist with the cash flow of the railcar purchase. The promissory note accrued interest at 3.52% compounded monthly and payable annually, with principal due and payable on June 30, 2017. SCRRA used funds from the California Transit Security Grant Program (Prop 1B) to pay the note and related interest. A prepayment of $10.0 million was made against the note in FY 2016. The balance of the note was paid in full in FY 2017.

For the fiscal years ended June 30, 2017 and 2016, SCRRA incurred interest expense of $216 thousand and $590 thousand, respectively. In FY 2016, this expense was accrued and actual payment was made in the following fiscal year.

6. LEASE/LEASEBACK

In April 1996, SCRRA's Board entered into an agreement to lease 94 coach and cab cars and 31 locomotives and simultaneously entered into a sublease agreement with the lessee to lease them back. SCRRA received proceeds of approximately $193.9 million of which it used approximately $152.3 million to prepay future lease payments and defease part of its obligation. This prepayment amount was sufficient to cover the loan amount taken by the lessee through the years 2012 and 2014 for the locomotives and the cars, respectively. In addition, the Board invested approximately $21.2 million in U.S. Zero Coupon Treasury strips. The Treasury strips will mature at values sufficient to cover all remaining lease payments due under the lease agreement as well as amounts necessary to exercise the repurchase options. As a result, all obligations under this lease/leaseback transaction are defeased in

substance. Accordingly, the related debt and investments have been excluded from SCRRA's financial statements.

In July 2003, SCRRA entered into a restructured agreement related to the 1996 transaction (1996-A). The restructuring included 92 coach and cab cars related to the original 1996 transaction; two of the cars in the original transaction were damaged beyond repair in previous years. As a result of this 1996-A restructuring, SCRRA received proceeds of approximately $2.9 million. The total net gain of $19.1 million recognized by SCRRA from this lease/leaseback agreement was fully amortized in FY 2013.

In August 2002, SCRRA entered into a lease agreement to lease 27 railcars and 4 locomotives and simultaneously entered into a sublease agreement with the lessee to lease them back. SCRRA received proceeds of approximately $93.8 million, of which it used $75.3 million and $11.2 million for debt and equity defeasance, respectively. This amount was sufficient to cover all lease payments due under the agreements and to exercise the repurchase options. Accordingly, the related debt and investments have been excluded from SCRRA's financial statements. The gain recognized by SCRRA from the defeased lease financing agreement was approximately $6.1 million for railcars and $1.1 million for locomotives. This lease was terminated by agreement of all parties in June 2017. Therefore, the unamortized gain was fully recognized as of June 30, 2017.

Amortization for the years ended June 30, 2017 and 2016 was $3,332,878 and $205,000, respectively.

Refer to Note 12 for additional disclosure related to leveraged lease transactions.

7. UNEARNED REVENUE AND ADVANCES ON CAPITAL PURCHASES

In addition to any funds derived from operations or grants, the Member Agencies contribute the funds necessary to carry out the purposes of SCRRA, consistent with the adopted budget and any cost sharing formula adopted by the Member Agencies. A preliminary budget for the following fiscal year is submitted to the Member Agencies by May 1 of each year. The Board must adopt a final budget no later than June 30 of each year. Once SCRRA's annual budget is approved by the Board, each Member Agency pays in advance, on a quarterly basis, its annual operating subsidy. An operating surplus indicates that the operating subsidies exceed the Member Agencies' share of actual operating revenues earned and expenses incurred by SCRRA during the year. Conversely, an operating deficit indicates that the operating subsidy is less than the Member Agencies' share of actual operating revenues earned and expenses incurred by SCRRA; however, the operating deficit is not considered to be a receivable from the Member Agencies. Any operating surplus or deficit remains in unearned revenue, unless otherwise designated by the Member Agencies.

Unearned revenue also includes capital subsidies, which are advances for capital-related projects. Capital subsidies are recognized to the extent of expenses incurred. Remaining subsidies are maintained in unearned revenue until such time as expenses are incurred.

Also included within unearned revenue activity are Proposition 1B (Prop 1B) funds, California Transit Security Grant Program (CTSGP) funds, and Low Carbon Transit Operations Program (LCTOP) funds, which are treated for accounting purposes in the same manner as previously described. These funds are received through assignment from various Member Agencies or directly to SCRRA as the primary recipient. See the description of Proposition 1B, CTSGP, and LCTOP funds following the unearned revenue activity schedule.

Unearned revenue activity for the years ended June 30, 2017 and 2016, is as follows (in thousands):

	2017	2016
Unearned revenue and advances on capital projects, beginning of year	$ 53,828	$ 43,840
Subsidies invoiced:		
Operating	125,202	114,746
Public liability and property damage	16,787	18,079
Capital	7,703	2,569
Other	475	-
Subsidies recognized:		
Operating	(112,618)	(111,264)
Public liability and property damage	(16,880)	(15,909)
Capital	(14,204)	(2,642)
Other	(130)	(899)
Uses of operating surplus	(2,898)	(5,016)
Interest allocation	235	165
Adjustment –VCTC/LACMTA swap	4,316	10,159
Adjustment –VCTC/LACMTA fund exchange	5,803	-
Unearned revenue and advances on capital projects, end of year	$ 67,619	$ 53,828

Proposition 1B – The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) is a part of the State of California's Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of $19.9 billion in general obligation bonds was authorized for issuance, the proceeds of which were deposited into the PTMISEA fund for specified purposes, including grants for transit system safety, security, and disaster response projects. Of this amount, $3.6 billion was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, or rolling stock procurement, rehabilitation or replacement.

California Transit Security Grant Program – Senate Bill 88 of the 2007 Statutes appropriates funds from Proposition 1B to the California Transit Security Grant Program (CTSGP), maintained by the California Governor's Office of Emergency Services (Cal OES, formerly CalEMA), to fund grants for eligible purposes. Eligible activities include construction or renovation projects that are designed to enhance the security of public transit stations, tunnels, guideways, elevated structures, or other transit facilities and equipment.

Low Carbon Transit Operations Program – The Low Carbon Transit Operations Program (LCTOP) is one of several programs that is part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill (SB) 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Approved projects in the LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance, and other costs to operate those services or facilities. SB 862 (Statutes of 2014) appropriated $25 million for LCTOP for FY 2015 and it continuously appropriates 5% of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP beginning in FY 2016.

Proposition 1B (Prop 1B), CTSGP and LCTOP activity during the fiscal years ended June 30, 2017 and 2016, was as follows (in thousands):

	2017	2016
Unexpended funds, beginning of year	$ 37,051	$ 36,666
Funds collected	7,703	2,538
Expenses incurred	(15,176)	(2,318)
Interest revenue earned on unspent funds	234	165
Unexpended funds, end of year	$ 29,812	$ 37,051

Additional information about unearned revenue and advances on capital purchases by Member Agency is presented as Supplementary Information following the Required Supplementary Information (RSI).

8. RISK MANAGEMENT

SCRRA is exposed to various exposures related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under SCRRA's risk management program, SCRRA retains risk for up to $5.0 million for each public liability claim, up to $100,000 for each property damage claim, with a special equipment retention of $2.0 million per occurrence. Claims in excess of this amount are covered by an insurance policy up to an annual aggregate of $275.0 million. During the prior three years, no claims were incurred in excess of insurance coverage.

SCRRA is fully insured for workers' compensation claims through Liberty Mutual Insurance Co., consistent with applicable law. Construction-related accidental loss risk is transferred to SCRRA's contractors through contract agreements. During the past three years, no excess claims were incurred.

Changes in the balances of claims liabilities for the years ended June 30, 2017, 2016, and 2015, is as follows (in thousands):

	2017	2016	2015
Balance, beginning of year	$ 9,200	$ 11,225	$ 5,446
Claims incurred and changes in estimate for claims of prior periods	1,169	(1,323)	6,542
Claims payments	(69)	(702)	(763)
Balance, end of year	$ 10,300	$ 9,200	$ 11,225
Due in one year	$ 175	$ 342	$ 342
Due in more than one year	10,125	8,858	10,883
Total claims liabilities	$ 10,300	$ 9,200	$ 11,225

9. OPERATING LEASES

SCRRA is committed under various leases for building, office space, and equipment. These leases are considered for accounting purposes to be operating leases. Lease expense for the years ended June 30, 2017 and 2016, totaled $5.1 million and $7.3 million, respectively.

Following is a schedule of lease commitments for the next 5 years (dollars in thousands):

Year Ended June 30	
2018	$ 1,085
2019	1,123
2020	1,159
2021	1,113
2022	221
Total Lease Commitments	$ 4,701

In 1993, SCRRA entered into a cancelable easement agreement with Union Station providing permanent station access to pedestrians and Metrolink trains. The agreement requires SCRRA to pay a percentage of the station maintenance costs. The percentage shares for 2017 and 2016 were 51% and 47.5%, respectively.

10. RETIREMENT BENEFITS

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the SCRRA Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers.

Benefits Provided – All regular SCRRA employees classified as full-time, as well as part-time regular employees and temporary SCRRA workers who work 1,000 or more hours per year, are required to participate in CalPERS. SCRRA's pension plan provides retirement and disability benefits, annual cost-of-living adjustments (COLA), and death benefits to plan members and beneficiaries through CalPERS. Benefits are based on years of credited service, equal to one year of full-time employment, and vest after five years of service. These benefit provisions and all other requirements are established by State statute and SCRRA Board action.

SCRRA employees are entitled to an annual retirement benefit, payable monthly for life, the amount of which is based on a formula which varies depending on the employee's retirement plan, date of hire, and participation in a public retirement plan prior to SCRRA employment. On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. PEPRA distinguishes between so-called "classic" employees, who were in a public retirement plan (not necessarily CalPERS) prior to January 1, 2013, and "new" employees, who first became a member of a public retirement plan on or after January 1, 2013.

A summary of SCRRA's benefits is provided below:

	MISCELLANEOUS	
	Prior to January 1, 2013	On or After January 1, 2013
Retirement Age	60	62
Benefit Formula	2.0%	2.0%
Average Highest Compensation Period	36 months	36 months
Maximum % of Final Compensation	No max	No max
COLA	2.0%	2.0%

Covered Employees – At June 30, 2016, the most recent information available, the following employees were covered by the benefit terms for the plan:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	112
Inactive employees entitled to but not yet receiving benefits	213
Active employees	233
Total	558

Contribution Requirements – Section 20814(c) of the California Public Employees' Retirement Law requires that employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for the plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to fund the costs of benefits earned by employees during the year, with an additional amount to pay down any unfunded accrued liability. SCRRA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The required employer contribution rates for fiscal years 2017 and 2016 were 10.528% and 9.793% of covered payroll, respectively, resulting in $2.26 million and $2.08 million, respectively, being recognized by CalPERS as employer contributions.

Pension Plan Financial Reports – SCRRA's pension plan does not issue a stand-alone financial report; however, CalPERS issues an audited Schedule of Changes in Fiduciary Net Position by employer and plan, which is available at the following link: www.calpers.ca.gov.

B. Net Pension Liability

SCRRA's net pension liability for the plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the plan is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 and rolled forward to June 30, 2016 using standard update procedures.

Assumptions and Other Inputs – A summary of significant assumptions and other inputs used to measure the total pension liability is shown below:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.50% net of pension plan investment expenses; includes inflation
Retirement Age	Probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2011.
Mortality Rate Table	The mortality table was developed based on CalPERS' specific data and the CalPERS 2010 Experience Study. The table includes 5 years of mortality improvements using Society of Actuaries Scale BB.
Post-Retirement Benefit Increase	Contract COLA up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.00% thereafter.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund (Public Employee's Retirement Fund, or PERF) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board, effective on July 1, 2016.

Asset Class	Asset Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55%)	(1.05%)
Total	100.0%		

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

Fiduciary Net Position – SCRRA's pension plan does not issue stand-alone financial reports. Information about the elements of the pension plan's basic financial statements is not directly available. However, SCRRA's plan constitutes a portion of the CalPERS PERF, for which a Statement of Fiduciary Net Position – Fiduciary Funds is included in the CalPERS Comprehensive Annual Financial Report, located at the following link: www.calpers.ca.gov. The accompanying Notes to the Basic Financial Statements disclose information related to the basis of accounting, including the policies with respect to benefit payments and the valuation of pension plan investments.

C. Changes in the Net Pension Liability

A schedule of changes in the Net Pension Liability for the period ended June 30, 2017, is presented below (in thousands):

	Increase (Decrease)		
	Total Pension Liability	**Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Balance as of June 30, 2016	**$ 55,443**	**$ 48,211**	**$ 7,232**
Changes during the year:			
Service cost	2,990		2,990
Interest on total pension liability	4,233		4,233
Differences between expected and actual experience	(559)		(559)
Contributions – employer		2,084	(2,084)
Contributions – employees		1,445	(1,445)
Net investment income		245	(245)
Benefit payments, including refunds of employee contributions	(2,071)	(2,071)	
Administrative expense		(29)	29
Net changes	**4,593**	**1,674**	**2,919**
Balance as of June 30, 2017	**$ 60,036**	**$ 49,885**	**$ 10,151**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following table presents the net pension liability of SCRRA for the plan, calculated using the current discount rate for the plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

Discount rate 1% lower	6.65%
Net Pension Liability	$ 18,592
Current discount rate	**7.65%**
Net Pension Liability	**$ 10,151**
Discount rate 1% higher	8.65%
Net Pension Liability	$ 3,202

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, SCRRA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,265	$ -
Changes of assumptions	-	(552)
Differences between expected and actual experience	-	(553)
Net difference between projected and actual earnings on pension plan investments	4,305	(1,544)
Total	$ 6,570	($ 2,649)

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

June 30	Deferred Outflows/(Inflows) of Resources
2018	$ 34
2019	34
2020	940
2021	648

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Eligibility – In addition to providing the retirement benefits described above, SCRRA provides postemployment healthcare benefits. The SCRRA Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by SCRRA. The Plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System healthcare program (PEMHCA), in accordance with agreements and memoranda of understanding between SCRRA, its management employees, and unions representing SCRRA employees, to employees who retire directly from SCRRA through CalPERS at the minimum age of 50 with at least 5 years of CalPERS service or disability. The plan can be amended through action of SCRRA's Board of Directors. The number of employees currently eligible to receive the benefit has increased from 92 in the previous year to 106 in the current year. SCRRA pays 80% of the medical premium for the most extensive plan and 90% of the medical premium for all other plans to eligible retirees who retire directly from SCRRA. SCRRA does not provide retiree dental, vision, or life insurance benefits. The benefit generally ceases upon death of the retiree or surviving spouse. The

total annual required contribution for the fiscal years ended June 30, 2017 and 2016, was $2.59 million and $2.32 million, respectively. The total annual required contribution for the fiscal years ended June 30, 2017 and 2016 was based on the June 30, 2015 and June 30, 2013 actuarial valuations, respectively.

SCRRA's Retiree Healthcare Plan does not issue stand-alone financial reports. Information about the elements of the plan's basic financial statements is not directly available. However, SCRRA's plan constitutes a portion of the CalPERS California Employers' Retiree Benefit Trust (CERBT), which is included in the CalPERS Comprehensive Annual Financial Report, located at the following link: https://www.calpers.ca.gov/docs/forms-publications/cafr-2016.pdf.

Funding Policy – Prior to FY 2014, SCRRA paid retiree healthcare benefits on a pay-as-you go basis. For fiscal years 2017 and 2016, current benefit payments were approximately $973,000 (including an implied subsidy of $170,000) and $731,000, respectively. In fiscal years 2017 and 2016, SCRRA contributed $1.62 million and $1.59 million, respectively, towards postemployment healthcare benefits administrated by CalPERS in the California Employers' Retiree Benefit Trust (CERBT), a Section 115 trust fund dedicated to prefunding other postemployment benefits for all eligible California public agencies. These contributions brought the total contributed up to the annual required contribution (ARC) of $2.59 million and $2.32 million, respectively. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

Annual OPEB Cost and Net OPEB Obligation – SCRRA's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of SCRRA's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in SCRRA's net OPEB obligation for these benefits (in thousands):

	2017	2016
Annual required contribution (ARC)	$ 2,590	$ 2,322
Interest on net OPEB obligation	883	924
Adjustment to annual required contribution	(886)	(886)
Annual OPEB cost	2,587	2,360
Annual benefit payments	(973)	(731)
Contribution to trust	(1,617)	(1,591)
Total contributions	(2,590)	(2,322)
Net (decrease) increase in net OPEB obligation	(3)	38
Net OPEB obligation, beginning of year	12,178	12,140
Net OPEB obligation, end of year	$ 12,175	$ 12,178

SCRRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 and the two preceding years are as follows (in thousands):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 2,310	97.4%	$ 12,140
2016	2,360	98.4%	12,178
2017	2,587	100.1%	12,175

The funded status of the plan as of June 30, 2015, the plan's most recent actuarial valuation date, was as follows (in thousands):

Actuarial accrued liability (AAL)	$ 19,682
Actuarial value of plan assets	(3,170)
Unfunded actuarial accrued liability (UAAL)	$ 16,512
Covered payroll (active plan members)	$ 22,966
Funded ratio (actuarial value of plan assets/AAL)	16.1%
UAAL as a percentage of covered payroll	71.9%

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 2015 actuarial valuation that determined the annual required contribution for FY 2017, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.25% investment rate of return (net of administrative expenses) and a 3% general inflation assumption. Premiums were assumed to increase annually with an increase rate of 7.0% for non-Medicare and 7.2% for Medicare for 2017, both grading down to 5% for 2021 and thereafter. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over a closed 21-year period. There is no assumed post-employment benefit increase.

12. COMMITMENTS AND CONTINGENCIES

Litigation – SCRRA is a defendant in various lawsuits. Although the ultimate outcome of these lawsuits is not presently determinable, in the opinion of SCRRA's legal counsel, the resolution of these matters will not have a material adverse effect on SCRRA's financial condition.

Grant Adjustments – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although SCRRA expects such amounts, if any, to be immaterial.

Service and Maintenance Agreements – SCRRA's operator services are provided by National Railroad Passenger Corporation (Amtrak). The current agreement expires June 2020.

SCRRA's rolling stock is maintained through the use of an equipment maintenance agreement with an independent contractor (Bombardier, Inc.). The eight-year agreement awarded to Bombardier, Inc. expires June 2025.

SCRRA maintains infrastructure through various maintenance agreements with independent contractors. The track and structures are maintained under an agreement with Veolia Transportation Maintenance and Infrastructure, Inc. (VTMI), which expires December 2018. Communications and signals are maintained under an agreement with Mass Electric Communications, which expires June 2020.

Leveraged Lease Transactions – From April 1996 through July 2003, SCRRA executed four leveraged lease transactions, commonly known as Lease-in/Lease-out (LILO) transactions (Note 6). These transactions require SCRRA to maintain certain investment vehicles and credit facilities and replace them or provide replacement credit enhancement upon their credit rating downgrade below specified levels. American International Group, Inc. (AIG), a global diversified financial company, is the provider of defeasance for three of the four transactions. On September 15, 2008, AIG's credit ratings were downgraded to A2 by Moody's and A- by Standard & Poor's.

For the three lease transaction vehicles, AIG provided credit assurance to the equity investors in the form of guaranteed investment contracts (GICs) and/or letters of credit. All three contracts require that SCRRA replace AIG when its credit ratings drop below AA. Various equity investors around the country have taken the position that failure to successfully replace these credit facilities on a timely basis constitutes an "event of default" under the agreements. SCRRA has been receiving a rolling six-month extension from one equity investor, while the other two equity investors have not taken an affirmative position on the current situation and have not required SCRRA to cure the "event of default." At this time, SCRRA has no information indicating that any of its equity investors intend to exercise any of the contractual remedies based upon asserted events of default involving the AIG credit rating downgrade. In the event that the equity investors do exercise any of their contractual remedies, SCRRA would be required, at a minimum, to liquidate the underlying equity securities for the benefit of the equity investors. SCRRA's exposure beyond the liquidated value of the securities as of June 30, 2017 and 2016, was approximately $10.1 million and $37.3 million, respectively. The equity investors hold SCRRA rolling stock as collateral, which could be utilized to satisfy the potential obligation by liquidating the rolling stock tied to these agreements in order to satisfy any demand by the equity investors.

13. RELATED PARTY TRANSACTIONS

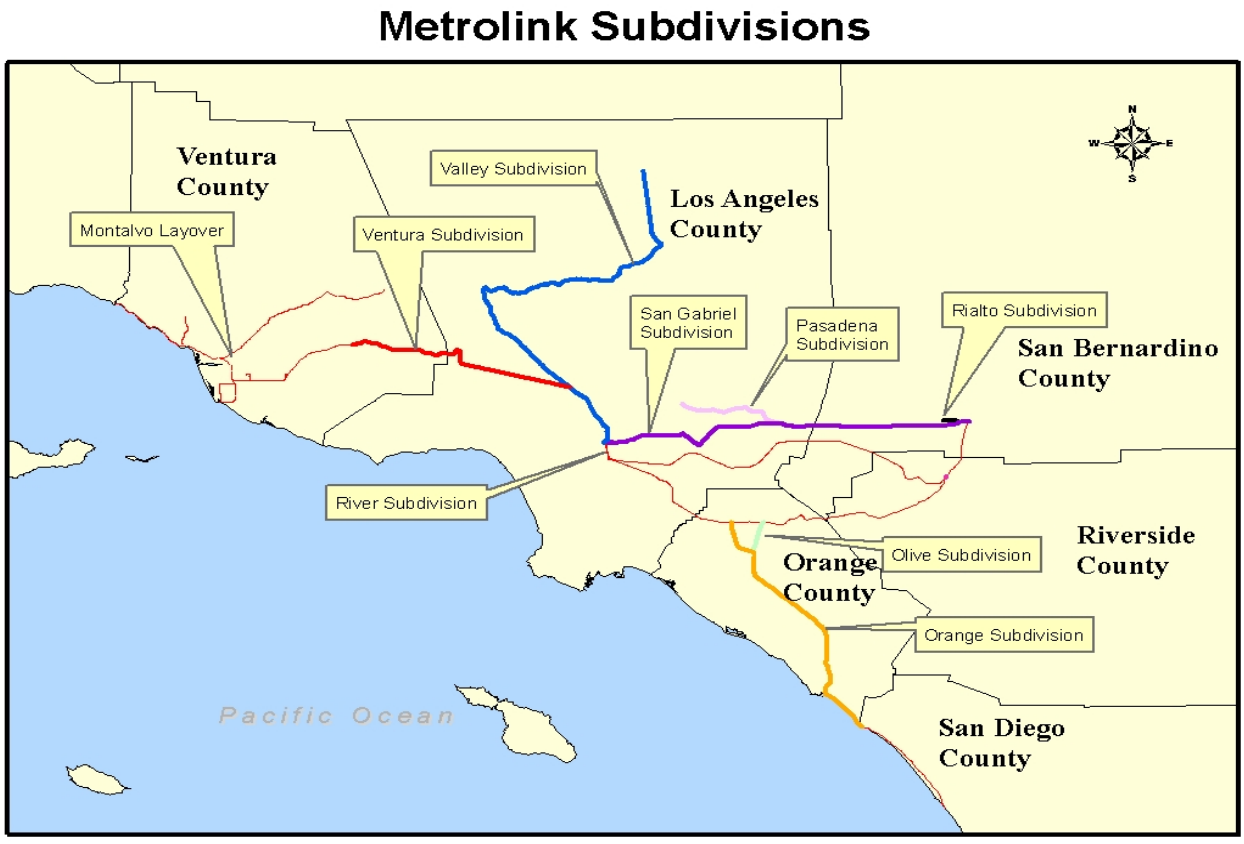
Member Agencies under the Joint Powers Agreement (LACMTA, OCTA, VCTC, RCTC, and SBCTA) contribute operating subsidies to SCRRA. SCRRA's independent governing Board consists of 11 members appointed by the Member Agencies (see notes 3, 5, and 7).

The operating subsidies invoiced by SCRRA for the years ended June 30, 2017 and 2016, were $125.2 million and $114.7 million, respectively. Self-insurance reserve subsidies invoiced by SCRRA for the years ended June 30, 2017 and 2016, were $16.8 million and $18.1 million, respectively. Capital subsidies invoiced by SCRRA for the years ended June 30, 2017 and 2016, were $7.7 million and $2.6 million, respectively.

1. THE METROLINK RAILROAD NETWORK

GASB 34 defines and distinguishes infrastructure assets as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. As part of the Joint Exercise of Powers Agreement (JPA), the Member Agencies acquired the rail network in existence at the time of the JPA for use in Metrolink commuter rail operations. This railroad network is not included as part of Metrolink's railroad network capital assets. The Member Agencies retain title and ownership to those assets. As part of the JPA, Metrolink is responsible for the related maintenance and operation of members' assets and rail right-of-way used in operations. In addition, certain members retain responsibility to maintain non-operating segments of their railroad network. Metrolink's infrastructure consists of capital assets created as a result of new capital construction and major capital improvement projects, and includes 534 miles of track, 893 bridges and tunnels, and 695 signal and communication devices. The service area for this network covers approximately 2,300 square miles with a population of more than 20 million.

As shown below, the Metrolink railroad network expands over a six-county Southern California area:



A. Modified Approach for Infrastructure

SCRRA has elected to use the modified approach in reporting its Metrolink railroad network. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as two requirements are met. *First,* the government manages the eligible infrastructure assets using an asset management system that has the following characteristics:

- Have an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets every three years and summarize the results using a measurement scale
- Estimate each year the annual amount necessary to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Second, the government must document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

The condition of the railroad network is measured using the SCRRA Railroad Management System Assessment. The networks and subsystems are track, structures, bridges, tunnels, signals, and communications.

The SCRRA Board of Directors accepted the findings of the completed Railroad Management System Assessment performed in FY 2003 and adopted a condition rating of 75 points as the minimum acceptable Railroad Condition Index (RCI) for the entire railroad network (including all subsystems). The system-wide condition assessment conducted as of the fiscal years ended June 30, 2017 and 2016, resulted in an overall rating of 78 points and 79 points, respectively. This is in compliance with SCRRA's adopted condition rating of 75 points as the minimum acceptable Railroad Condition Index (RCI) rating for the entire network (including subsystems).

B. Condition Assessment Data

Governmental accounting standards require that a condition assessment be performed on all infrastructure assets every three years. As an approved alternative to conducting a system-wide assessment every three years, SCRRA has chosen to conduct an annual condition assessment of one-third of its infrastructure assets so that all infrastructure assets will be reviewed over the three-year assessment period.

C. Basis for Condition Measurement and Measurement Scale

1. Track

SCRRA owns and maintains over three hundred miles of track over a five-county area. The track is comprised of five components. Each of the components within a given track segment is given a condition assessment. The components include rail, crossties,

crossings, embankments, and turnouts (TOs). All of these components added together equal 100 points.

Rail is assigned a 30% weighting in the overall condition of the track. The scale is based on the years remaining to replace the asset, as identified below. A total of 30 points is available for rail.

Replacement Years Remaining	Points
20+	30
10-20	25
5-10	20
3- 5	15
1- 3	10
0- 1	2

Crossties are assigned a 25% weighting in the overall condition of the track. There are 3,250 wood ties in one mile of track. This scale is based on the estimated number of defective ties within a given track mile. A total of 25 points is available for crossties.

Defective Ties per Mile	Points
0- 400	25
401- 800	21
801-1,200	18
1,201-1,500	13
1,501-1,800	10
1,801-3,250	3

Turnouts (TOs) are assigned a 15% weighting in the overall condition of the track. This scale is based on the estimated remaining years of life of the turnout. A total of 15 points is available for turnouts.

Replacement Years Remaining	Points
20+	15
15	13
10	11
5	8
0-4	4

Crossings are assigned a 15% weighting in the overall condition of the track. This scale is based on the estimated remaining years of life of the crossing. A total of 15 points is available for crossings.

Replacement Years Remaining	Points
20+	15
15	13
10	11
5	8
0-4	4

Embankments are assigned a 15% weighting in the overall condition of the track. This scale is based on the condition of the embankment. A total of 15 points is available for embankments.

Condition	Points
Good	15
Minor Maintenance	13
Fouling Ballast – drainage	11
Narrow but stable	8
Instabilities, inefficient drainage	4

Each of these components of the track is assigned a numerical value based upon the scales as identified above. Each track segment has a total possible point value of 100. SCRRA determines the condition of the track by segment, subdivision, and as a whole based upon the track scale identified below.

Excellent (90-100) – A track segment that exhibits no conditions of wear or degradation and is suitable for continued use for more than five years with only routine inspection and repair; essentially a "like new" condition.

Good (80-89) – A track segment that has some components that will require repair or replacement within the next five years, but is expected to be fully serviceable for the next five years.

Fair (70-79) – A track segment that is in serviceable condition at the time of rating, but will require rehabilitation of two or more components within five years.

Poor (60-69) – A track segment that is operating at less than full capability (e.g., speed restriction) due to maintenance conditions and will require rehabilitation of at least one component before becoming fully operational.

Based on the condition assessment as of the year ended June 30, 2016, the most recent assessment, the track had an average rating of 70 points, or "Fair."

2. STRUCTURES

SCRRA owns and maintains structures on which the rail system operates. The structures are split into two categories: bridges and tunnels.

a. Bridges – Bridges are assigned a point value of 0 to 100 based on the condition of the bridge, as identified in the table below.

Condition	Points
No defects	90-100
Minor repairs, completely functional	90
Some corrosion or erosion	80
Corrosion or damage to be repaired in 1-2 years	73
Corrosion or erosion damage	65

Each bridge is assigned a point value and graded based on the bridge scale noted below.

Excellent (90-100) – A bridge that exhibits no defects or wear, and will require only inspections and routine repairs for the next five plus years; essentially a "like new" condition. A bridge fully compliant with current American Railway Engineering and Maintenance of Way Association (AREMA) seismic ratings would be rated 95 or higher. A bridge compliant with recent past AREMA ratings could be rated between 90 and 95.

Good (80-89) – A bridge that displays some minor indications of wear, damage, corrosion, or erosion, but is judged to only require inspections and routine repairs and not require rehabilitation for the next five to ten years. A "Good" bridge may need seismic retrofit at some time in the future, depending upon current AREMA rating criteria, but is not at risk according to recent past criteria or practical experience.

Fair (70-79) – A bridge that, while fully serviceable, exhibits some indications of corrosion, erosion, damage, or wear to the extent that it will require rehabilitation of some components within the next five years. Also, a bridge that requires strengthening for load capacity or seismic capacity.

Poor (60-69) – A bridge that will require repairs or rehabilitation within the next one to two years in order to prevent de-rating of load capacity or train speed.

Critical (59 or below) – A bridge that is not operating at full capacity (e.g., load or speed restriction) due to damage or obsolescence, and needs rehabilitation or replacement in order to be fully functional.

There are a total of 836 bridges owned and maintained by SCRRA. Based on the condition assessment as of the year ended June 30, 2016, the bridges had an average rating of 76 points, or "Fair."

b. Tunnels – SCRRA owns and maintains six tunnels. Each tunnel is assigned a 100-point value prior to its assessment to determine its condition. Based on a variety of factors, points are deducted if structural problems exist based on the scale identified below.

Condition	Points
No defects	0
Lack of seismic reinforcement	-20
Timber lining	-20
Drainage problem	-15
Other structural problem	-10

For example, a tunnel that has a lack of seismic reinforcement and timber lining would receive a rating of 60. The tunnel scale is defined below.

Excellent (90-100) – A tunnel that exhibits no defects or wear, and will require only inspections and routine repairs for the next five plus years; essentially a "like new" condition. A tunnel fully compliant with current AREMA seismic ratings would be rated 95 or higher. A tunnel compliant with recent past AREMA ratings could be rated between 90 and 95.

Good (80-89) – A tunnel that displays some minor indications of wear, damage, corrosion, or erosion, but is judged to only require inspections and routine repairs, and not require rehabilitation for the next five to ten years. A "Good" tunnel may need seismic retrofit at some time in the future, depending upon current AREMA rating criteria, but is not at risk according to recent past criteria or practical experience.

Fair (70-79) – A tunnel that, while fully serviceable, exhibits some indications of corrosion, erosion, damage, or wear to the extent that it will require rehabilitation of some components within the next five years. Also, a tunnel that requires strengthening for load capacity or seismic capacity.

Poor (60-69) – A tunnel that will require repairs or rehabilitation within the next one to two years in order to prevent de-rating of load capacity or train speed.

Critical (59 or below) – A tunnel that is not operating at full capacity (e.g., load or speed restriction) due to damage or obsolescence, and needs rehabilitation or replacement in order to be fully functional.

Based on the condition assessment as of the year ended June 30, 2016, the most recent assessment, the tunnel subsystem had an average rating of 82 points, or "Good."

3. SIGNALS AND COMMUNICATIONS

SCRRA owns and maintains a wide variety of signal and communication equipment. Each piece of equipment is identified by subdivision. Other information provided includes location and milepost, a description of the equipment, and the date of installation. The condition assessment scale is identified below.

Rating	Points
Excellent	90-100
Good	80- 89
Fair	70- 79
Poor	60- 69
Critical	59 and below

Excellent (90-100) – Signal and communications equipment that exhibits no condition of wear or degradation and is suitable for continued use for more than five years with only routine inspection and repair; essentially a "like new" condition. Equipment in this category has no defects that would affect system operation or system integrity.

Good (80-89) – Signal and communications equipment that has some components that will require repair or replacement within the next five years, but is expected to be fully serviceable for the next five years. For example, obvious visual defects and minor electronic equipment failures may exist due to usage.

Fair (70-79) – Signal and communications equipment that will be in serviceable condition at the time of rating, but will require rehabilitation of major components within five years. For example, electronic equipment, enclosures, and warning device appurtenances will need replacement or rehabilitation.

Poor (60-69) – Signal and communications equipment that are in serviceable condition at the time of rating, but will require rehabilitation of major components within one year. Potential non-compliant issues with regulatory agencies may exist.

Critical (59 or below) – Signal and communications equipment that has major components which will require replacement to offset system operation and integrity failures. The location will require immediate major rehabilitation work.

SCRRA owns and maintains 656 signal and communication devices. Based on the condition assessment as of the year ended June 30, 2017, the communication devices had an average rating of 86 points, or "Good."

D. Estimated Maintenance and Preservation Costs

To ensure consistency in reporting, effective 2012, management prepared a five-year strategic capital program plan to more discretely identify the minimum annual costs required to maintain or preserve its infrastructure assets. The minimum rating of 75 points is SCRRA's adopted condition rating of the Railroad Condition Index (RCI).

The estimated and actual annual amounts of infrastructure maintenance and preservation costs needed to achieve the minimum railroad condition index standard, which include maintenance-of-way, rehabilitation, and renovation capital expenses, for the past 5 years are as follows (in thousands):

Year Ended June 30	Estimated Amount	Actual Amount
2017	$ 67,643	$ 55,817
2016	94,982	59,092
2015	73,220	45,681
2014	56,029	42,789
2013	36,628	42,156

The total estimated annual amount of infrastructure maintenance and preservation costs for fiscal year ending June 30, 2018 is $117,106,000.

2. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Following is a schedule of changes in net pension liability (in thousands) and related ratios:

	2017	2016	2015
Total Pension Liability			
Service cost	$ 2,990	$ 2,930	$ 2,687
Interest on total pension liability	4,233	3,904	3,572
Difference between expected and actual experience	(559)	(218)	-
Change in assumptions	-	(994)	-
Change in benefits	-	-	-
Benefit payments, including refunds of employee contributions	(2,071)	(1,895)	(1,633)
Net change in total pension liability	4,593	3,727	4,626
Total pension liability, beginning	55,443	51,716	47,090
Total pension liability, ending (a)	$ 60,036	$ 55,443	$51,716
Plan Fiduciary Net Position			
Contributions – employer	$ 2,084	$ 1,807	$ 1,674
Contributions – employee	1,445	1,338	1,262
Net investment income	245	1,039	6,747
Benefit payments	(2,071)	(1,895)	(1,633)
Administrative expense	(29)	(54)	-
Net change in plan fiduciary net position	1,674	2,235	8,050
Plan fiduciary net position, beginning	48,211	45,976	37,926
Plan fiduciary net position, ending (b)	$ 49,885	$ 48,211	$ 45,976
Net pension liability, ending (a) – (b)	$ 10,151	$ 7,232	$ 5,740
Plan fiduciary net position as a percentage of total pension liability	83.09%	86.96%	88.90%
Covered payroll	$ 20,506	$ 19,658	$ 17,547
Net pension liability as a percentage of covered payroll	49.51%	36.79%	32.71%

Benefit changes – The amounts above do not include any liability impact that may have resulted from plan changes that occurred after June 30, 2015. This applies for voluntary benefit changes, as well as any offers of Two Years Additional Service Credits (a.k.a. Golden Handshakes).

Change in assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date (for use in FY 2015) was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date (for use in FY 2016) is without reduction of pension plan administrative expense.

Because GASB Statement No. 68 was implemented in FY 2015, it is not possible to present a 10-year comparison of changes in net pension liability and related ratios.

3. SCHEDULE OF CONTRIBUTIONS

Following is a schedule of contributions (in thousands):

	2017	2016	2015
Actuarially determined employer contribution	$ 2,265	$ 2,084	$ 1,807
Contributions in relation to the actuarially determined contributions	(2,265)	(2,084)	(1,807)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 21,513	$ 20,506	$ 19,658
Contributions as a percentage of covered payroll	10.53%	10.16%	9.19%

The actuarial methods and assumptions used to set the actuarially determined contributions for the June 30, 2016 measurement date were from the June 30, 2015 actuarial valuation. Information about that valuation is presented below:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.65% net of pension plan investment expenses; includes inflation.
Retirement Age	Probabilities of retirement are based on the CalPERS Experience Study for the period from 1997 to 2011.
Mortality Rate Table	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

4. SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT HEALTHCARE PLAN

The scheduling of funding progress below shows the recent history of the actuarial value of the assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll (in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/11	$ -	$ 11,277	$ 11,277	0%	$ 20,342	55.4%
06/30/13	-	14,106	14,106	0%	21,686	65.0%
06/30/15	3,170	19,682	16,512	16.1%	22,966	71.9%

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SUPPLEMENTARY INFORMATION
(UNAUDITED)

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UNEARNED REVENUE AND ADVANCES ON CAPITAL PURCHASES

In addition to any funds derived from operations or grants, the Member Agencies contribute the funds necessary to carry out the purposes of SCRRA, consistent with the adopted budget and any cost sharing formula adopted by the Member Agencies. A preliminary budget for the following fiscal year is submitted to the Member Agencies by May 1 of each year. The Board must adopt a final budget by no later than June 30 of each year. Once SCRRA's annual budget is approved by the Board, each Member Agency pays in advance, on a quarterly basis, its annual operating subsidy. An operating surplus indicates that the operating subsidies exceed the Member Agencies' share of actual operating revenues earned and expenses incurred by SCRRA during the year. Conversely, an operating deficit indicates that the operating subsidy is less than the Member Agencies' share of actual operating revenues earned and expenses incurred by SCRRA; however, the operating deficit is not considered to be a receivable from the Member Agencies. Any operating surplus or deficit remains in unearned revenue, unless otherwise designated by the Member Agencies.

Unearned revenue also includes capital subsidies, which are advances for capital-related projects. Capital subsidies are recognized to the extent of expenses incurred. Remaining subsidies are maintained in unearned revenue until such time as expenses are incurred.

Also included within unearned revenue activity are Proposition 1B (Prop 1B) funds, California Transit Security Grant Program (CTSGP) fund, and Low Carbon Transit Operations Program (LCTOP) funds, which are treated for accounting purposes in the same manner as previously described. These funds are received through assignment from various Member Agencies or directly to SCRRA as the primary recipient. See the description of Proposition 1B, CTSGP, and LCTOP funds following the unearned revenue activity schedule.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Supplementary Information (Unaudited)
For the year ended June 30, 2017

Unearned revenue activity for the years ended June 30, 2016 and 2017, is as follows (in thousands):

	LACMTA	OCTA	RCTC	SBCTA	VCTC	OTHER	TOTAL
Unearned revenue, June 30, 2015	**$ 10,351**	**$ 5,808**	**$ 435**	**$ 3,886**	**($ 14,714)**	**$ 38,074**	**$ 43,840**
Subsidies invoiced:							
Operating	62,169	24,270	13,244	12,001	3,062	-	114,746
Public liability and property damage	9,627	4,257	1,342	2,153	700	-	18,079
Capital	-	31	-	-	-	2,538	2,569
Subsidies recognized:							
Operating	(57,997)	(21,228)	(12,618)	(11,164)	(8,257)	-	(111,264)
Public liability and property damage	(8,472)	(3,746)	(1,181)	(1,894)	(616)	-	(15,909)
Capital	(1,385)	(145)	-	(124)	(26)	(962)	(2,642)
Other	-	-	-	-	-	(899)	(899)
Uses of operating surplus	(3,014)	(2,002)	-	-	-	-	(5,016)
Interest allocation	8	-	-	1	1	155	165
Adjustments – FY 2015 VCTC/LACMTA swap	-	-	-	-	10,159	-	10,159
Unearned revenue, June 30, 2016	**$ 11,287**	**$ 7,245**	**$ 1,222**	**$ 4,859**	**($ 9,691)**	**$ 38,906**	**$ 53,828**
Subsidies invoiced:							
Operating	63,009	24,232	16,117	12,887	8,957	-	125,202
Public liability and property damage	8,989	4,062	1,228	1,954	554	-	16,787
Capital	-	-	-	-	-	7,703	7,703
Other	475	-	-	-	-	-	475
Subsidies recognized:							
Operating	(57,458)	(20,782)	(14,442)	(11,203)	(8,733)	-	(112,618)
Public liability and property damage	(9,039)	(4,085)	(1,234)	(1,965)	(557)	-	(16,880)
Capital	182	920	(31)	517	(63)	(15,729)	(14,204)
Other	4	-	-	-	-	(134)	(130)
Uses of operating surplus	(385)	(1,682)	(831)	-	-	-	(2,898)
Interest allocation	9	-	-	2	1	223	235
Adjustment – FY16 expense reallocation	(198)	(80)	181	(174)	271	-	-
Adjustment – VCTC/LACMTA swap	-	-	-	-	4,316	-	4,316
Adjustment – VCTC/LACMTA fund exchange	-	-	-	-	5,803	-	5,803
Unearned revenue, June 30, 2017	**$ 16,875**	**$ 9,830**	**$ 2,210**	**$ 6,877**	**$ 858**	**$ 30,969**	**$ 67,619**

Proposition 1B – The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) is a part of the State of California's Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of $19.9 billion in general obligations bonds was authorized for issuance, the proceeds of which were deposited into the PTMISEA fund for specified purposes, including grants for transit system safety, security, and disaster response projects. Of this amount, $3.6 billion of which was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, or rolling stock procurement, rehabilitation or replacement.

California Transit Security Grant Program – Senate Bill 88 of the 2007 Statutes appropriates funds from Proposition 1B to the California Transit Security Grant Program (CTSGP), maintained by the California Governor's Office of Emergency Services (Cal OES, formerly CalEMA), to fund grants for eligible purposes. Eligible activities include construction or renovation projects that are designed to enhance the security of public transit stations, tunnels, guideways, elevated structures, or other transit facilities and equipment.

Low Carbon Transit Operations Program – The Low Carbon Transit Operations Program (LCTOP) is one of several programs that is part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill (SB) 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Approved projects in the LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance, and other costs to operate those services or facilities. SB 862 (Statutes of 2014) appropriated $25 million for LCTOP for FY 2015 and it continuously appropriates 5% of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP beginning in FY 2016.

Proposition 1B (Prop 1B), CTSGP and LCTOP activity during the fiscal years ended June 30, 2017 and 2016, was as follows (in thousands):

	PTMISEA						CTSGP	LCTOP	
	LACMTA	OCTA	RCTC	SBCTA	VCTC	SCRRA	SCRRA	SCRRA	TOTAL
Unexpended funds June 30, 2015	**$ 2,121**	**$ -**	**$ -**	**$ 309**	**$ 181**	**$ 29,460**	**$ 4,595**	**$ -**	**$ 36,666**
Funds collected	-	-	-	-	-	-	-	2,538	2,538
Costs incurred	(1,206)	-	-	(124)	(26)	(651)	(311)	-	(2,318)
Interest revenue on unspent funds	8	-	-	1	1	130	22	3	165
Unexpended funds, June 30, 2016	**$ 923**	**$ -**	**$ -**	**$ 186**	**$ 156**	**$ 28,939**	**$ 4,306**	**$ 2,541**	**$ 37,051**
Funds collected	-	-	-	-	-	-	7,703	-	7,703
Costs incurred	241	-	-	(1)	(64)	(10,262)	(3,340)	(1,750)	(15,176)
Interest revenue on unspent funds	9	-	-	2	1	193	18	11	234
Unexpended funds, June 30, 2017	**$ 1,173**	**$ -**	**$ -**	**$ 187**	**$ 93**	**$ 18,870**	**$ 8,687**	**$ 802**	**$ 29,812**

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STATISTICAL

METROLINK TAKES CARS OFF THE FREEWAYS

METROLINK
25
KEEPING SOCAL'S FUTURE ON TRACK.

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statistical Section Overview

This section of the Southern California Regional Rail Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Contents **Page**

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time. 63

REVENUE CAPACITY

These schedules contain information to help the reader assess the Authority's most significant revenue sources, capital contributions, fares, and member operating subsidies. 66

DEMOGRAPHIC AND ECONOMIC INFORMATION

This schedule offers demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place. 68

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs. 69

Changes in Net Position, Net Positions by Component and Percentages of Operating Costs Covered by Revenues

Last Ten Fiscal Years

(Dollar Amounts in Thousands)

	Years ended June 30									
	2017*	2016*	2015*	2014*	2013*	2012*	2011	2010	2009	2008
Change in net position/net assets:										
Net position/net assets at beginning of year	$ 1,382,143	$ 1,363,761	$ 1,362,880	$ 1,315,972	$ 1,240,785	$ 1,122,909	$ 1,003,971	$ 883,540	$ 811,956	$ 765,926
Increase in net position/net assets	5,817	18,382	881	46,908	75,187	117,876	118,938	120,431	71,584	46,030
Net position/net assets at end of year	$ 1,387,960	$ 1,382,143	$ 1,363,761	$ 1,362,880	$ 1,315,972	$ 1,240,785	$ 1,122,909	$ 1,003,971	$ 883,540	$ 811,956
Net position/net assets by component:										
Net investment in capital assets	$ 1,368,157	$ 1,362,625	$ 1,338,723	$ 1,336,221	$ 1,293,357	$ 1,183,590	$ 1,084,887	970,148	847,802	777,488
Unrestricted	19,803	19,518	25,038	26,659	22,615	57,195	38,022	33,823	35,738	34,468
% of Operating costs covered by revenues and operating grants. Operating costs are net of depreciation, gas tax, third-party agreements, rehabiliation and renovation-capital and rolling stock lease.	42.65%	44.80%	48.41%	52.32%	52.49%	56.54%	56.87%	57.97%	54.97%	60.43%

* Net assets replaced with net position as a result of GASB 63 implementation in fiscal year 2012-2013.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Table of Revenues, Expenses, and Changes in Net Position

Last Ten Fiscal Years

(Dollar Amounts in Thousands)

	Years ended June 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating revenues:										
Fares	$ 83,398	$ 84,506	$ 83,111	$ 85,673	$ 84,360	$ 79,986	$ 74,171	$ 69,343	$ 73,057	$ 69,892
Dispatching	2,078	2,194	2,516	2,488	2,598	2,957	3,079	3,071	3,111	3,050
Third-party agreements	17,503	26,951	21,355	26,676	28,630	26,548	11,183	20,642	17,407	16,427
Maintenance of way revenues	12,387	12,437	12,991	11,726	14,299	13,432	12,902	11,875	11,107	10,595
Gas tax revenue	-	-	-	1,684	10,101	10,235	10,300	8,484	7,832	8,100
Public liability and property damage recovery	5	576	3,183	3,164	40	32	76	82	380	218
Interest and other income	303	568	2,172	393	352	375	368	823	478	583
Total operating revenues	$ 115,674	$ 127,232	$ 125,328	$ 131,804	$ 140,380	$ 133,565	$ 112,079	$ 114,320	$ 113,372	$ 108,865
Nonoperating revenues:										
Member agency operating subsidies	$ 112,711	$ 111,264	$ 94,632	$ 80,972	$ 71,503	$ 59,080	$ 59,151	57,446	55,612	45,249
Member agency self insurance reserve	$ 16,787	$ 15,909	15,625	16,273	18,066	17,850	19,612	21,217	15,479	10,822
Insurance recoveries	-	-	-	-	-	-	-	-	2,500	-
Operating grants	-	-	-	-	-	-	-	-	135	328
Net gain (loss) on disposal of capital assets	16	(256)	(1,895)	(603)	-	-	127	-	(1,624)	35
Interest and other income	3,117	(144)	727	1,771	1,202	1,068	1,285	2,512	1,508	3,396
Total nonoperating revenues	$ 132,631	$ 126,773	$ 109,089	$ 98,413	$ 90,771	$ 77,998	$ 80,175	$ 81,175	$ 73,610	$ 59,830
Capital grants and subsidies	$ 71,836	$ 82,270	$ 56,485	$ 86,203	$ 119,722	$ 173,476	$ 199,238	188,336	136,656	84,875
Operating expenses:										
Train operations and support	$ 175,618	$ 172,310	$ 158,796	$ 151,575	$ 147,556	$ 129,860	$ 120,297	$ 115,248	$ 120,680	$ 106,730
Maintenance of way	38,596	39,558	34,230	29,867	29,313	24,127	30,687	24,289	22,931	23,340
Rehabilitation and renovation - capital	20,815	25,406	23,236	11,782	11,214	34,282	66,941	57,209	54,135	32,604
Gas tax expense	-	-	-	1,684	10,101	10,235	10,300	8,484	7,832	8,100
Third-party agreements	19,602	24,864	19,031	26,607	29,779	26,561	11,460	19,345	17,641	17,088
Insurance and liability claims	12,215	10,311	19,142	15,100	15,050	17,520	12,826	19,263	14,231	9,211
Public liability and property damage	3,775	1,686	2,600	1,173	1,746	1,848	1,466	2,130	4,252	1,961
Depreciation & amortization	43,703	43,758	26,646	31,724	30,927	22,730	18,577	17,432	10,352	8,506
Total operating expenses*	$ 314,324	$ 317,893	$ 283,681	$ 269,512	$ 275,686	$ 267,163	$ 272,554	$ 263,400	$ 252,054	$ 207,540
Increase in net position	5,817	18,382	7,221	46,908	75,187	117,876	118,938	120,431	71,584	46,030
Cumulative effect of change in accounting principal**	-	-	(6,340)	-	-	-	-	-	-	-
Fares as a percentage of total operating revenues	72.1%	66.4%	66.3%	65.0%	60.1%	59.9%	66.2%	60.7%	64.4%	64.2%

* In compliance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* , capital grants are included as a separate component after nonoperating revenue.

** The Cumulative effect of change in accounting principal is due to the implementation of GASB 68.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Sources of Capital Contributions

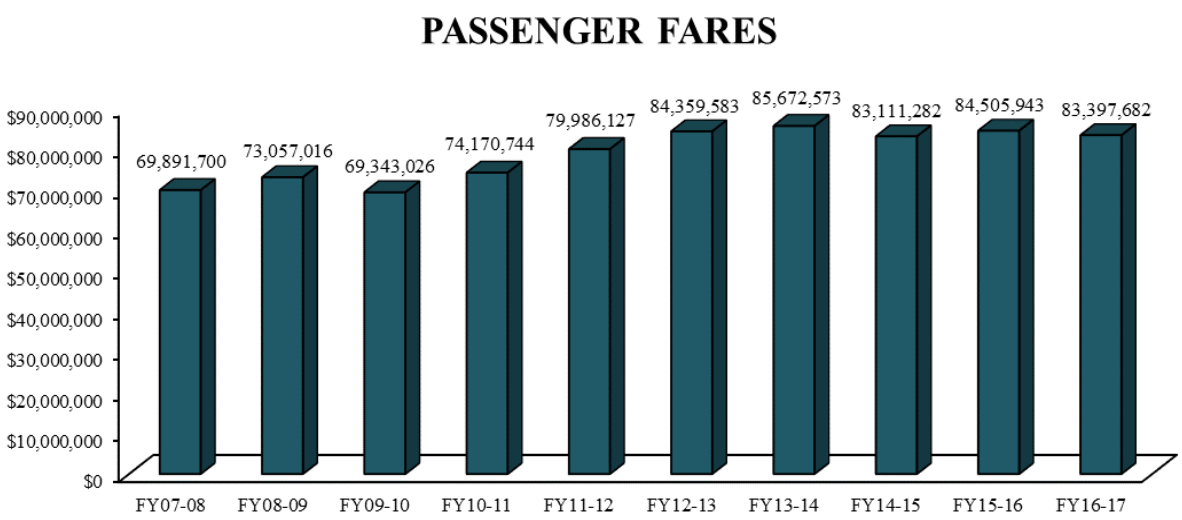
Last Ten Fiscal Years

(Dollar Amounts in Thousands)

	Years ended June 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Amtrak	$ -	$ -	$ -		$ -	$ -	$ -	$ 164	$ 62	$ 46
FEMA, FHWA	80	(57)	3,400	6,518	12,513	4,435	5,389	-	-	-
Federal Transit Administration	15,758	31,734	15,862	15,700	9,669	26,800	16,968	34,999	50,491	29,182
State of California	37,213	29,997	28,620	43,594	70,046	86,062	40,767	25,674	19,602	14,990
L.A.C. Metropolitan Transportation Authority	16,066	10,264	4,127	14,601	20,442	8,507	16,631	37,597	26,611	21,391
Orange County Transportation Authority	656	119	1,331	2,495	(579)	41,599	104,915	83,223	32,933	15,696
Riverside County Transportation Commission	368	-	836	162	12,586	40	2,385	177	200	93
San Bernardino County Transportation Authority	907	426	631	348	539	1,059	4,161	1,841	2,403	1,508
Ventura County Transportation Commission	-	(1)	2	-	22	31	311	99	(40)	190
Other capital (CMAQ, AQMD, FRA)	788	9,788	1,676	2,785	847	4,943	7,711	4,563	4,393	1,779
Total capital contributions	**$ 71,836**	**$ 82,270**	**$ 56,485**	**$ 86,203**	**$ 126,085**	**$ 173,476**	**$ 199,238**	**$ 188,337**	**$ 136,655**	**$ 84,875**

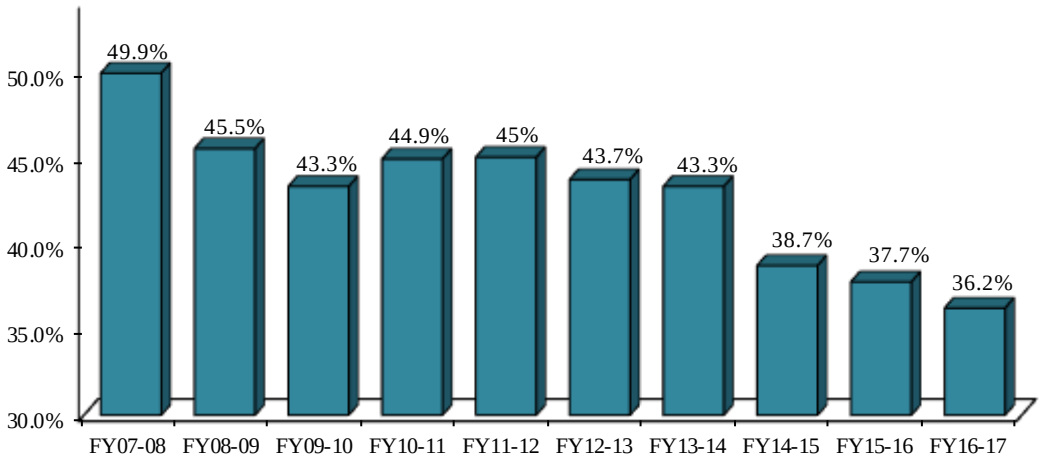
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Passenger Fares and Farebox Recovery Ratio

PASSENGER FARES: 2007-08 THROUGH 2016-17



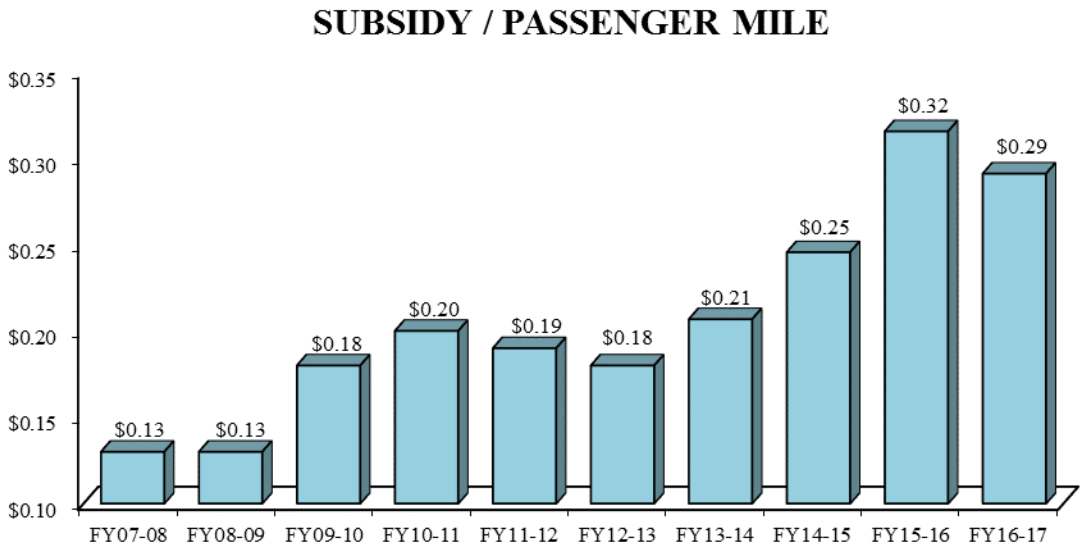
FAREBOX RECOVERY RATIO: 2007-08 THROUGH 2016-17

Farebox recovery is a ratio of fare revenue to direct operating expenses (train operations, maintenance-of-way, including extraordinary maintenance, claims and insurance; excludes gas tax exchange funds, rolling stock lease, third-party activity, and depreciation). The decrease in farebox recovery ratio is due to the decrease in passenger fares and increases in direct operating expenses.



SUBSIDY/PASSENGER MILE: 2007-08 THROUGH 2016-17

Subsidy per passenger mile is a measure of public funding provided for each passenger mile of travel.



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Demographic and Economic Information

Last Ten Fiscal Years

	YEARS ENDED JUNE 30									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Population for Counties Served										
Los Angeles County	*	10,137,915	10,112,255	10,066,615	10,015,436	9,953,555	9,888,476	9,825,473	9,787,400	9,735,147
Orange County	*	3,172,532	3,156,573	3,134,438	3,112,576	3,084,935	3,053,884	3,017,647	2,987,177	2,957,593
Riverside County	*	2,387,741	2,352,892	2,322,455	2,291,452	2,264,919	2,236,146	2,202,226	2,146,725	2,109,712
San Bernardino County	*	2,140,096	2,122,545	2,105,935	2,087,945	2,077,247	2,062,945	2,041,562	2,013,960	2,003,735
Ventura County	*	849,738	847,719	844,078	839,498	834,519	830,707	825,320	815,130	806,353
Total Population for Counties Served	*	18,688,022	18,591,984	18,473,521	18,346,907	18,215,175	18,072,158	17,912,228	17,750,392	17,612,540
Unemployment Rates for Counties Served										
Los Angeles County	4.6	5.2	6.6	8.2	9.8	10.9	12.2	12.5	11.6	7.6
Orange County	3.8	4.0	4.4	5.5	6.6	7.9	9.1	9.7	8.7	5.3
Riverside County	5.7	6.1	6.7	8.2	9.9	11.6	13.2	13.8	13.1	8.6
San Bernardino County	5.4	5.7	6.4	8.0	9.8	11.4	12.9	13.5	12.7	8
Ventura County	4.5	5.2	5.6	6.6	7.9	9.1	10.2	10.8	9.6	6.3
Average Unemployment Rates for Counties Served	4.8	5.2	5.9	7.3	8.8	10.2	11.5	12.1	11.1	7.2
Per Capita Income for Counties Served										
Los Angeles County	*	55,624	54,298	51,111	48,283	48,900	46,007	43,236	42,043	43,715
Orange County	*	62,071	59,708	55,699	53,451	54,972	51,420	49,537	47,181	50,207
Riverside County	*	36,782	35,883	34,044	32,828	32,301	31,847	30,380	30,446	31,932
San Bernardino County	*	36,835	35,627	33,652	31,972	31,365	30,756	29,268	29,042	30,089
Ventura County	*	55,779	54,581	51,984	49,706	49,483	47,703	45,565	44,704	46,569
Average Per Capita Income for Counties Served	*	49,418	48,019	45,298	43,248	43,404	41,547	39,597	38,683	40,502

*Estimates for CY 2017 have not been released as of 12/6/2017

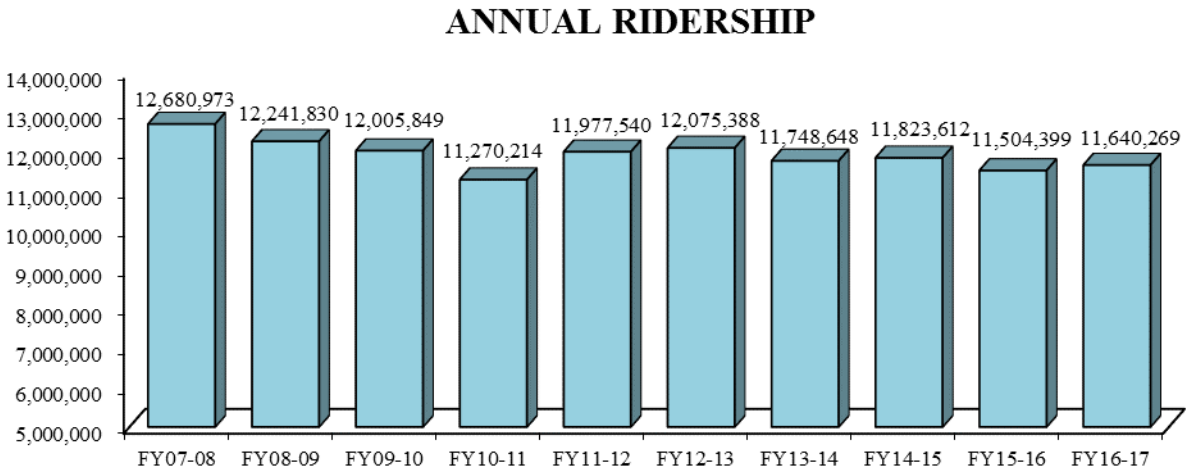
Source: U.S Census Bureau, U.S Department of Commerce Bureau of Economic Analysis, U.S Department of Labor Bureau of Labor Statistics, and SCRRA's Fact Sheet

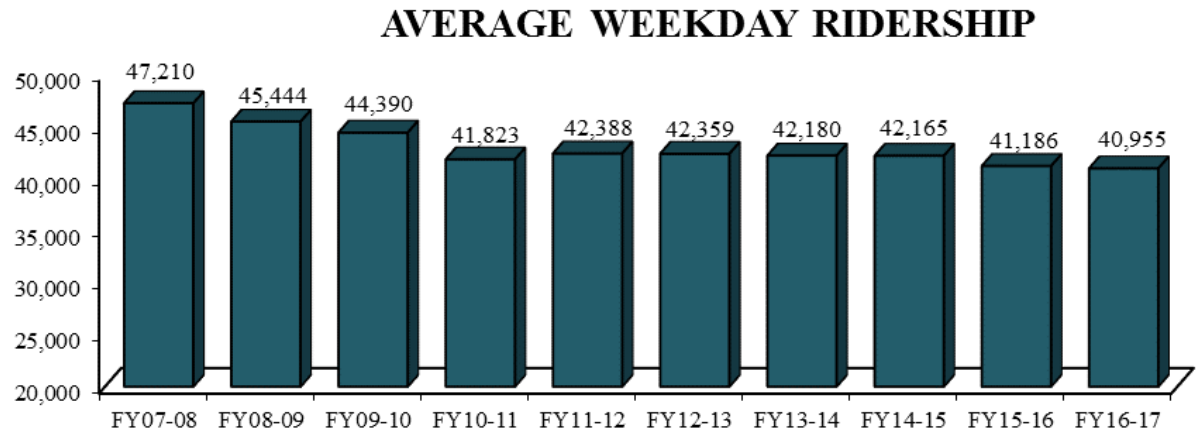
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Ridership, Annual and Average Weekday

RIDERSHIP: 2007-08 THROUGH 2016-17

During twenty-four years of Metrolink operations, ridership grew steadily with slight declines in FY 2007 and FY 2008 through FY 2011. In FY 2008, record fuel prices helped drive a significant increase in ridership. During the latter part of FY 2008 through FY 2011, ridership steadily declined, due in large part to the continued weakened economic conditions in the Southern California region as well as nationwide.

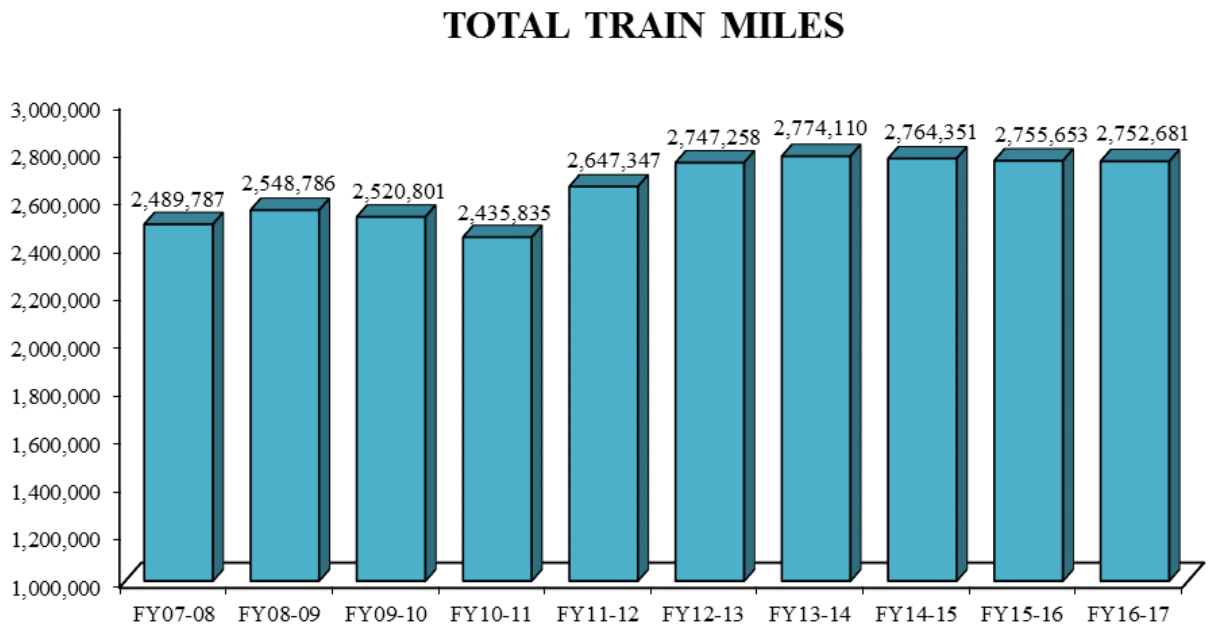
The following charts show the number of passengers carried for each of the last ten fiscal years and the average weekday ridership, based on unaudited conductor counts.





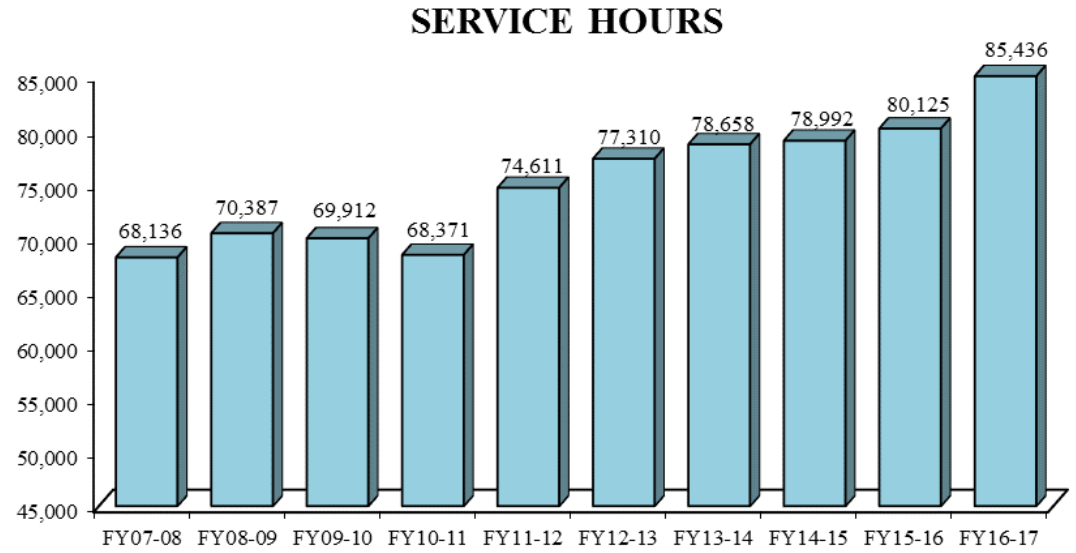
TOTAL TRAIN MILES: 2007-08 THROUGH 2016-17

Until FY 2010, total train miles realized annual yearly increases due to additions of new trains, routes, and train schedules, as well as modifications to existing schedules. These modifications have enhanced overall service and efficiency. Several additional emergency services were started after the Northridge earthquake and many have been retained. In May 2002, the 91 Line was opened, linking Riverside, Fullerton, and downtown Los Angeles. In addition to the 91 Line, additional trains and extended service (including new weekend service) were added to the Antelope Valley line and San Bernardino line. As a result of the decline in ridership and increased operating costs, weekend service was reduced on the Inland Empire Orange County (IEOC) and Orange County lines.

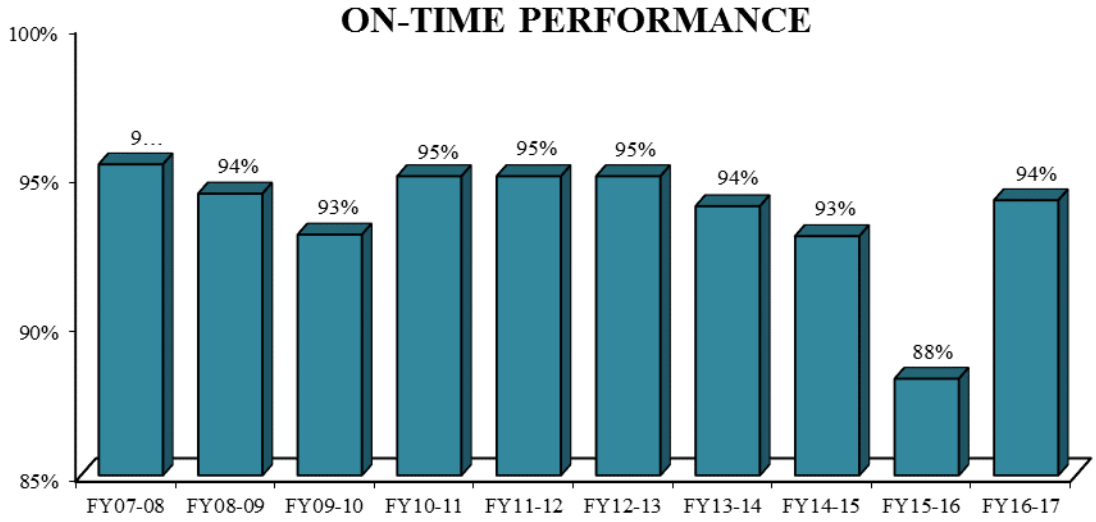


SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Service Hours and On-Time Performance

SERVICE HOURS: 2007-08 THROUGH 2016-17



ON-TIME PERFORMANCE: 2007-08 THROUGH 2016-17



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Miscellaneous Statistics

June 30, 2017
(Dollar Amounts in Thousands)

Date of Formation	August 1991		
Form of Government	Joint Powers Authority		
Purpose	To plan, design, construct and administer the operation of regional passenger rail lines.		
Member Agencies	Los Angeles County Metropolitan Transportation Authority Orange County Transportation Authority Riverside County Transportation Commission San Bernardino County Transportation Authority Ventura County Transportation Commission		
Counties Served	Los Angeles County Orange County Riverside County San Bernardino County Northern San Diego County Ventura County		
Fleet and Other Infrastructure	Locomotives		55
	Passenger Cars		258
	Ticket Vending Machines		133
	Public At-Grade Crossings		356
	Pedestrian At-Grade Crossings		8
	Undergrade Crossings		148
	Overgrade Crossings		100
2017-18 Operating Budget	Operations	$201,438	
	Maintenance-of-Way	41,607	
	Total	$243,045	

Source: SCRRA's FY17 Q4 Fact Sheet and operating budget

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

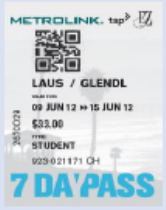
Ticket Categories

A variety of tickets and passes are available for Metrolink passengers. The type of ticket best suited for you will depend on how often you plan to ride Metrolink. All tickets are good for a free transfer from Metrolink to participating, directly connecting transit.
Round-Trip Tickets, 7-Day Passes, and Monthly Passes offer increasing discounts off the One-Way price.

TYPES OF TICKETS

One-Way Ticket
Valid for a single one-way trip from the origin station to the destination station. Trip must begin on the date and prior to the expiration time printed on the ticket. Expiration time is three hours from the time of purchase.

Round-Trip Ticket
Valid for a round-trip on the same day between the origin and destination stations. Travel must begin within three hours from time of purchase and end that same day.



7-Day Pass
Valid for unlimited travel during a consecutive seven-day period between station pairs, starting on the day the pass is purchased.

Monthly Pass
Valid for unlimited travel between the origin and destination stations during the calendar month printed on the pass. Monthly Passes are sold from the 25th of the prior month, to the 14th of the current month.

Weekend Day Pass
Valid for unlimited, system-wide travel either Saturday or Sunday. The $10 Weekend Day Pass is only available on Saturday or Sunday.

Multi-Line Ticket Option

Some Metrolink tickets and Monthly Passes can be used on more than one line. This gives people who live or work near stations on two different lines more trains to choose from.

- Monthly Passes and tickets on the San Bernardino and Riverside Lines can be used to travel on either line (between stations of equal or lesser distance)
- Monthly Passes and tickets on the Riverside, 91, and Inland Empire-Orange County Lines can be used for travel on any of three lines (Between stations of equal or lesser distance, as long as the origin or destination station is in Riverside or San Bernardino County.

Advance Purchase Ticket

You can now also buy One-Way or Round-Trip tickets for a future date, up to 1 year in advance. All you need to do is select the Advance Purchase option and choose the date you wish to travel and which ticket type you want. There is one difference between a ticket purchased for same-day travel and an Advance Purchase Ticket: the Advance Purchase Ticket will not have an expiration time printed on it, but it is still valid and can be used at any time on the day you chose to travel.

TYPES OF FARES

Adult
- Ages 19 to 64
- Weekdays and weekends regular fare

Youth
- Ages 6 to 18
- Weekdays-Regular Fare
- Weekends-25% off One-Way and Round-Trip Tickets, excluding Weekend Day Pass

Child
- Ages 5 and under ride free
- Three children ride free with an adult using a valid ticket-each additional child pays Youth Fare

Senior
- Ages 65 and over
- 50% off One-Way or Round-Trip Ticket
- 25% off Monthly/7-Day Pass
- Please present photo ID with date of birth

Disabled
- 50% of One-Way or Round-Trip, and 25% off Monthly/7-Day Pass
- Access Services ID Card Holders ride at no cost
- Please present proof of eligibility upon request-LA County Transit Operators, Association ID, Medical ID, DMV placecard. Personal Care Attendants must have a valid Metrolink PCA card if assisting a person with disability.

Students
- 15% off all Metrolink tickets available through Metrolink

School Group Travel
- Discount fares for groups of 15 or more students, ages 5-18
- One adult chaperone required per five children ages 5-13
- Reservations required six weeks prior to travel date. Call 800-371-LINK(5465)
- Limited space available
- $3 per person

Recreational Group Travel
- For groups of ten or more people, max 50
- Tickets cost $12 per person, all ages
- Reservations must be made at least three weeks in advance. Call 800-371-LINK(5465)
- Limited space available