



METROLINK

Southern California Regional Rail Authority
Comprehensive Annual Financial Report
For the Fiscal Year ended June 30, 2015

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 Associated Governments
Ventura County Transportation Commission**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2015**

Prepared by:

Finance Department

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
For the Year Ended June 30, 2015
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February 26, 2016

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), located in Los Angeles, California for the fiscal year ended June 30, 2015.

The 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 the representations, SCRRA management has established comprehensive internal controls that are designed both to protect SCRRA's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of SCRRA's 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 result of operations of the business-type activity of SCRRA, an enterprise fund. Disclosures necessary to allow the reader to understand SCRRA's financial activities have been included.

Moss Adams LLP, a firm of licensed certified public accountants, 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, 2015 are free of material misstatement. The independent audit involved examining, on a test basis, the following: evidence supporting the amounts and disclosures in the 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 on a reasonable basis SCRRA's 2015 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 the financial statements of SCRRA was part of a broader, federally mandated Single Audit, under the guidelines of Office of Management and Budget Circular A-133, 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 financial statements, and notes thereof, are accurate. Additionally, the recipient 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 1980's, 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, combined 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 Agency (JPA), was formed. Voting members with their respective number of votes are: 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 Associated Governments (SANBAG), 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 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 travel from the Inland Empire through Fullerton and into Los Angeles. During fiscal year 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.

Metrolink continues to connect the Southern California region together, giving people access to jobs and new housing opportunities, while providing significant benefits to improving the efficiency of the transportation system and the quality of the air we breathe. Metrolink is the first railroad in the nation to complete implementation of Positive Train Control (PTC) technology and submit for federal certification. It is also in plans to launch mobile ticketing and innovate its fare system to improve ridership. In addition, Metrolink is also moving forward to replace more than seventy percent of its aging locomotive fleet beginning in 2016. With these changes, SCRRRA 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 500 route miles.

Economic Condition and Outlook

SCRRRA receives its primary funding 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.

California's Global Warming Solutions Act of 2006 (AB32) set a series of policies and programs to return California emissions to 1990 levels by 2020. The Cap and Trade Program caps greenhouse gas (GHG) emissions from key sectors in California, ensuring that AB32 GHG reductions are met. California has passed a \$156.4 billion state budget that will take revenues from the state's cap-and-trade program to help pay for a high-speed rail project. Beginning in 2015, SCRRRA received funding via formula grants and is competing for additional Cap and Trade funds.

SCRRRA'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 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 6.3% in June 2015.

Southern California provides an opportunity for additional rail services through the six counties served by Metrolink. The Authority continues to partner with regional and state transit authorities to participate in discussions on alternate transportation opportunities.

Long-term Financial Planning

Proactive financial planning is a critical element for the success of Metrolink as it builds for the future. Continually reviewing revenues and projecting expenditures ensures that expectations are realistic and goals are achievable. Scarce resources, especially at the state and federal level, can be directed to projects of regional significance or, with additional funding, project priorities can be expanded to address unfunded project requirements or developing needs.

The federal government is a source of funding through the various surface transportation programs. The Fixing America's Surface Transportation (FAST) Act was enacted in December 2015 and is to provide 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.

Like governmental agencies at all levels, SCRRA continues to face a number of challenges with respect to the current economic environment, including operating expenses as well as subsidies received from member agencies, the State, and Federal governments. As an agency without a direct base of significant discretionary revenues, SCRRA must rely on the contributions, both operating and capital, of our funding partners, each of whom face multiple priorities.

At the state level, the adopted FY 2015-16 budget invests in California through increased funding for education and health care while setting aside reserves and paying down \$2.6 billion in debt. The budget also includes appropriations from Proposition 1 to respond to California's drought through storm water and ground water management plans, water recycling, and water system infrastructure.

California's 2014-2015 budget agreement provides 60 percent of Cap-and-Trade auction revenue to affordable housing, transportation, transit, and high speed rail. This agreement continues as part of the 2015-16 budget.

At the regional level, SCRRA supports the South Coast Air Quality Management District's (SCAQMD) 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 20 lower emission F125 locomotives, which will be delivered in FY 2016 and 2017.

At the county, or 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 new revenue, 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 the agency 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:

- Earned six AdWheel awards presented by the American Public Transportation Association (APTA) recognizing excellence in advertising, communications, marketing and promotion;
- Completed a voluntary health risk assessment (HRA) of the Central Maintenance Facility (CMF) with a report indicating a dramatic reduction in emissions and health risk due to operational improvements;
- Launched PTC technology in Revenue Service Demonstration (RSD) on 341 miles of agency-hosted lines with continued progress on implementation across its entire 512-route mile network;
- Anticipated delivery of 20 replacement locomotives that comply with the current EPA Tier 4 emission standards; and
- Received \$41 million from the California State Transportation Agency (CalSTA) to help fund up to nine F125 locomotives.

Acknowledgements

The CAFR is a collaborative effort by SCRRA staff and its independent auditors. The undersigned are grateful to all for their willingness to expend the effort necessary to ensure the financial information contained in this report is informative. Special thanks are extended to the Finance Department, SCRRA's auditors, management and staff for their time and effort. Their commitment is vital for the final completion of the CAFR.

Special appreciation is extended to the Board 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



Tom Franklin
Interim Chief Financial Officer



metrolinktrains.com

METROLINK

METROLINK ROUTES

- Antelope Valley Line
 - Inland Empire-Orange County Line
 - Orange County Line
 - Riverside Line
 - San Bernardino Line
 - Ventura County Line
 - 91 Line
 - Future Stations
- Station Served by Multiple Lines
 - Amtrak Pacific Surfliner
 - Metro Rail/Metro Bus
 - LAX FlyAway Bus
 - San Diego North County Transit District



MAP NOT TO SCALE

Effective September 30, 2013

June 30, 2015

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

BOARD OF DIRECTORS

MEMBERS

ALTERNATES

Los Angeles County Metropolitan Transportation Authority (Metro)

Michael Antonovich
Supervisor, 5th District
County of Los Angeles
Metro Board

Roxana Martinez
Council Member
City of Palmdale
Metro Appointee

Hilda Solis
Supervisor, 1st District
County of Los Angeles, Chair
Metro Board

Joseph J. Gonzales
Council Member
City of South El Monte
Metro Appointee

Paul Krekorian
Council Member, 2nd District
Metro Board

Borja Leon
Metro Appointee

Ara Najarian
Council Member
City of Glendale
Metro Board

Walter Allen, III
Council Member
City of Covina
Metro Appointee

Orange County Transportation Authority (OCTA)

Shawn Nelson (*Chair*)
Supervisor, 4th District
County of Orange, Chairman
OCTA Board

Jeffrey Lalloway*
Mayor Pro Tem, City of Irvine
OCTA Board, Chair

Gregory T. Winterbottom
Public Member
OCTA Board

Todd Spitzer*
Supervisor, 3rd District
County of Orange
OCTA Board

Riverside County Transportation Commission (RCTC)

Daryl Busch (*Vice-Chair*)
Mayor
City of Perris
RCTC Board

Andrew Kotyuk*
Council Member
City of San Jacinto
RCTC Board

Karen Spiegel
Council Member
City of Corona
RCTC Board

Debbie Franklin*
Mayor
City of Banning
RCTC Board

June 30, 2015

MEMBERS

ALTERNATES

San Bernardino Associated Governments (SANBAG)

Larry McCallon
Mayor
City of Highland
SANBAG Board

James Ramos*
Supervisor, 3rd District
County of San Bernardino, Chair
SANBAG Board

Paul Eaton
Mayor
City of Montclair
SANBAG Board

Alan D. Wapner*
Council Member
City of Ontario
SANBAG Board

Ventura County Transportation Commission (VCTC)

Keith Millhouse (*2nd Vice-Chair*)
Council Member
City of Moorpark
VCTC Board

Brian Humphrey
Citizen Representative
VCTC Board

EX-OFFICIO MEMBERS

Southern California Association of Governments:

Art Brown
Mayor
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

*Alternate:
Currently awaiting appointment*

EXECUTIVE LEADERSHIP TEAM

Chief Executive Officer	Arthur T. Leahy
Chief Administrative Officer	Patricia Bruno
Interim Chief Financial Officer	Tom Franklin
Chief Marketing and Communications Officer	Robert Turnauckas
Chief Operating Officer	Gary Lettengarver

LEGAL COUNSEL

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

INTERNAL AUDIT

Senior Auditors	David Rogers and Elisabeth Lazuardi
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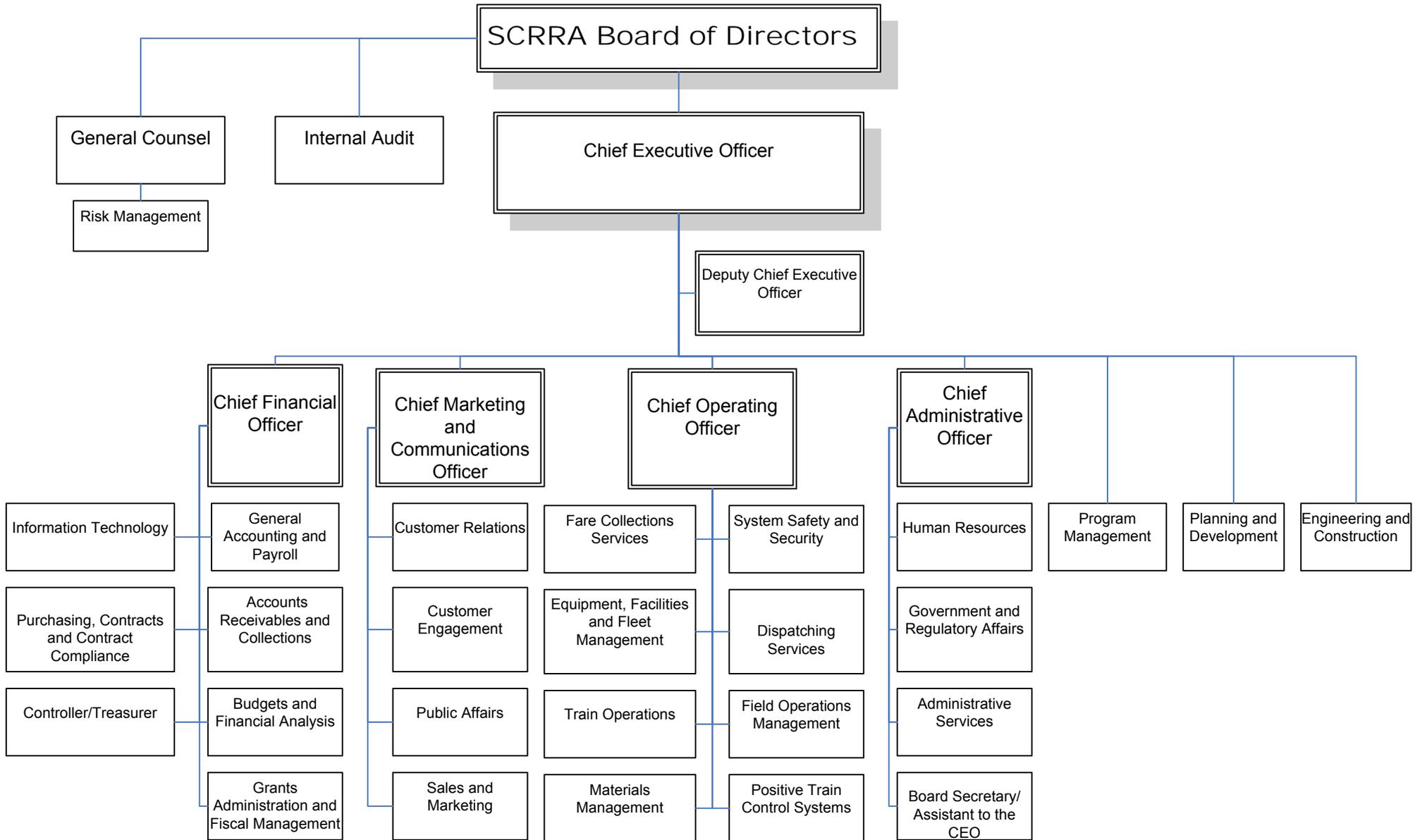
MANAGEMENT TEAM

Senior Director, Information Technology	Arun Chakladar
Senior Director, PTC	Darrell Maxey
Controller	Thomas Franklin
Director, Customer Engagement	Mark Nitti
Director, Dispatching Operations	Gail Davis
Director, Engineering and Construction	Patricia Watkins, Interim
Director, Fare Collections Services	Russell Case
Director, Human Resources	Patricia Francisco
Director, Maintenance of Equipment	Richard Tripoli
Director, Operations	R. T. McCarthy
Director, Planning and Development	Roderick Diaz
Director, Public Affairs	Scott Johnson, Interim
Director, Special Projects (Materials Management & Warehousing)	Gary Thompson
Director, System Safety and Security	Fred Jackson
Assistant Director, Capital Construction and Rehabilitation	Stuart Chuck
Assistant Director, Purchasing, Contracts & Contract Compliance	Lia McNeil Kakaris
Assistant Director, C&S Rehabilitation and Maintenance	Phillip LaBreche
Assistant Director, PTC Communications Systems	Jerone Hurst
Assistant Director, PTC Network Architecture	Jay Peterson
Assistant Director, PTC Operating Practices	Sergio Marquez
Assistant Director, PTC Technical Services	Jaime Romo
Assistant Director, Program Management Office	Mary Lou Williams
Assistant Director, Public Projects	Patricia Watkins
Assistant Director, Standards and Design	Naresh Patel
Assistant Director, T&S Maintenance & Rehabilitation	Wayne Mauthe

Southern California Regional Rail Authority

Fiscal Year 2014-2015 Organizational Structure

As of June 30, 2015



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.



REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Southern California Regional Rail Authority
Los Angeles, California

Report on 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' Responsibility

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

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

MOSS ADAMS_{LLP}

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 the Southern California Regional Rail Authority as of June 30, 2015 and 2014, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 11 to the financial statements, effective July 1, 2014, the SCRRRA adopted the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (Statements). The beginning net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan; therefore, the provisions of the Statements were not applied to the prior period. The cumulative effects of the applying the provisions of the Statements have been reported as an accumulated adjustment of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

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 18 through 27, 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 64 through 74, 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.

MOSS ADAMS LLP*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SCRRA's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections 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 a report dated February 26, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCRRA's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
February 26, 2016

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis
For the years ended June 30, 2015 and 2014

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 and understanding of the basic financial statements of SCRRA for the year ended June 30, 2015 with comparative information for the year ended June 30, 2014. 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 Statement of Net Position, (2) the Statement of Revenues, Expenses and Changes in Net Position and (3) the Statement of Cash Flows. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America 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 accounts for the current year's revenue and expenses. The statement presents SCRRA's operation 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.

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, Los Angeles County Metropolitan Transportation Authority (LACMTA), Orange County Transportation Authority (OCTA), Riverside Transportation Commission (RCTC), San Bernardino Associated Governments (SANBAG) and Ventura County Transportation Commission (VCTC), 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 to and ownership of 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.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis For the years ended June 30, 2015 and 2014

Additionally, 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 over 500 route miles with 55 stations in the Metrolink system throughout Los Angeles, Orange, Riverside, San Bernardino, Ventura and San Diego counties.

The government of SCRRA is a Board of Directors composed of 11 members appointed by the voting members of the JPA.

The member agencies with their respective number of votes are:

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

SCRRA is not considered 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 ending June 30, 2015, June 30, 2014 and June 30, 2013. 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 5 of the Notes to Basic Financial Statements.

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

	2015	%	2014	%	2013	%
Current assets	\$ 126,652	8%	\$ 139,546	9%	\$ 160,164	11%
Capital assets, net	1,356,723	89%	1,354,221	89%	1,311,357	86%
Other noncurrent assets	45,296	3%	36,104	2%	46,662	3%
Deferred outflows of resources	2,850	0%	-	0%	-	0%
Total assets and deferred outflows of resources	\$ 1,531,521	100%	\$ 1,529,871	100%	\$ 1,518,183	100%

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis

For the years ended June 30, 2015 and 2014

CAPITAL ASSETS

ASSET TYPE	2015	2014	2013
Infrastructure assets	49%	50%	48%
Construction in progress	4%	16%	14%
Rolling stock, net	24%	25%	28%
Building, net	9%	8%	9%
Other, net	14%	1%	1%
TOTAL	100%	100%	100%

JUNE 30, 2015 VERSUS JUNE 30, 2014

Capital assets increased by \$2.5 million or 0.18% from the prior year. The increase is primarily composed of an increase in other assets of \$170.4 million offset by decrease in construction in progress of \$154.7 million and a net increase in accumulated depreciation of \$9.9 million. Both the increase in other assets and decrease in construction in progress are mainly attributed to Positive Train Control (PTC) put in service by year end. PTC is a GPS-based safety technology system capable of preventing train-to-train collisions, over-speed derailments, unauthorized incursion into work zones, and train movement through switches left in the wrong position. There are five major components that contribute to the PTC end-product. The Back Office Server System is the storehouse for the speed restrictions, track geometry, and wayside signaling configuration databases. The Onboard System is a combination of software and hardware that monitors and controls train movement if the engineer fails to respond to the audible warnings, which is installed in Metrolink's locomotives. The Wayside Signal System performs a secondary check of the signal status and will stop the train if the engineer fails to heed a signal. The Communication Network Component includes new radio communication equipment, along with new radio towers and antennas at existing signalized locations. Metrolink replaced the new Computer-Aided Dispatching System, which interacts with the PTC Back Office Server System to enforce a train's authorization to occupy designated segments of track.

Other capital asset activities also include the sale of 16 cab rail cars, write-off of five ticket vending machines (TVMs), and purchase of 16 trucks. In December 2014, 16 cab rail cars were sold to the State of California for \$5.6 million. As a result, Metrolink terminated the 1998 leaseback agreement that originally funded the cars by paying a termination value of \$729,555. The net book value of the 16 rail cars was \$6.8 million. In addition, five TVMs were written off due to salvage and theft. The net book value of the five TVMs was \$219,394 as of the disposition date. Lastly, in October 2014, Metrolink purchased 16 Chevrolet trucks at the total cost of \$455,324.

JUNE 30, 2014 VERSUS JUNE 30, 2013

Capital assets increased by \$42.9 million or 3% from the prior year. The increase is primarily composed of an increase in construction in progress of \$32.6 million and infrastructure of \$39.1 million, offset by an increase in accumulated depreciation of \$28.8 million. The increase in construction in progress is attributed to Positive Train Control (PTC) and F125 locomotives procurement not put in service by year end. The F125 locomotives meet the U.S. Environmental Protection Agency's (EPA) stringent Tier 4 emission standards. The PTC program also increased infrastructure by \$31.3 million for microwave radio dishes, fiber options, cables and Ethernet radio as part of a hierarchical telecommunications network and \$3.3 million for intrusion detection system for two tunnels. In addition, infrastructure increased due to signal enhancements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis

For the years ended June 30, 2015 and 2014

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

	2015	%	2014	%	2013	%
Current liabilities	\$ 114,372	68%	\$ 128,004	76%	\$ 162,223	81%
Noncurrent liabilities	46,763	28%	34,737	21%	35,330	17%
Deferred inflows of resources	6,625	4%	4,250	3%	4,658	2%
Total liabilities and deferred inflows of resources	<u>\$ 167,760</u>	100%	<u>\$ 166,991</u>	100%	<u>\$ 202,211</u>	100%

LIABILITIES & DEFERRED INFLOWS OF RESOURCES BY TYPE	2015	2014	2013
Accounts payable and accrued liabilities	34%	39%	44%
Advances for construction and retention	6%	6%	9%
Unearned revenue	26%	28%	25%
Other current liabilities	1%	1%	1%
Compensated absences	1%	2%	1%
Notes payable	11%	11%	9%
Net pension liability	3%	0%	0%
Other post-employment benefits liability	7%	7%	6%
Claims and judgments payable	7%	3%	3%
Deferred lease proceeds	2%	3%	2%
Difference between pension expense and actual expense	2%	0%	0%
TOTAL	100%	100%	100%

JUNE 30, 2015 VERSUS JUNE 30, 2014

The decrease in total liabilities of \$1.6 million or 1.0% is comprised of a decrease in accounts payable and accrued liabilities of \$10.2 million, and decrease in unearned revenue of \$2.8 million offset by increases in net pension liability and claims and judgments of \$5.7 million and \$5.8 million, respectively. Claims and judgments payable increased due to an increase in reserves related to pending settlements.

On February 24, 2015, a Metrolink train collided with an unoccupied truck in Oxnard, CA resulting in approximately 29 passengers and three crew members sustaining varying degrees of injury, and led to the death of the engineer. Metrolink's insurance broker advised the Legal Department that two separate insurance policies will respond to losses and liability arising out of the collision: the Liability policy and the Property policy. Under both policies, Metrolink is required to exhaust its self-insured retention (i.e., deductible) before insurance funds will begin to cover losses. The self-insured retention on the Liability policy and Property policy is \$5.0 million and \$2.0 million respectively. Accordingly, the FY 2016 Loss Reserve was supplemented with an additional \$7.0 million beyond the level determined to be required to account for liabilities separate and apart from those arising out of or related to the collision.

Net pension liability as well deferred inflows of resources increased due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27*.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

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JUNE 30, 2014 VERSUS JUNE 30, 2013

Total liabilities decreased by \$35 million, or 17%, which includes decreases in accounts payable and accrued liabilities, advances for construction and retention, and unearned revenue of \$22.6 million, \$7.5 million and \$4.7 million, respectively. In addition to the timing of payments between the fiscal years, accrued liabilities decreased \$17 million due to progress payments made towards the procurement of locomotive cars. The decrease in deferred revenues is primarily attributable to the use of Prop 1B funds of \$14 million, offset by new Prop 1B funding of \$9 million in FY 2014.

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

	2015	%	2014	%	2013	%
Net investment in capital assets	\$ 1,338,723	98%	\$ 1,336,221	98%	\$ 1,293,357	98%
Unrestricted	25,038	2%	26,659	2%	22,615	2%
Total net position	<u>\$ 1,363,761</u>	100%	<u>\$ 1,362,880</u>	100%	<u>\$ 1,315,972</u>	100%

Since long term debt across fiscal years remained the same, the increase in *Net investment in capital assets* is solely attributed to the change in capital assets discussed earlier. The decrease in unrestricted net position of \$1.6 million or 6.0% is discussed in *CHANGE IN NET POSITION*.

CHANGE IN NET POSITION (in thousands)

	2015	2014	2013
Operating loss	\$ (157,703)	\$ (137,058)	\$ (134,660)
Non-operating revenues, net	108,439	97,763	90,125
Capital grants and subsidies	<u>56,485</u>	<u>86,203</u>	<u>119,722</u>
Change in net position	7,221	46,908	75,187
Net position at beginning of year	1,362,880	1,315,972	1,240,785
Cumulative effect of change in accounting principal	<u>(6,340)</u>	-	-
Net position at end of year	<u>\$ 1,363,761</u>	<u>\$ 1,362,880</u>	<u>\$ 1,315,972</u>

JUNE 30, 2015 VERSUS JUNE 30, 2014

The increase in total net position to \$1,363,761 is comprised of a decrease due to restatement in compliance with GASB 68 of \$6.3 million, and an increase due to capital grants and subsidies of \$56.5 million, non-operating revenue of \$108.4 million, and operating losses of \$157.7 million.

JUNE 30, 2014 VERSUS JUNE 30, 2013

The increase in total net position of \$46.9 million is comprised of capital grants and subsidies of \$86.2 million, non-operating revenue of \$97.8 million, and operating losses of \$137.1 million.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis

For the years ended June 30, 2015 and 2014

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

	2015	2014	2013
Operating revenues	\$ 125,328	\$ 130,120	\$ 130,279
Operating expenses	283,031	267,178	264,939
Operating loss	(157,703)	(137,058)	(134,660)
Operating subsidies and grants	110,257	97,245	89,569
Net appreciation (depreciation) in fair value of investments	5	19	11
Amortization of deferred gain of lease / leaseback	712	408	1,190
Interest income	10	1,344	1
Interest expense	(650)	(650)	(646)
Net loss on disposal of capital assets	(1,895)	(603)	-
Total non-operating revenues, net	108,439	97,763	90,125
Loss before capital grants and subsidies	(49,264)	(39,295)	(44,535)
Capital grants and subsidies	56,485	86,203	119,722
Change in net position	7,221	46,908	75,187
Net position at beginning of year	1,362,880	1,315,972	1,240,785
Cumulative effect of change in accounting principal	(6,340)	-	-
Net position at end of year	<u>\$ 1,363,761</u>	<u>\$ 1,362,880</u>	<u>\$ 1,315,972</u>

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis

For the years ended June 30, 2015 and 2014

REVENUES AND EXPENSES BY MAJOR SOURCE (in thousands)

	2015	2014	2013
Revenues			
Fares	\$ 83,111	\$ 85,673	\$ 84,360
Other operating revenue	42,217	44,447	45,919
Grants and subsidies	166,742	183,448	209,291
Other non-operating revenue	727	1,771	1,202
Total revenues	\$ 292,797	\$ 315,339	\$ 340,772
Expenses			
Train operations	\$ 158,796	\$ 151,575	\$ 147,556
Maintenance of way	34,230	29,867	29,313
Capital program	22,586	11,132	10,568
Other operating expenses	67,419	74,604	77,502
Non-operating expense	2,545	1,253	646
Total expenses	\$ 285,576	\$ 268,431	\$ 265,585

JUNE 30, 2015 VERSUS JUNE 30, 2014

Revenue decreased \$22.5 million, or 7%, comprised of decreases in fare revenue, other revenue, grants and subsidies, and other non-operating revenue of \$2.6 million, \$2.2 million, \$16.7 million and \$1.0 million, respectively.

Fare revenue for San Bernardino, Ventura, Antelope Valley, Riverside, Inland Empire and 91 lines decreased by \$1.4 million, \$350,000, \$250,000, \$130,000, \$360,000 and \$790,000, respectively, offset by an increase in the Orange County line of \$701,000. In FY 2015 train services were reduced for San Bernardino.

The decrease in capital grants and subsidies consists of a decrease in capital state and federal funding of \$15.0 million and \$4.6 million, respectively, coupled by a decrease in capital subsidies of \$10.1 million. This was offset by an increase in operating subsidies of \$12.7 million. Capital expenditures funded by state proposition 1B and 1A and federal grants decreased primarily due the winding down of positive train control projects.

The decrease in other operating revenue is attributed to a decrease in third party expenditures covered by the revenue and other revenue decreased due to contract and insurance recovery.

Train operation expenses increased \$7.2 million or 5%. \$5.8 million of the increase is attributed to contract services which include train crews, maintenance of equipment, and security. Other increases include TVM maintenance, material and supplies, and professional services offset by a decrease in fuel cost of \$1.7 million. Maintenance of way expenses increased due to an adjustment to inventory

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Management's Discussion and Analysis

For the years ended June 30, 2015 and 2014

reserves in FY 2014, which reduced expense by \$2.4 million. This adjustment included equipment and parts deemed necessary to maintain SCCRA's lagging locomotive fleet in FY 2014.

Other operating expenses which include third-party agreements, insurance, claims and judgments and other, public liability and property damage, and depreciation decreased \$7.2 million or 10%. Changes include decreases in third party expenditures and depreciation of \$7.6 million and \$5.1 million, respectively, offset by an increase in claims and judgments of \$5.7 million primarily attributed to the Oxnard train incident discussed earlier.

JUNE 30, 2014 VERSUS JUNE 30, 2013

Revenue decreased \$25.4 million or 7%, with a decrease in other operating revenue and grants and subsidies of \$1.5 million and \$25.8 million, respectively, offset by an increase in fare revenue of \$1.3 million and an increase in non-operating revenue of \$569,000. Other operating revenue decreased primarily due to a decrease in third party agreement and maintenance of way revenue of \$2 million and \$2.6 million, respectively, offset by an increase of \$3.1 million in public liability and property damage recovery. The maintenance of way decrease includes a reduction of \$1.4 million due to Burlington Northern Santa Fe Railway's (BNSF's) cessation of freight rail operations in the west end rail segment. The \$3.1 million increase in public liability and property damage recovery was due to use of contract recovery on current computer aided design (CAD) charges for the Positive Train Control (PTC) project. The decrease in capital grants and subsidies is largely due to a reduction in the proposition 1B and proposition 1A funding of PTC expenditures and rolling stock procurement.

Fare revenue increased \$1.3 million in fiscal year 2014 or 2%. The increase is attributed to a 5% system-wide average fare increase offset by a 2.7% decrease in ridership.

Operating expense had a moderate increase of \$2.2 million or 1% from the prior year, primarily consisting of increases in train operations, maintenance of way and rehabilitation and renovation expense of \$4 million, \$554,000 and \$568,000, respectively, offset by a reduction in bad debt expense.

Train operation expenses include expenses required to operate the Metrolink system. Such expenses include: train crews, maintenance of equipment, diesel fuel, security, utilities, revenue collection, dispatching, and passenger services, general and administrative and professional expenses. Train operation expenses increased by \$4 million or 3%. The increase in train operation expenses was primarily attributed to increased services and contractual escalators in the multiyear contract, and the procurement of parts needed to repair the aging fleet of rolling stock. Maintenance of way expenses increased due to PTC operational activities.

Other operating expenses include third-party agreements, insurance, claims, judgments and other, public liability and property damage, and depreciation. Overall, other operating expenses decreased \$2.9 million due to a decrease in third party expenditures, insurance, and public liability and property damages of \$3.1 million, \$372,000 and \$572,000, respectively, offset by an increase in claims and judgments of \$422,000 and an increase in depreciation expense of \$792,000. Claims and judgments expenditures reflect a reserve management believes will adequately fund future judgments.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis
For the years ended June 30, 2015 and 2014

CAPITAL ASSETS

INFRASTRUCTURE ASSETS – MODIFIED APPROACH

SCRRA elected to use the modified approach in reporting the 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 is 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 assessment on track, bridges and tunnels in fiscal year 2013. Signal and communication assessments were performed in parts during fiscal years 2013, 2014, and 2015. 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).

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 FY15 needed to maintain or preserve the infrastructure assets to be \$73.2 million (carryover budget of \$33.4 million, plus additional FY15 budget of \$39.8 million), and actual expenses totaled \$45.7 million (See Required Supplementary Information, Note 1). SCRRA also estimated the amount for FY16 needed to maintain or preserve the infrastructure asset to be \$95.0 million (carryover budget of \$52.6 million, plus additional FY16 Budget of \$42.4 million).

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATION AND IMPORTANT ECONOMIC CONDITIONS

As with most transit organizations, Metrolink ridership remains sensitive to economic change and employment shifts in the area it serves. While downtown Los Angeles has seen an increase in residential construction, job growth has shifted from Los Angeles as an employment center to surrounding areas. Employment has risen in the Orange County and South Bay areas. As a result, Metrolink experienced a decrease in ridership, with the exception of the Orange County line. Other economic conditions affecting ridership are declining gasoline prices and a reduction in federal tax benefits for fares in 2014 and 2015. Sales tax revenues, a major source of transit funding, is dependent on consumer spending which is an overall indicator of the state's economic health.

In 2015, Metrolink announced fare reductions for several local station to station trips in an effort to better service Southern California commuters by making travel more affordable. Also, the 91 line is being extended 24 miles into Perris Valley. This expansion increases service area to 536 total miles, connecting six counties throughout the region.

Metrolink'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. Over the three years in 2013, 2014 and 2015, Metrolink was awarded a total of \$52 million

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis

For the years ended June 30, 2015 and 2014

from the South Coast Air Quality Management District (SCAQMD) and \$41.2 million in state funds from grants from the Greenhouse Gas Reduction Fund. In September 2015, Metrolink executed a contract with SCAQMD for \$22.9 million in funding with consideration of an additional \$36 million.

The FY 2015 budget included \$253.3 million in new and outstanding project authority. 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 (Note 5). The budget included increased train service on the 91 line by two weekday and weekend roundtrip services, improved service to Orange County by cutting four intra-county lines and replacing them with two peak time trains to LA Union Station, reduced services in the San Bernardino line by cutting four redundant trains and eight redundant TVMs, and the completion of the ninth phase of the 10 year fare policy restructuring plan.

The FY 2015 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 include continuation of: Development of Positive Train Control (PTC), a predictive collision avoidance system; consolidation of various facilities into a more centrally located structure to collaboratively support PTC and network operations; fencing, access control and intrusion detection; closing San Fernando Road underpass and construction of new permanent main track and 7,500 foot siding to accommodate Caltrans I-5 High-Occupancy Vehicle (HOV) lanes; and F125 locomotive replacement program, replacing up to 20 Tier 0 locomotives with new Tier 4 locomotives. In addition to lower emission levels, F125 locomotives will allow trains to run for longer periods as part of planned additional service and longer train sets needed to support high speed rail.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

FY 2016 ADOPTED BUDGET

SCRRA's FY 2016 annual budget includes approximately \$229.0 million for the Operating Budget, an increase of 3.4% over FY2015 budget; \$152.2 million for the Rehabilitation Capital Budget, an increase of 67.5% over FY2015 budget; and \$195.7 million for the New Capital Budget, an increase of 20.4% over FY2015 budget. This budget anticipates operations for 171 weekday trains and 90 weekend trains, as well as the ongoing maintenance of track within the five counties represented by SCRRA's member agencies.

Capital projects carried over from the prior fiscal year include PTC and F125 locomotive procurement discussed earlier.

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 request for additional financial information should be addressed to the Chief Financial Officer, Southern California Regional Rail Authority, One Gateway Plaza, 12th Floor, and Los Angeles, CA, 90012.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Net Position
June 30, 2015 and 2014
(Dollar Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
Assets and deferred outflows of resources:		
Current assets:		
Cash and investments (note 3)	\$ 28,446	\$ 34,643
Due from other agencies, net of allowance for uncollectible accounts (note 4)	70,069	77,690
Prepaid expenses	105	105
Trade and other receivables, net of allowance for uncollectible accounts of \$71 and \$224, respectively	10,155	10,323
Inventory	17,877	16,785
Total current assets	<u>126,652</u>	<u>139,546</u>
Noncurrent assets:		
Restricted cash and investments (note 3)	45,296	36,104
Capital assets (note 5):		
Non-depreciable	730,166	884,659
Depreciable, net of accumulated depreciation of \$343,524 and \$333,649, respectively	626,557	469,562
Total noncurrent assets	<u>1,402,019</u>	<u>1,390,325</u>
Total assets	<u>1,528,671</u>	<u>1,529,871</u>
Deferred outflows of resources:		
Pension contribution subsequent to measurement date (note 11)	2,850	-
Total assets and deferred outflows of resources	<u>\$ 1,531,521</u>	<u>\$ 1,529,871</u>
Liabilities, deferred inflows of resources and net position:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 56,937	\$ 67,176
Advances for construction	8,317	8,590
Retention payable	955	979
Unearned revenue and advances on capital purchases (note 7)	43,840	46,591
Other current liabilities	1,411	1,288
Compensated absences	2,570	2,592
Claims and judgments payable (note 6 and 9)	342	788
Total current liabilities	<u>114,372</u>	<u>128,004</u>
Noncurrent liabilities:		
Notes payable (note 6)	18,000	18,000
Net pension liability (note 11)	5,740	-
Other post employment benefits liability (note 12)	12,140	12,079
Claims and judgments payable (note 6 and 9)	10,883	4,658
Total noncurrent liabilities	<u>46,763</u>	<u>34,737</u>
Total liabilities	<u>161,135</u>	<u>162,741</u>
Deferred inflows of resources:		
Deferred lease proceeds (note 3 and 8)	3,538	4,250
Difference between projected and actual earnings on pension investments (note 11)	3,087	-
Total deferred inflows of resources	<u>6,625</u>	<u>4,250</u>
Net position:		
Net investment in capital assets	1,338,723	1,336,221
Unrestricted	25,038	26,659
Total net position	<u>1,363,761</u>	<u>1,362,880</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,531,521</u>	<u>\$ 1,529,871</u>

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, 2015 and 2014

(Dollar Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Fares	\$ 83,111	\$ 85,673
Dispatching	2,516	2,488
Third-party agreements (note 2j)	21,355	26,676
Maintenance of way	12,991	11,726
Public liability and property damage recovery	3,183	3,164
Miscellaneous	<u>2,172</u>	<u>393</u>
Total operating revenues	<u>125,328</u>	<u>130,120</u>
Operating expenses:		
Train operations	158,796	151,575
Maintenance of way	34,230	29,867
Rehabilitation and renovation - capital	22,586	11,132
Third-party agreements (note 2j)	19,031	26,607
Insurance	12,597	14,297
Claims, judgments and other	6,545	803
Public liability and property damage	2,600	1,173
Depreciation (note 5)	<u>26,646</u>	<u>31,724</u>
Total operating expenses	<u>283,031</u>	<u>267,178</u>
Operating loss	<u>(157,703)</u>	<u>(137,058)</u>
Nonoperating revenues (expenses):		
Subsidies and grants - trains and maintenance of way	94,632	80,972
Subsidies and grants - public liability and property damage	15,625	16,273
Net appreciation in fair value of investments	5	19
Amortization of deferred gain of lease / leaseback (note 8)	712	408
Interest income	10	1,344
Interest expense	(650)	(650)
Net loss on disposal of capital assets	<u>(1,895)</u>	<u>(603)</u>
Total nonoperating revenues, net	<u>108,439</u>	<u>97,763</u>
Loss before capital grants and subsidies	(49,264)	(39,295)
Capital grants and subsidies	<u>56,485</u>	<u>86,203</u>
Increase in net position	7,221	46,908
Net position at beginning of year	1,362,880	1,315,972
Cumulative effect of change in accounting principal (note 11)	<u>(6,340)</u>	
Net position at end of year	<u>\$ 1,363,761</u>	<u>\$ 1,362,880</u>

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Cash Flows

For the years ended June 30, 2015 and 2014

(Dollar Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from fares	\$ 81,615	\$ 84,443
Cash received from dispatching and maintenance of way	17,105	12,541
Cash received from third-party agreements and public liability and property damage	11,636	15,872
Cash paid to employees	(34,308)	(32,715)
Cash paid to suppliers	(215,112)	(217,974)
Cash received from miscellaneous sources	2,172	393
Net cash used in operating activities	<u>(136,892)</u>	<u>(137,440)</u>
Cash flows from noncapital financing activities:		
Operating subsidies and grants - trains and maintenance of way	94,631	83,472
Operating subsidies and grants - public liability and property damage	10,818	19,452
Net cash provided by noncapital financing activities	<u>105,449</u>	<u>102,924</u>
Cash flows from capital and related financing activities:		
Capital grants and subsidies received	66,128	116,463
Construction and purchases of capital assets	(31,044)	(75,190)
Interest paid	(650)	(650)
Net cash provided by capital and related financing activities	<u>34,434</u>	<u>40,623</u>
Cash flows from investing activities:		
Net change on investments	(1)	1,338
Sale / maturity of investments	5	19
Net cash provided by investing activities	<u>4</u>	<u>1,357</u>
Net increase in cash and investments	2,995	7,464
Cash and investments at beginning of year	<u>70,747</u>	<u>63,283</u>
Cash and investments at end of year	<u>\$ 73,742</u>	<u>\$ 70,747</u>

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Cash Flows, Continued
For the years ended June 30, 2015 and 2014
(Dollar Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (157,703)	\$ (137,058)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	26,646	31,724
Pension Adjustment (GASB 68)	(362)	-
(Increase) decrease in:		
Due from other agencies	697	5,764
Prepaid expenses	-	260
Trade and other receivables, net	180	(2,179)
Inventory	(1,094)	(6,514)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(10,239)	(22,627)
Compensated absences	(22)	(169)
Advances for construction	(272)	(5,563)
Claims and judgments payable	5,780	(230)
Unearned revenue	(663)	669
Retention payable	(24)	(1,975)
Other post employment benefits	61	82
Other liabilities	123	376
 Total adjustments	 <u>20,811</u>	 <u>(382)</u>
 Net cash used in operating activities	 <u>\$ (136,892)</u>	 <u>\$ (137,440)</u>
 Noncash investing, capital and financing activities:		
 Amortization of deferred gain of lease / leaseback	\$ 712	\$ 408
Net loss on disposal of capital assets	(1,895)	(603)

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(1) 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 Associated Governments (SANBAG)
- 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 Associated Governments	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 presented 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 Line – running from Riverside 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 generally accepted accounting principles in the United States of America, the accompanying basic financial statements include all financial activities of SCRRA.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(1) FINANCIAL REPORTING ENTITY (Continued)

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, 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 Government Accounting Standards Board (GASB) has set forth 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 generally accepted accounting principles (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.

(b) 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. SCRRA has adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requiring governmental entities to report all investments at fair value which equate to market, 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. The quoted market price is the basis used to determine the fair market value at the end of each reporting period.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Restricted cash and investments for the years ended June 30, 2015 and 2014 are summarized as follows (in thousands):

	2015	2014
Unexpended Proposition 1B funds (see note 7)		
Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA)	\$ 31,963	\$ 26,325
California Transit Security Grant Program	4,703	800
Third party deposits	8,318	8,590
Other	312	389
	<u>\$ 45,296</u>	<u>\$ 36,104</u>

(c) 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.

(d) 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 member's 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 these financial statements as Metrolink infrastructure. Capital assets are defined by SCRRA as assets with an individual cost of \$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 fair 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.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
Buildings and improvements	10-30 years
Rolling stock	35-40 years
Fare collection	10 years
Other equipment	3-10 years
Support vehicles	5-7 years

SCRRA met all the criteria required by GASB Statement No. 34 to report the Metrolink railroad network (tracks, tunnel and bridge structures, and communication signals) using the modified approach, which allows those infrastructure assets to be *non-depreciable*. Hence, all expenses made for the railroad network assets (except for additions and improvements) are expensed in the period incurred. Additions or improvements to the railroad network assets that increase the capacity or efficiency of those assets (rather than preserve the useful life) are capitalized.

SCRRA elected to set its minimum average acceptable level of condition at 75 points for the Metrolink railroad network based on SCRRA's railroad management system scale of 1 to 100 points. SCRRA is required to perform condition assessments every three years. They were performed on track, bridges and tunnels in fiscal year 2013. Signal and communication assessments were performed over the fiscal years 2013, 2014, and 2015.

(e) PREPAID EXPENSES

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

(f) 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. Starting July 1, 2015, California law requires one hour of sick leave for every 30 hours worked for interns and temporary workers. Compensated absences, together with related employment taxes, which have been earned but not paid, have been accrued in the accompanying basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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 8). 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.

(h) UNEARNED REVENUE

Unearned revenues are resource inflows that do not meet the criteria for revenue recognition. Unearned revenues arise when resources are received by SCRRA before it has a legal claim to them, such as grant monies received prior to the incurrence of the qualifying expenses. In addition, member agencies contribute funds in advance for their annual operating subsidy. When revenue recognition criteria are met, or when SCRRA has legal claim to the resources, unearned revenue is removed from the statement of net position and the revenue is recognized.

(i) COMPONENTS OF NET POSITION

Net Investment in Capital Assets – This component of the net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, or construction of those assets. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of restricted assets reduced by liabilities related to those assets, netting to zero dollars for the years ended June 30, 2015 and 2014.

Unrestricted – This component of net position consists of the net amount of those assets that are not included in the determination of net investment in capital assets or the restricted component of net position.

(j) THIRD PARTY AGREEMENTS

Third party agreements are items such as construction of capital projects on behalf of third parties, flagging personnel provided by SCRRA for the safety of non-SCRRA personnel accessing the rail right-of-way, and special train services. SCRRA's policy regarding third party agreements is that they should be self-supporting.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues from third party agreements for the years ended June 30, 2015 and 2014 are summarized as follows (in thousands):

	2015	2014
Construction	\$ 18,641	\$ 19,804
Safety	2,384	6,639
Special Trains	330	233
Total	<u>\$ 21,355</u>	<u>\$ 26,676</u>

Expenses related to third party agreements support the scope of the specific agreement. The costs of third party agreements for the years ended June 30, 2015 and 2014 are summarized as follows (in thousands):

	2015	2014
Construction	\$ 16,238	\$ 19,735
Safety	2,463	6,639
Special Trains	330	233
Total	<u>\$ 19,031</u>	<u>\$ 26,607</u>

(k) 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, communications, signals and equipment as well as outsourced staffing for the operation of passenger train services.

SCRRA's operator services contract transitioned to a new operator, National Railroad Passenger Corporation (Amtrak), on June 26, 2010 and is set to expire June 30, 2017.

SCRRA's rolling stock is maintained through the use of an equipment maintenance agreement with an independent contractor (Bombardier, Inc.). This agreement remains in effect until June 30, 2016.

SCRRA maintains infrastructure through various maintenance agreements with independent contractors. The track and structures are maintained under agreement with Veolia Transportation Maintenance and Infrastructure, Inc. (VTMI), and the contract expires December 2018. Communications and signals are maintained under agreement with Mass Electric Communications and the agreement expires December 2019.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) POLICY REGARDING USE OF RESTRICTED VS. UNRESTRICTED RESOURCES

When both restricted and unrestricted resources are available for use, it is SCRRA's policy to use restricted resources first and then unrestricted resources, as they are needed.

(m) CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, SCRRA considers all cash and cash deposits, investments in the LAIF, investments in mutual and similar funds, and other investments with original maturities of less than three months to be cash and cash equivalents.

(n) USE OF ESTIMATES

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

(o) REVENUE RECOGNITION

SCRRA distinguishes operating revenues and expenses from non-operating items. Operating revenues generally include passenger fares charged for commuter rail services, dispatching fees, third party agreements and maintenance of way revenues.

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.

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

(p) 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 the SCRRA 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.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) RECLASSIFICATIONS

Certain accounts presented in the 2014 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.

(r) EFFECTS OF NEW ACCOUNTING PRONOUCEMENTS

SCRRA adopted the following Governmental Accounting Standards Board (GASB) statements in fiscal year ended June 30, 2015:

GASB Statement No. 68

In June of 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of this Statement will improve the decision-usefulness of information in employer financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The implementation of this statement had a material impact on the financial statements (see note 11). The provisions of Statement 68 were effective for fiscal year ended June 30, 2015.

GASB Statement No. 71

In November of 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The Statement is to be implemented concurrently with GASB Statement 68 as it amends paragraph 137 by allowing a government to only recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability, but before the start of the fiscal year instead of all applicable deferred inflows and outflows of resources related to pensions if it is not practical to determine the amounts. The provisions of Statement 71 were effective for fiscal year ended June 30, 2015 (see note 11).

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

GASB Statement No. 72

In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to provide guidance in determining fair value measurements along with application to certain investments and disclosures. The Statement is effective for financial statements for fiscal years beginning after June 15, 2015.

GASB Statement No. 73

In June of 2015, 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 nonemployer 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 is not applicable to SCRRA.

GASB Statement No. 74

In June of 2015, 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 pensions. The Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

GASB Statement No. 75

In June of 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve financial reporting by identifying the hierarchy of GAAP in the context of the current governmental financial reporting environment. The Statement is effective for financial statements for fiscal years beginning after June 15, 2015, and should be applied retroactively.

GASB Statement No. 76

In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to improve information related to pensions. The Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(3) CASH AND INVESTMENTS

SCRRA's Investment Policy (Investment Policy) sets forth the investment guidelines for all funds of SCRRA. The Investment Policy conforms to the California Government Code (Code) Section 53600 et. seq. The authority to manage SCRRA's investment program is derived from 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 the 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.

SCRRA INVESTMENT POLICY

The primary objective of the investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of SCRRA. SCRRA's policy is to invest only in high-quality instruments as permitted by the California Government Code (Code) subject to the limitations of the Investment Policy.

Investments in which the Treasurer may purchase include:

- United States Treasury notes; U.S. Treasury coupons and principal Separate Trading of Registered Interest and Principal of Securities (STRIPS);
- 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;
- Obligations issued by banks for cooperatives, federal land banks, federal home loan banks, the Federal Home Loan Bank Board or other instruments of, or issued by, a federal agency or United States government sponsored enterprise;
- Bankers Acceptances (not over 180 days maturity, not to exceed 30% (Code allows 40%) of the total portfolio); Commercial Paper of "prime quality" (rated P-1 by Moody's Investor Services or A or better by Standard & Poor's Corporation) and these investments are further restricted as to a percentage of the whole portfolio and the dollar-weighted average maturity is also restricted;
- Negotiable certificates of deposit issued by approved banks, not to exceed 30% of the total portfolio;
- Repurchase agreements are permitted investments but are subject to stringent rules regarding term, value and timing, all put in place to minimize risk of loss;
- Medium term notes rated "AA" (Code allows "A" ratings or better) or better by a nationally recognized rating service, not to exceed 30% of the portfolio;
- Shares of beneficial interest issued by a diversified management companies (commonly called money market funds) subject to certain limitations;
- Shares of beneficial interest issued by a diversified management companies (commonly called mutual funds) subject to certain limitations;
- Mortgage pass-through securities and other mortgage and consumer receivable backed bonds subject to the credit rating of the issuer and not to exceed 20% of the portfolio;

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(3) CASH AND INVESTMENTS (Continued)

- Investment agreements are permitted with any bank, insurance company or broker-dealer but are subject to certain limitations;
- State of California Local Agency Investment Fund (LAIF): LAIF is a pooled fund managed by the State Treasurer. SCRRA investment policy limits investments in LAIF to \$50 million;
- 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 are to be used as a tool for bonafide hedging investments only where deemed appropriate; and
- Equity securities are to be used for the sole purpose of funding the Supplemental Executive Retirement Plan, specifically the provisions contained in the 457 (f) plan.

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

The Investment Policy and the Code place a 30% limit on the amount of corporate securities that may be held in SCRRA's investment portfolio. SCRRA did not have any securities on hand as of June 30, 2015 and 2014.

SCRRA is a voluntary participant in LAIF that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The SCRRA investment in this pool is reported in the accompanying statements of net position at fair value based on SCRRA's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost basis of each portfolio). The balance available for withdrawal is based on the daily reconciliation of the accounting records maintained by LAIF.

(a) CREDIT RISK

Credit risk is the risk that an issuer will not fulfill its obligation to the holder of the investment. This is measured by a nationally recognized statistical rating organization.

(b) CUSTODIAL CREDIT RISK

As of June 30, 2015 and 2014, the carrying amounts of SCRRA cash on hand and deposits were \$29.8 million \$34.9 million, respectively, while the bank balances were \$29.5 million and \$34.3 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, 2015 and June 30, 2014, the Federal Deposit Insurance Corporation covers \$250,000 of the bank balance with the excess amount covered by collateral held by the pledging bank's trust department or agent and are held in SCRRA's name. California Government Code Section 53652 requires California financial institutions to collateralize deposits of public funds by pledging government securities at 110% or first trust deed mortgage notes having a value equal to 150% of a governmental unit's total deposit.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. All of SCRRA's investment securities are held in the States Local Agency Investment Fund (LAIF).

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(3) CASH AND INVESTMENTS (Continued)

(c) CONCENTRATION OF CREDIT RISK

The Investment Policy contains some limitations on the amount that can be invested in any one issuer beyond that which is stipulated by the California Government Code. There are no investments in any one issuer (U.S. Treasury securities, mutual funds and external investment pools are exempt) that represent 5% or more of total investments at June 30, 2015 and 2014.

(d) INTEREST RATE RISK

Interest rate risk is the potential loss due to the fair value of an investment falling due to interest rates rising. SCRRRA's portfolio as of June 30, 2015 and June 30, 2014 approximated \$40.3 million and \$32.2 million, respectively; with 100% of the portfolios having maturities of one month or less.

Of the remainder, no investments had a maturity of more than 5 years in either of the years ended June 30, 2015 or 2014.

The following schedules indicate the credit and interest rate risk as of June 30, 2015 and 2014, respectively. The credit ratings listed are from Moody's Investor Services and Standard & Poor's. Certain investments such as obligations, which are backed by the full faith and credit of the United States Treasury, are not subjected to credit rating (in thousands).

June 30, 2015	Interest Rate Range	Credit rating Moody's / S&P	Maturity				Carrying value as of 6/30/2015
			Under 30 Days	31-180 Days	180-365 Days	1-5 Years	
In custody of Treasurer:							
Cash and cash deposits:							
Cash on hand							\$ 288
Cash in banks							29,475
Money market funds							3,701
Total cash and cash deposits							33,464
Investments held by Treasurer:							
Local Agency Investment Funds	0.24% - 0.28%	Not rated	40,278				40,278
Total cash and investments							\$ 73,742
<hr/>							
June 30, 2014	Interest Rate Range	Credit rating Moody's / S&P	Maturity				Carrying value as of 6/30/2014
In custody of Treasurer:							
Cash and cash deposits:							
Cash on hand							\$ 580
Cash in banks							34,289
Money market funds							3,695
Total cash and cash deposits							38,564
Investments held by Treasurer:							
Local Agency Investment Funds	0.22% - 0.26%	Not rated	32,183				32,183
Total cash and investments							\$ 70,747

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(4) 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, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
Third Party Agreements	\$ 8,076	\$ 6,151
Subsidies and grants - federal, state and local		
Los Angeles County Metropolitan Transportation Authority (LACMTA)	20,113	31,220
Orange County Transportation Authority (OCTA)	3,175	3,608
San Bernardino Associated Governments (SANBAG)	456	415
Riverside County Transportation Commission (RCTC)	456	647
Ventura County Transportation Commission (VCTC)	212	314
CA. Dept. of Transportation	32,211	20,280
California Governor's Office of Emergencies	-	7,907
Federal Transit Administration (FTA)	6,881	7,751
Federal Railroad Administration (FRA)	271	1,589
Other	52	88
Total	<u>71,903</u>	<u>79,970</u>
Allowance for uncollectible accounts	<u>(1,834)</u>	<u>(2,280)</u>
Total due from other agencies, net	<u>\$ 70,069</u>	<u>\$ 77,690</u>

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements For the years ended June 30, 2015 and 2014

(5) CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2015 and 2014 is as follows (in thousands):

	June 30, 2013	Additions	Transfer/ Deletions	June 30, 2014	Additions	Transfer/ Deletions	June 30, 2015
Non-depreciable capital assets:							
Land	\$ 168	\$ -	\$ -	\$ 168	\$ -	\$ -	\$ 168
Easement	2,413	-	-	2,413	-	-	2,413
Construction in progress	182,505	74,526	(41,959)	215,072	35,942	(190,638)	60,376
Infrastructure assets	627,885	39,121	-	667,006	203	-	667,209
Total non-depreciable capital assets:	812,971	113,647	(41,959)	884,659	36,145	(190,638)	730,166
Depreciable capital assets:							
Building and improvements	161,258	788	-	162,046	15,580	-	177,626
Positive Train Control (PTC)	-	-	-	-	170,043	-	170,043
Rolling stock	607,582	792	(2,636)	605,738	-	(22,898)	582,840
Fare collection systems	17,174	-	-	17,174	-	(627)	16,547
Computer and other equipment	11,566	1,521	-	13,087	4,357	-	17,444
Support vehicles	4,783	438	(54)	5,167	455	(40)	5,582
Total depreciable capital assets	802,363	3,539	(2,690)	803,212	190,435	(23,565)	970,082
Less accumulated depreciation for:							
Building and improvements	(42,852)	(7,991)	-	(50,843)	(8,065)	-	(58,908)
Rolling stock	(243,160)	(19,547)	2,002	(260,705)	(14,359)	16,337	(258,727)
Fare collection systems	(8,925)	(1,668)	-	(10,593)	(1,599)	394	(11,798)
Computer and other equipment	(5,386)	(1,937)	-	(7,323)	(2,104)	-	(9,427)
Support vehicles	(3,654)	(582)	50	(4,186)	(519)	40	(4,665)
Less accumulated depreciation	(303,977)	(31,725)	2,052	(333,650)	(26,646)	16,771	(343,525)
Total depreciable assets, net	498,386	(28,186)	(638)	469,562	163,789	(6,794)	626,557
Capital assets, net of depreciation	\$ 1,311,357	\$ 85,461	\$ (42,597)	\$ 1,354,221	\$ 199,934	\$ (197,432)	\$ 1,356,723

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(6) LONG-TERM OBLIGATIONS

Long-term obligation activity for the year ended June 30, 2015 and June 30, 2014 is as follows (in thousands):

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015	Due in 1 year
Claims and judgments	\$ 5,446	\$ 6,542	\$ (763)	\$ 11,225	\$ 342
Notes payable	18,000	-	-	18,000	-
Net pension liability	-	9,164	(3,424)	5,740	-
Other post employment benefits	12,079	61	-	12,140	-
	<u>\$ 35,525</u>	<u>\$ 15,004</u>	<u>\$ (3,424)</u>	<u>\$ 47,105</u>	<u>\$ 342</u>
Current portion				(342)	
Total long-term obligations				<u>\$ 46,763</u>	

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014	Due in 1 year
Claims and judgments	\$ 5,675	\$ 804	\$ (1,033)	\$ 5,446	\$ 788
Notes payable	18,000	-	-	18,000	-
Net pension liability	-	-	-	-	-
Other post employment benefits	11,997	2,260	(2,178)	12,079	-
	<u>\$ 35,672</u>	<u>\$ 3,064</u>	<u>\$ (3,211)</u>	<u>\$ 35,525</u>	<u>\$ 788</u>
Current portion				(788)	
Total long-term obligations				<u>\$ 34,737</u>	

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 accrues interest at 3.52% compounded monthly and payable annually with principal due and payable June 30, 2017. SCRRA intends to use funds from California Emergency Management Agency Proposition 1B Transit Security Grant Program Funds (Prop 1B) to pay the note and related interest. It is management's intent to prepay a portion of the note in FY 2016.

For the fiscal years ended June 30, 2015 and 2014, SCRRA incurred interest expense of \$650,000. In FY 2015, this expense was accrued and actual payment was made in the following fiscal year.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(6) LONG-TERM OBLIGATIONS (Continued)

Note payable activity for the years ended June 30, 2015 and 2014 is as follows (in thousands):

	<u>Balance at</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2015</u>	<u>Due in 1 year</u>
Long Term Notes payable	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,000</u>	<u>\$ -</u>

	<u>Balance at</u> <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2014</u>	<u>Due in 1 year</u>
Long Term Notes payable	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,000</u>	<u>\$ -</u>

The principal maturity of the note payable outstanding as of June 30, 2015 is as follows (in thousands):

<u>Year ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ -	\$ 669
2017	<u>18,000</u>	<u>689</u>
	<u>\$ 18,000</u>	<u>\$ 1,358</u>

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(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 1st of each year. The Board must adopt a final budget no later than June 30th of each year. Once SCRRA's annual budget is approved by the Board, each member agency pays in advance, on a quarterly basis, their annual operating subsidy. Operating surplus indicates that the operating subsidies exceeded the member agencies' share of actual operating revenues earned and expenses incurred by SCRRA during the year. On the contrary, operating deficit indicates that the operating subsidies is less than the member's share of actual operating revenues earned and expenses incurred by SCRRA; however, the operating deficit is not considered 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 advancements 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.

Additionally, included within unearned revenue activity in the "Other" column are Proposition 1B (Prop 1B) funds which are treated for accounting purposes in the same manner as previously described. Prop 1B funds are received through assignment from various member agencies or directly to SCRRA as the primary recipient. See description on Proposition 1B funds following the unearned revenue activity schedule.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements For the years ended June 30, 2015 and 2014

(7) UNEARNED REVENUE AND ADVANCES ON CAPITAL PURCHASES (Continued)

Unearned revenue activity for the years ended June 30, 2015 and 2014 is as follows (in thousands):

	LACMTA	OCTA	RCTC	SANBAG	VCTC	OTHER	TOTAL
Unearned revenue at June 30, 2013	\$ 12,842	\$ 6,064	\$ 3,303	\$ 6,924	\$ (11,169)	\$ 33,334	\$ 51,298
Subsidies invoiced:							
Operating	43,301	16,425	7,084	9,021	1,312	-	77,143
Public liability and property damage	9,302	3,782	1,181	2,439	598	-	17,302
Capital	514	533	-	2	151	13,278	14,478
Other	-	-	-	-	-	1,360	1,360
Subsidies recognized:							
Operating	(45,736)	(15,517)	(6,478)	(9,331)	(6,731)	-	(83,793)
Public liability and property damage	(8,747)	(3,557)	(1,111)	(2,295)	(563)	-	(16,273)
Capital	(1,002)	(762)	(2,766)	(249)	(525)	(13,669)	(18,973)
Other	-	-	-	-	-	(273)	(273)
FY14 uses of operating surplus	(142)	(1,416)	-	(2,500)	-	-	(4,058)
Interest allocation	36	14	5	7	2	-	64
Adjustments:							
Inventory Adjustment	1,293	536	140	297	140	-	2,406
FY14 VCTC/LACMTA swap	-	-	-	-	5,910	-	5,910
Unearned revenue at June 30, 2014	\$ 11,661	\$ 6,102	\$ 1,358	\$ 4,315	\$ (10,875)	\$ 34,030	\$ 46,591
Subsidies invoiced:							
Operating	49,166	17,991	7,984	9,540	1,727	-	86,408
Public liability and property damage	9,431	4,197	1,263	2,201	586	-	17,678
Capital	41	-	-	27	150	22,870	23,088
Other	-	-	-	-	-	1,424	1,424
Subsidies recognized:							
Operating	(50,705)	(18,519)	(8,278)	(9,662)	(7,469)	-	(94,633)
Public liability and property damage	(8,325)	(3,733)	(1,109)	(1,944)	(514)	-	(15,625)
Capital	(925)	(110)	(783)	(592)	(192)	(12,705)	(15,307)
Other	-	-	-	-	-	(7,629)	(7,629)
FY15 uses of operating surplus	-	(120)	-	-	-	-	(120)
Interest allocation	7	-	-	1	1	85	94
Adjustments:							
FY15 VCTC/LACMTA swap	-	-	-	-	1,872	-	1,872
Unearned revenue at June 30, 2015	\$ 10,351	\$ 5,808	\$ 435	\$ 3,886	\$ (14,714)	\$ 38,074	\$ 43,840

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(7) UNEARNED REVENUE AND ADVANCES ON CAPITAL PURCHASES (Continued)

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 was deposited into the PTMISEA fund, \$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 for rolling stock procurement, rehabilitation or replacement. Additionally, Senate Bill 88 of the 2007 Statutes appropriates funds from Proposition 1B to the California Transit Security Grant Program (CTSGP), administered by the California Emergency Management Agency (CalEMA). Proposition 1B (Prop 1B) activity during the fiscal years ended June 30, 2015 and 2014 (see note 2 item b) was as follows (in thousands):

	PTMISEA				CTSGP		TOTAL
	LACMTA	SANBAG	VCTC	SCRRA	VCTC	SCRRA	
Unexpended Prop 1B funds FY 2013	\$ 2,690	\$ 553	\$ -	\$ 27,741	\$ 597	\$ 460	\$ 32,041
Prop 1B funds collected	-	-	-	-	150	8,869	9,019
Prop 1B expenses incurred	(15)	-	-	(4,711)	(525)	(8,757)	(14,008)
Interest revenue earned	7	1	-	59	1	5	73
Unexpended Prop 1B funds FY 2014	\$ 2,682	\$ 554	\$ -	\$ 23,089	\$ 223	\$ 577	\$ 27,125
Prop 1B funds collected	-	-	150	15,001	-	7,870	23,021
Prop 1B expenses incurred	(568)	(246)	(77)	(8,695)	(115)	(3,872)	(13,573)
Interest revenue earned	7	1	-	65	-	20	93
Unexpended Prop 1B funds FY 2015	\$ 2,121	\$ 309	\$ 73	\$ 29,460	\$ 108	\$ 4,595	\$ 36,666

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(8) LEASE/LEASEBACK

In fiscal year 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 considered to be defeased in substance. Accordingly, the related debt as well as the investments has been excluded from SCRRA's financial statements.

Additionally, in July 2003, SCRRA entered into a restructured agreement related to the 1996 transaction. 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 recognized by SCRRA from this lease/leaseback agreement was \$19.1 million fully amortized in FY2013.

In fiscal year 1999, SCRRA entered into another agreement to lease 25 bi-level commuter rail cars and 2 diesel locomotives and simultaneously entered into a sublease agreement with the lessee to lease them back. SCRRA received proceeds of approximately \$36.5 million of which it used \$24.7 million and \$7.7 million for debt and equity defeasance, respectively. This amount is sufficient to cover all lease payments due under the agreements and to exercise the repurchase options. As a result, all obligations under this lease/leaseback transaction are considered defeased in substance. Accordingly, the related debt and the investment have been excluded from SCRRA's financial statements. The gain recognized by SCRRA from this lease/leaseback (LILO) agreement was approximately \$3.8 million for rail cars and \$400,000 for locomotives, and is being amortized over the life of the leases. The net gain recognized for the years ended June 30, 2015 and June 30, 2014 totaled \$506,984 and \$203,000 respectively. This 1998 LILO net gain was fully amortized in FY2015 as this lease/leaseback agreement was terminated as of December 23, 2014. SCRRA paid a termination amount of \$729,955 as a result of selling sixteen of the related rail cars to the State of California at the sale price of \$5.6 million. The remaining book value of these assets was \$6.8 million, producing a loss of \$1.2 million.

In fiscal year 2003, SCRRA entered into another lease agreement to lease 27 rail cars 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 rail cars and \$1.1 million for locomotives, and is being amortized over the life of the leases. The amortization for both years ended June 30, 2015 and June 30, 2014 was \$205,000 per annum.

The deferred lease proceeds remaining to be amortized over the life of all lease/leaseback agreements was \$3.5 million and \$4.3 million for fiscal years 2015 and 2014, respectively. Refer to Note 13 for additional disclosure related to leveraged lease transactions.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(9) RISK MANAGEMENT

SCRRA is partially self-insured for its risk of loss from operations related to torts; theft of, damage to, and destruction of assets; error and omissions, injuries to employees; and natural disasters. The self-insurance maximum exposure for public liability claims was \$5.0 million per occurrence as of June 30, 2015. Claims in excess of this amount are covered by an insurance policy up to an annual aggregate of \$275.0 million. Property damage insurance deductible is \$100,000 with a special equipment deductible of \$2.0 million per occurrence. During the prior three years, no claims were incurred in excess of insurance coverage.

SCRRA is fully insured for workers' compensation 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.

The estimated claims liability and changes in claims liability for years ended June 30, 2015 and 2014 is listed below (in thousands):

	Balance at June 30, 2014	Claims Incurred and Change in Estimate	Payments on Claims	Balance at June 30, 2015	Due in 1 year
Claims and judgments	<u>\$ 5,446</u>	<u>\$ 6,542</u>	<u>\$ (763)</u>	<u>\$ 11,225</u>	<u>\$ 342</u>

	Balance at June 30, 2013	Claims Incurred and Change in Estimate	Payments on Claims	Balance at June 30, 2014	Due in 1 year
Claims and judgments	<u>\$ 5,675</u>	<u>\$ 804</u>	<u>\$ (1,033)</u>	<u>\$ 5,446</u>	<u>\$ 788</u>

(10) 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 expenses for the years ended June 30, 2015 and 2014 totaled \$2.2 million and \$1.9 million respectively.

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 through year 2016 as follows: 37.5% from 1999 to 2006; 40% from 2007 to 2011; and 47.5% from 2012 to 2016. The percentage share beyond 2016 will be negotiated at a future period. FY 2016 maintenance costs are estimated to be around \$896,786.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS

(a) GENERAL INFORMATION ABOUT THE PENSION PLAN

Adoption of GASB 68 and 71 – Effective July 1, 2014, adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, which replaced GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68, which requires SCRRA to record its proportionate share of the defined benefit pension obligation for retirement benefits provided under California Public Employees’ Retirement System. Restatement of the amounts of pension expense, deferred inflows of resources, and deferred outflows of resources for the prior period presented it not practical due to the unavailability of information from the pension plan; therefore, the provisions of GASB Statements No. 68 and 71 were not applied to the prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as adjustments to the beginning net position for the year ended June 30, 2015, in accordance with the Statements. The cumulative effect this adjustment to net position is \$6.3 million and comprises the addition of the net pension liability of \$9.1 million and deferred outflows of resources in the amount of \$2.8 million.

Plan Descriptions – 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. Benefit provisions under the Plan are established by State statute and SCRRA. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS (Continued)

The Plan's provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	9.246%	9.246%

Employees Covered – At June 30, 2015, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	99
Inactive employees entitled to but not yet receiving benefits	5
Active employees	217
Total	321

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

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS (Continued)

(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, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality (3)	

- (1) Depending on age, service and type of employment.
- (2) Net of pension plan investment expenses, including inflation.
- (3) Underlying mortality assumptions based on results of a January 2014 actuarial experience study 1997 to 2011. Details can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% 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, the Plan will not run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS (Continued)

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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 cash flows. Using historical returns of all the funds' asset classes, expected compound 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.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS (Continued)

The table below reflects the 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. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

(c) CHANGES IN THE NET PENSION LIABILITY

The changes in the Net Pension Liability for each Plan follows (in thousands):

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	<u>\$47,090</u>	<u>\$37,926</u>	<u>\$9,164</u>
Changes in the year:			
Service cost	2,687	-	2,687
Interest on the total pension liability	3,571	-	3,571
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	1,674	(1,674)
Contribution - employee (paid by employer)	-	1,150	(1,150)
Contribution - employee	-	111	(111)
Net investment income	-	6,747	(6,747)
Benefit payments, including refunds of employee contributions	(1,633)	(1,633)	-
Net changes	<u>4,625</u>	<u>8,049</u>	<u>(3,424)</u>
Balance at June 30, 2015	<u>\$51,715</u>	<u>\$45,975</u>	<u>\$5,740</u>

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of SCRRA for the Plan, calculated using the discount rate for the Plan, as well as what SCRRA’s net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$12,943
Current Discount Rate	7.50%
Net Pension Liability	\$5,740
1% Increase	8.50%
Net Pension Liability/(Asset)	(\$219)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

(d) PENSION EXPENSES AND DEFERRED OUTFLOWS/INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2015, SCRRA recognized pension expense of \$2,461,750. At June 30, 2015, SCRRA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$2,850	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Net differences between projected and actual earnings on plan investments	-	(\$3,087)
Total	<u>\$2,850</u>	<u>(\$3,087)</u>

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(11) PENSION BENEFITS (Continued)

\$2,849,750 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

Year Ended	
June 30	
2016	(\$772)
2017	(772)
2018	(772)
2019	(771)
2020	-
Thereafter	-

(12) POSTEMPLOYMENT HEALTHCARE PLAN

PLAN DESCRIPTION

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). Benefit provisions are established and may be amended through agreements and memorandums of understanding between SCRRA, its management employees, and unions representing SCRRA employees. The copy of the CalPERS annual financial report may be obtained from CalPERS On-Line at <http://www.calpers.ca.gov/> or call the CalPERS Customer Contact Center at 888-225-7377.

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.

Prior to fiscal year 2014, SCRRA paid retiree healthcare benefits on a pay-as-you go basis. For fiscal years 2015 and 2014, current benefit payments were approximately \$679,000 and \$673,000 respectively. In fiscal year 2015, SCRRA contributed \$1.6 million towards postemployment healthcare benefits administrated in a retirement trust by CalPERS – CERBT bringing total contributed to the annual required contribution (ARC) of \$2.2 million. 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 other postemployment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. 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.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(12) POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

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 (in thousands):

	<u>FY 2015</u>	<u>FY 2014</u>
Annual required contribution (ARC)	\$ 2,249	\$ 2,178
Interest on net OPEB obligation	919	913
Adjustment to annual required contribution	<u>(858)</u>	<u>(831)</u>
Annual OPEB cost	2,310	2,260
Actual benefits payments	(679)	(673)
Contribution to trust	<u>(1,570)</u>	<u>(1,505)</u>
Total contributions	(2,249)	(2,178)
Net increase in net OPEB obligation	61	82
Net OPEB obligation - beginning of the year	<u>12,079</u>	<u>11,997</u>
Net OPEB obligation - end of the year	<u>\$ 12,140</u>	<u>\$ 12,079</u>

SCRRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2015 and the two preceding years were as follows (in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligations</u>
June 30, 2013	\$ 2,802	23.5%	\$ 11,997
June 30, 2014	2,260	96.4%	12,079
June 30, 2015	2,310	97.4%	12,140

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 liabilities (AAL)	<u>FY 2015</u> \$ 19,682
Value of plan assets	<u>(3,170)</u>
Unfunded actuarial accrued liabilities (UAAL)	\$ 16,512
Funded Ratio (actuarial value of plan assets / AAL)	16.1%
Covered Payroll (active Plan members)	22,966
UAAL as a percentage of covered payroll	71.9%

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(12) POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

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 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 liabilities 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, 2013 & June 30, 2015 actuarial valuation, 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 a pre-medicare medical cost 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 UAAL is being amortized as a level percentage of projected payroll with a closed 21 period remaining in fiscal year 2017.

(13) LITIGATION AND OTHER CONTINGENCIES

SCRRA is presently involved in certain matters of litigation that have arisen in the normal course of business. Although the ultimate effect of these matters is not presently determinable, management believes that these matters will not have a material effect, if any, on SCRRA's financial condition.

From April 1996 through July 2003, SCRRA executed four leveraged lease transactions, commonly known as Lease-in/Lease-out (LILO) transactions (Note 8). 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.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(13) LITIGATION AND OTHER CONTINGENCIES (Continued)

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 intends 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, 2015 and 2014 was approximately \$41.0 million and \$45.3 million. 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.

(14) RELATED PARTY TRANSACTIONS

Member agencies under the Joint Power Agreement, LACMTA, OCTA, VCTC, RCTC, and SANBAG, contribute operating subsidies to SCRRA. SCRRA’s independent governing Board consists of 11 members appointed by the member agencies (see notes 4, 6, and 7).

The operating subsidies invoiced to SCRRA for the years ended June 30, 2015 and 2014 were \$86.4 million and \$77.1 million respectively. Self-insurance reserve subsidies paid to SCRRA for the years ended June 30, 2015 and 2014 were \$17.7 million and \$17.3 million, respectively.

(15) SUBSEQUENT EVENTS

On June 30, 2015, the California State Transportation Agency (CalSTA) announced the allocation of \$41 million to Metrolink to help fund up to nine low-emission Tier 4 locomotives. The source of this funding comes from the Transit and Intercity Rail Capital Program (TIRCP), which provides grants from the Greenhouse Gas Reduction Fund. The total projected cost for the nine Tier 4 locomotives is \$58.1 million, with the remainder of the funds being provided through a combination of member agency contributions and other subsidies. These locomotives are scheduled to be in service by the end of 2017.

In September 2015, the South Coast Air Quality Management District (SCAQMD) Governing Board approved to execute a contract with Metrolink for \$22.9 million. In addition, they agreed to consider an additional \$36 million over four phases to help fund low-emission Tier 4 locomotives in future requests. This will help fund an order of up to 20 additional new Tier 4 passenger locomotives. The first of the low-emission locomotives are expected to begin operating throughout the Metrolink system in late 2016.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2015 and 2014

(15) SUBSEQUENT EVENTS (Continued)

Beginning January 1, 2016, Metrolink lowered its one-way, short distance fares to as low as \$3.00 and \$1.50 for seniors. This was designed to increase ridership by encouraging local trips using Metrolink as a transportation option. The fare change is a 45% discount to the current average fare of \$5.50 for a one-way ticket between stations. Although this may decrease fare revenue, we do not believe it will have a significant impact to the financial statements.

On January 15, 2016, the Metrolink Board of Directors approved an additional \$2.2 million in spending, not to exceed \$3.8 million, to enable its transition to mobile ticketing by contracting with Masabi, a company that specializes in mobile ticketing innovations. The funds will be used for optical barcode readers at Metro Rail station turnstiles, which will allow Metrolink tickets and passes purchased on mobile devices to seamlessly open gates. This will let Metrolink customers ride the Metro Rail with the same ticket or pass. Metrolink plans on providing riders on all service lines the option of buying tickets through mobile ticketing and continue a seamless connection to dozens of city bus, shuttle bus, light rail and subway lines at no additional cost by fall 2016. Ticket vending machines will still be available as an option to Metrolink riders.

Metrolink plans on enhancing safety and performance by adding a second locomotive to each train set by entering into a 12-month lease for 40 locomotives from BNSF Railway. These locomotives will also be outfitted with Positive Train Control (PTC) and Automatic Train Stop (ATS) technologies. The addition of these locomotives will address issues with mechanical delays and increase safety measures for the passengers. It is estimated that the lease, operation, maintenance, and modification of these locomotives will cost \$11.5 million.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

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 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 member's assets and rail right-of-way used in operations. Additionally, certain members retain responsibility to maintain non-operating segments of their railroad network. The Metrolink infrastructure consists of capital assets created as a result of new capital construction and major capital improvement projects. The Metrolink infrastructure assets consist of over 500 miles of track, over 700 bridges and tunnels, and 655 signal and communication devices. The service area for this network covers approximately 2,300 square miles with a population of over 20 million.

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

Metrolink Subdivisions



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE

SCRRA elected to use the modified approach in reporting their 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 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. A condition assessment must be performed every three years. 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 fiscal year 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 year ended June 30, 2015 and June 30, 2014 resulted in an overall rating of 81 and 81 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).

Government accounting standards require that a condition assessment must 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. The result of the next system wide condition assessment is now available with this fiscal year ending June 30, 2015.

The infrastructure maintenance and preservation costs which include maintenance of way, rehabilitation and renovation capital expenses for the past 5 years are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 45,681
2014	42,789
2013	42,156
2012	38,518
2011	10,001

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(1) CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE (Continued)

The total estimated funding needed for maintenance and preservation to achieve the minimum railroad condition index standard is \$94,982,000 for the subsequent year. 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 spending for maintenance and rehabilitation for the past 5 years are shown below (in thousands):

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 73,220
2014	56,029
2013	36,628
2012	30,372
2011	44,549

(2) CAPITAL ASSETS – BASIS FOR CONDITION MEASUREMENT & MEASUREMENT SCALE

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 was given a condition assessment. The components include: rail, crossties, crossings, embankments and turnouts (TO’s). All of these components added together equal 100 points.

Rail was 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 are available for rail.

<u>REPLACEMENT YEARS REMAINING</u>	<u>POINTS</u>
20 +	30
10-20	25
5-10	20
3-5	15
1-3	10
0-1	2

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(2) CAPITAL ASSETS – BASIS FOR CONDITION MEASUREMENT & MEASUREMENT SCALE (Continued)

Crossties were 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 are available for crossties.

DEFECTIVE TIES PER MILE	POINTS
0-400	25
401-800	21
801-1,200	18
1,201-1,500	13
1,501-1800	10
1,801-3250	3

Turnouts (TO's) were 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 are available for turnouts.

REPLACEMENT YEARS REMAINING	POINTS
20 +	15
15	13
10	11
5	8
0-4	4

Crossings were 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 are available for crossings.

REPLACEMENT YEARS REMAINING	POINTS
20 +	15
15	13
10	11
5	8
0-4	4

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(2) CAPITAL ASSETS – BASIS FOR CONDITION MEASUREMENT & MEASUREMENT SCALE (Continued)

Embankments were 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 are available for embankments.

Condition	Points
Good	15
Minor Maintenance	13
Fouling Ballast – drainage	11
Narrow but stable	8
Instabilities, inefficient drainage	6

Each of these components of the track was 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 five plus years with only routine inspection and repair; essentially a “like new” condition.
- Good (80-89) - A track segment that has some components which 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 will be 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.
- Critical (59 or below) - A track segment that is operating at less than full capacity and must have repairs or rehabilitation within the year in order to continue operation.

Based on the condition assessment as of the year ended June 30, 2013, the most recent assessment, the track had an average rating of 79 points or “Fair.”

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(2) CAPITAL ASSETS – BASIS FOR CONDITION MEASUREMENT & MEASUREMENT SCALE (Continued)

STRUCTURES

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

BRIDGES

Bridges were 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	95-100
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 was 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 757 bridges owned and maintained by the SCRRA. Based on the condition assessment as of the year ended June 30, 2013, the bridges had an average rating of 80 points or “Good.”

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(2) CAPITAL ASSETS – BASIS FOR CONDITION MEASUREMENT & MEASUREMENT SCALE (Continued)

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.

<u>Condition</u>	<u>Points</u>
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, 2013, the most recent assessment, the tunnel subsystem had an average rating of 79 points or “Fair.”

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(2) CAPITAL ASSETS – BASIS FOR CONDITION MEASUREMENT & MEASUREMENT SCALE (Continued)

SIGNALS AND COMMUNICATIONS

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

<u>Rating</u>	<u>Points</u>
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 five plus 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 which 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 will be 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.

The SCRRA owns and maintains 655 signal and communication devices. Based on the condition assessment as of the year ended June 30, 2015, the communication devices had an average rating of 85 points or “Good.”

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(3) SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (in thousands)

	2015
Total Pension Liability	
Service cost	\$ 2,687
Interest on total pension liability	3,571
Difference between expected and actual experience	-
Change in assumption	-
Change in benefits	-
Benefits payments, including refunds of employee contributions	(1,633)
Net change in total pension liability	4,625
Total pension liability beginning	47,090
Total pension liability ending (a)	\$ 51,715
 Plan fiduciary net position	
Contributions - employer	\$ 2,824
Contributions - employee	111
Net investment income	6,747
Benefit payments	(1,633)
Net change in plan fiduciary net position	8,049
Plan fiduciary net position - beginning	37,926
Plan fiduciary net position - ending (b)	\$ 45,975
 Net pension liability ending (a) - (b)	\$ 5,740
 Plan fiduciary net position as a percentage of the total pension liability	88.90%
 Covered employee payroll	17,547
 Net pension liability as percentage of covered employee payroll	32.71%

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credits (a.k.a. Golden Handshakes).

Changes in assumptions: There were no changes in assumptions.

Due to the fact that FY 2015 is the first year of implementation of GASB 68, all prior years information was not auditable; thus Metrolink was not able to present a 10-year comparison.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information

June 30, 2015

(4) SCHEDULE OF CONTRIBUTIONS (in thousands):

	2015
Actuarially determined employer contribution	\$ 1,674
Employee contribution paid by employer	1,150
Contributions in relation to the actuarially determined contributions	(2,824)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 17,547
Contributions as a percentage of covered-employee payroll	16.09%

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Valuation date	6/30/2013
 Methods and assumptions used to determine contribution rates	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	20 years
Asset valuation method	5- years smoothed markets
Inflation	2.75%
Salary increase	3% average, including inflation of 2.75%
Investment rate of return	7.50%
Retirement age	2010 CalPERS Experience Study
Mortality	2010 CalPERS Experience Study

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

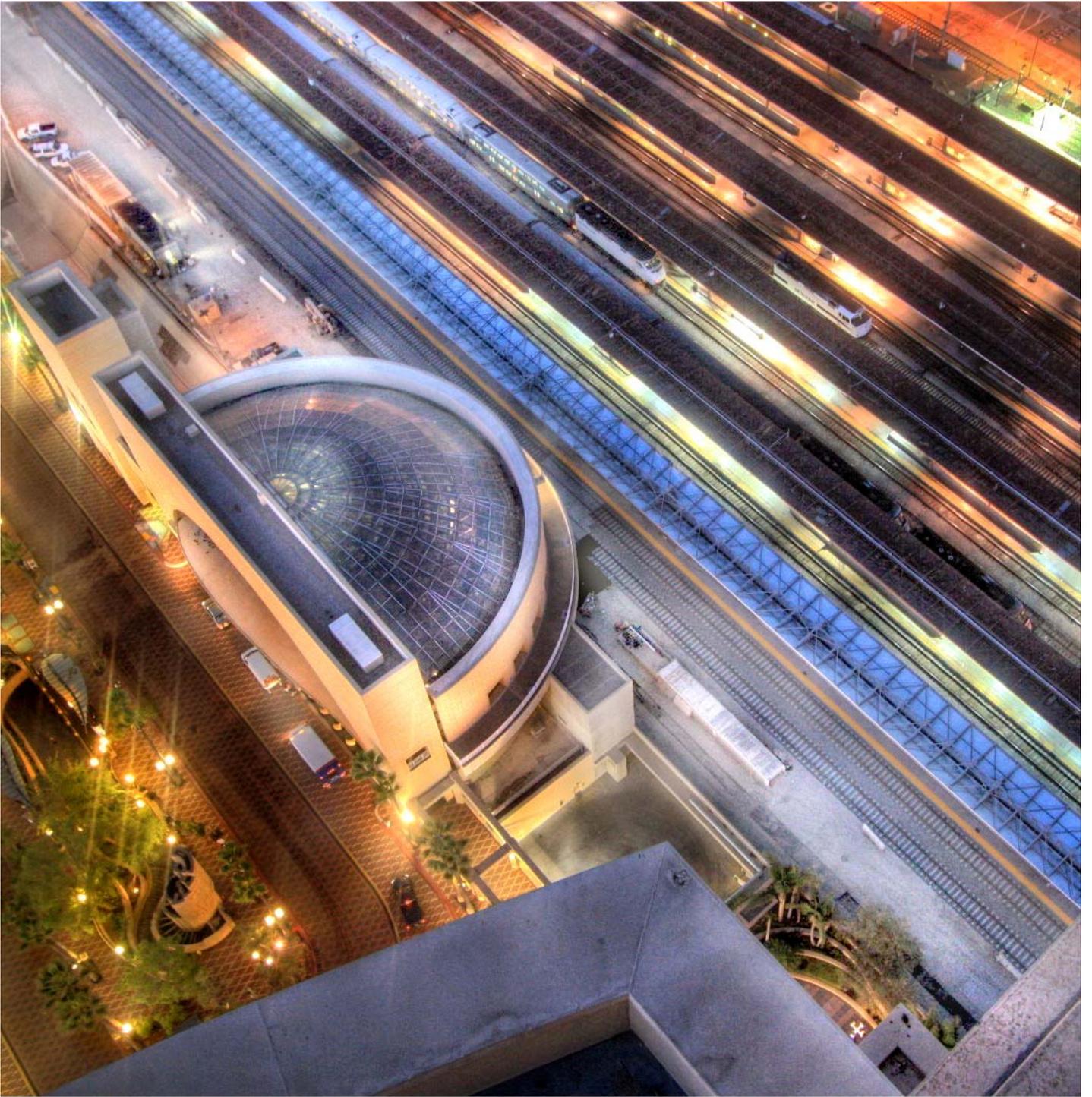
Required Supplementary Information

June 30, 2015

(5) 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%



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.

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REVENUE CAPACITY	
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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
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									
	2015*	2014*	2013*	2012*	2011	2010	2009	2008	2007	2006
Change in net position/net assets:										
Net position/net assets at beginning of year	\$ 1,362,880	\$ 1,315,972	\$ 1,240,785	\$ 1,122,909	\$ 1,003,971	\$ 883,540	\$ 811,956	\$ 765,926	\$ 710,384	\$ 688,781
Increase in net position/net assets	<u>881</u>	<u>46,908</u>	<u>75,187</u>	<u>117,876</u>	<u>118,938</u>	<u>120,431</u>	<u>71,584</u>	<u>46,030</u>	<u>55,542</u>	<u>21,603</u>
Net position/net assets at end of year	<u>\$ 1,363,761</u>	<u>\$ 1,362,880</u>	<u>\$ 1,315,972</u>	<u>\$ 1,240,785</u>	<u>\$ 1,122,909</u>	<u>\$ 1,003,971</u>	<u>\$ 883,540</u>	<u>\$ 811,956</u>	<u>\$ 765,926</u>	<u>\$ 710,384</u>
Net position/net assets by component:										
Investment in capital assets	\$ 1,338,723	\$ 1,336,221	\$ 1,293,357	\$ 1,183,590	\$ 1,084,887	970,148	847,802	777,488	732,142	680,619
Unrestricted	25,038	26,659	22,615	57,195	38,022	33,823	35,738	34,468	33,784	29,765
% of Operating costs covered by revenues and operating grants. Operating costs are net of depreciation, gas tax, third-party agreements, rehabilitation and renovation-capital and rolling stock lease.	48.41%	52.32%	52.49%	56.54%	56.87%	57.97%	54.97%	60.43%	62.11%	58.29%

* 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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating revenues:										
Fares	\$ 83,111	\$ 85,673	\$ 84,360	\$ 79,986	\$ 74,171	\$ 69,343	\$ 73,057	\$ 69,892	\$ 62,275	\$ 54,656
Dispatching	2,516	2,488	2,598	2,957	3,079	3,071	3,111	3,050	2,957	2,962
Third-party agreements	21,355	26,676	28,630	26,548	11,183	20,642	17,407	16,427	11,736	12,489
Maintenance of way revenues	12,991	11,726	14,299	13,432	12,902	11,875	11,107	10,595	9,614	9,947
Gas tax revenue		1,684	10,101	10,235	10,300	8,484	7,832	8,100	9,600	9,372
Public liability and property damage recovery	3,183	3,164	40	32	76	82	380	218	308	1,000
Interest and other income	2,172	393	352	375	368	823	478	583	264	256
Total operating revenues	\$ 125,328	\$ 131,804	\$ 140,380	\$ 133,565	\$ 112,079	\$ 114,320	\$ 113,372	\$ 108,865	\$ 96,754	\$ 90,682
Nonoperating revenues:										
Member agency operating subsidies	\$ 94,632	\$ 80,972	\$ 71,503	\$ 59,080	\$ 59,151	57,446	55,612	45,249	39,328	41,453
Member agency self insurance reserve	15,625	16,273	18,066	17,850	19,612	21,217	15,479	10,822	9,810	8,998
Insurance recoveries	-	-	-	-	-	-	2,500	-	-	2,190
Operating grants	-	-	-	-	-	-	135	328	667	201
Net gain (loss) on disposal of capital assets	(1,895)	(603)	-	-	127	-	(1,624)	35	11	132
Interest and other income	727	1,771	1,202	1,068	1,285	2,512	1,508	3,396	5,551	2,257
Total nonoperating revenues	\$ 109,089	\$ 98,413	\$ 90,771	\$ 77,998	\$ 80,175	\$ 81,175	\$ 73,610	\$ 59,830	\$ 55,367	\$ 55,231
Capital grants and subsidies	\$ 56,485	\$ 86,203	\$ 119,722	\$ 173,476	\$ 199,238	188,336	136,656	84,875	91,737	45,593
Operating expenses:										
Train operations and support	\$ 158,796	\$ 151,575	\$ 147,556	\$ 129,860	\$ 120,297	\$ 115,248	\$ 120,680	\$ 106,730	\$ 96,098	\$ 88,637
Maintenance of way	34,230	29,867	29,313	24,127	30,687	24,289	22,931	23,340	19,913	20,820
Rehabilitation and renovation - capital	23,236	11,782	11,214	34,282	66,941	57,209	54,135	32,604	32,571	16,290
Gas tax expense	-	1,684	10,101	10,235	10,300	8,484	7,832	8,100	9,600	9,372
Third-party agreements	19,031	26,607	29,779	26,561	11,460	19,345	17,641	17,088	11,347	14,453
Insurance and liability claims	19,142	15,100	15,050	17,520	12,826	19,263	14,231	9,211	8,736	10,457
Public liability and property damage	2,600	1,173	1,746	1,848	1,466	2,130	4,252	1,961	1,727	1,997
Depreciation & amortization	26,646	31,724	30,927	22,730	18,577	17,432	10,352	8,506	8,324	7,877
Total operating expenses*	\$ 283,681	\$ 269,512	\$ 275,686	\$ 267,163	\$ 272,554	\$ 263,400	\$ 252,054	\$ 207,540	\$ 188,316	\$ 169,903
Increase in net position	7,221	46,908	75,187	117,876	118,938	120,431	71,584	46,030	55,542	21,603
Cumulative effect of change in accounting principal**	(6,340)									
Fares as a percentage of total operating revenues	66.3%	65.0%	60.1%	59.9%	66.2%	60.7%	64.4%	64.2%	64.4%	60.3%

* 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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Amtrak	\$ -		\$ -	\$ -	\$ -	\$ 164	\$ 62	\$ 46	\$ 415	\$ 803
FEMA, FHWA	3,400	6,518	12,513	4,435	5,389	-	-	-	-	268
Federal Transit Administration	15,862	15,700	9,669	26,800	16,968	34,999	50,491	29,182	33,819	27,356
State of California	28,620	43,594	70,046	86,062	40,767	25,674	19,602	14,990	25,910	8,560
L.A.C. Metropolitan Transportation Authority	4,127	14,601	20,442	8,507	16,631	37,597	26,611	21,391	21,655	3,769
Orange County Transportation Authority	1,331	2,495	(579)	41,599	104,915	83,223	32,933	15,696	7,748	1,484
Riverside County Transportation Commission	836	162	12,586	40	2,385	177	200	93	(61)	(11)
San Bernardino Associated Governments	631	348	539	1,059	4,161	1,841	2,403	1,508	1,079	520
Ventura County Transportation Commission	2	-	22	31	311	99	(40)	190	34	143
Other capital (CMAQ, AQMD, FRA)	1,676	2,785	847	4,943	7,711	4,563	4,393	1,779	830	2,701
Total capital contributions	\$ 56,485	\$ 86,203	\$ 126,085	\$ 173,476	\$ 199,238	\$ 188,337	\$ 136,655	\$ 84,875	\$ 91,429	\$ 45,593

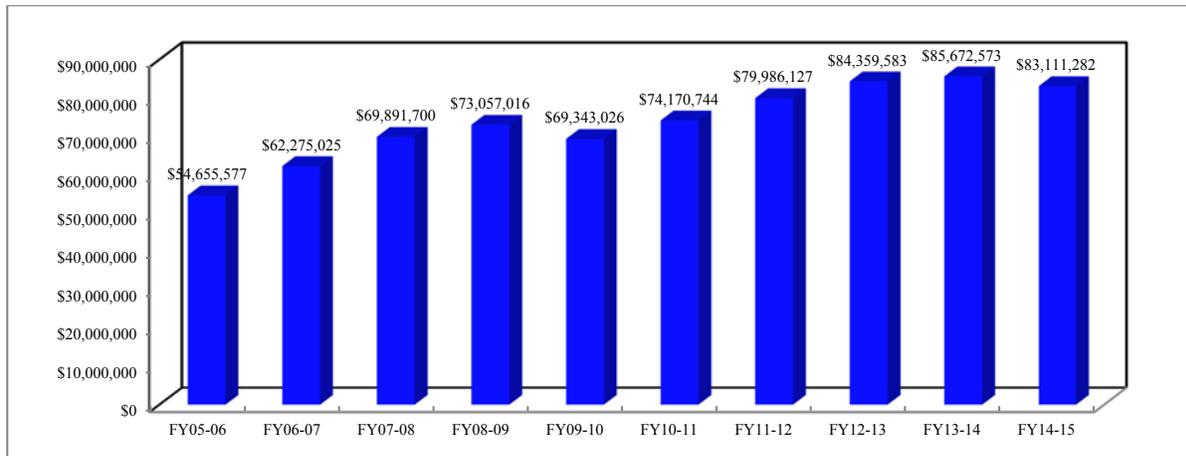
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Passenger Fares and Farebox Recovery Ratio

June 30, 2015

PASSENGER FARES: 2005-06 THROUGH 2014-15

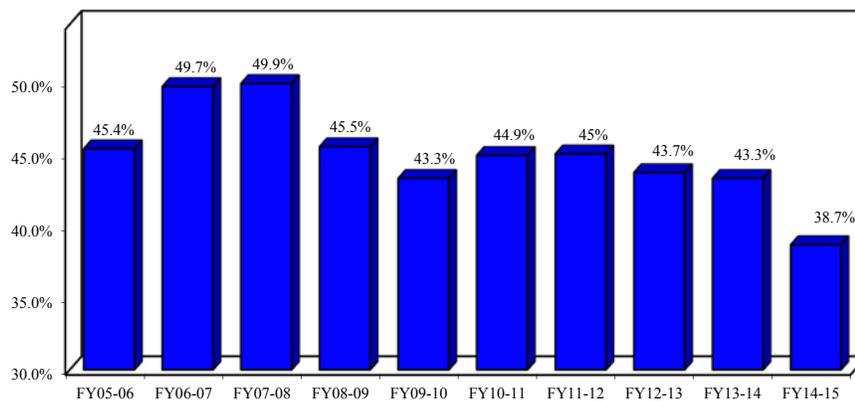
PASSENGER FARES



FAREBOX RECOVERY RATIO: 2005-06 THROUGH 2014-15

Farebox recovery is a ratio of fare revenue to direct operating expenses (train operations, maintenance-of-way, including extra-ordinary 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 increase in direct operating expenses.

FAREBOX RECOVERY RATIO



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

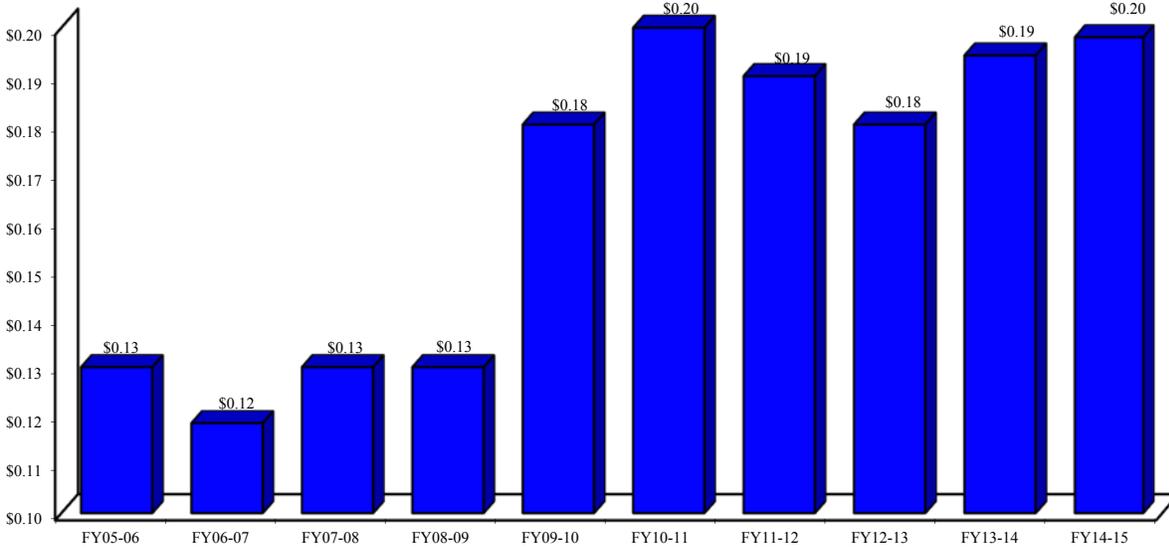
Subsidy / Passenger Mile

June 30, 2015

SUBSIDY / PASSENGER MILE: 2005-06 THROUGH 2014-15

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

SUBSIDY / PASSENGER MILE



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Demographic and Economic Information

Last Ten Fiscal Years

	YEARS ENDED JUNE 30									
	2015	2014	2013	2012	2011*	2010	2009	2008	2007	2006
Population for Counties Served										
Los Angeles County	****	10,116,705	10,017,068	9,951,690	9,887,335	9,818,605	9,801,096	9,785,474	9,780,808	9,798,609
Orange County	****	3,145,515	3,114,363	3,085,355	3,047,860	3,010,232	2,990,805	2,974,321	2,960,659	2,956,334
Riverside County	****	2,329,271	2,292,507	2,264,879	2,226,865	2,189,641	2,140,626	2,102,741	2,049,902	1,975,913
San Bernardino County	****	2,112,619	2,088,371	2,077,453	2,055,562	2,035,210	2,019,432	2,009,594	1,989,690	1,959,715
Ventura County	****	846,178	839,620	834,398	828,258	823,318	815,284	808,970	803,572	799,049
Total Population for Counties Served	****	18,550,288	18,351,929	18,213,775	18,045,880	17,877,006	17,767,243	17,681,100	17,584,631	17,489,620
Unemployment Rates for Counties Served										
Los Angeles County	7.4	8.2	9.9	10.9	12.3	12.2	11.3	7.1	4.9	4.7
Orange County	4.3	5.5	6.2	7.6	8.8	9.5	9.3	5.3	3.9	3.7
Riverside County	6.6	8.2	10.3	12.1	13.7	14.5	14	8.4	5.7	4.9
San Bernardino County	6.5	8.1	10.1	11.9	13.4	14.3	13.7	7.9	5.4	5.0
Ventura County	5.3	6.4	7.8	9.1	10.1	10.6	10.3	6.1	4.7	4.4
Average Unemployment Rates for Counties Served		7.3	8.9	10.3	11.7	12.2	11.7	7.0	4.9	4.5
Per Capita Income for Counties Served*										
Los Angeles County	**	49,400	46,530	44,474	42,953	41,113	40,351	42,114	41,016	39,471
Orange County	**	55,096	54,519	52,342	50,642	48,769	48,841	51,688	51,492	50,775
Riverside County	**	33,590	33,278	31,742	31,074	29,563	29,433	30,808	30,871	30,309
San Bernardino County	**	32,892	32,747	32,072	31,121	29,950	29,788	30,524	30,039	28,951
Ventura County	**	50,405	50,507	48,837	47,279	44,842	44,220	46,348	46,813	45,022
Average Per Capita Income for Counties Served*	**	44,277	43,516	41,893	40,614	38,847	38,527	40,296	40,046	38,906

* Per Capita Figures for FY 2008, 2009 and 2010 are conservative estimates of 5% growth supported by Bureau of Economic Analysis data

**Per Capita Figures for CY 2015 have not been released as of 1/21/2016

*** No survey was conducted this year

**** Population for counties served for CY 2015 have not been released as of 1/21/2016

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

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Ridership, Annual and Average Weekday

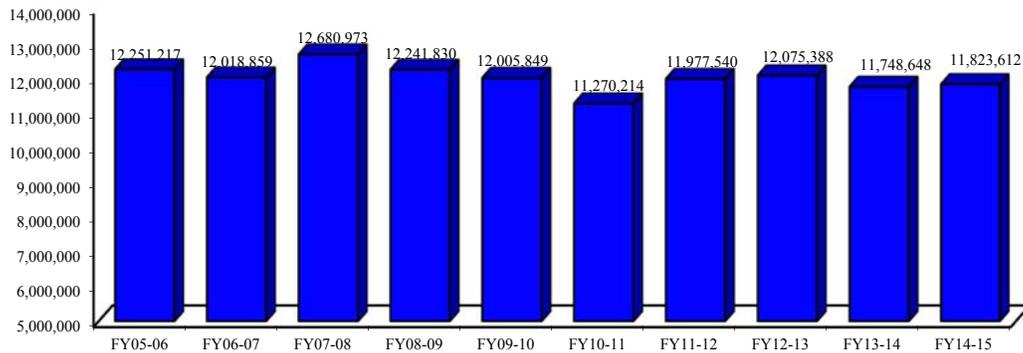
June 30, 2015

RIDERSHIP: 2005-06 THROUGH 2014-15

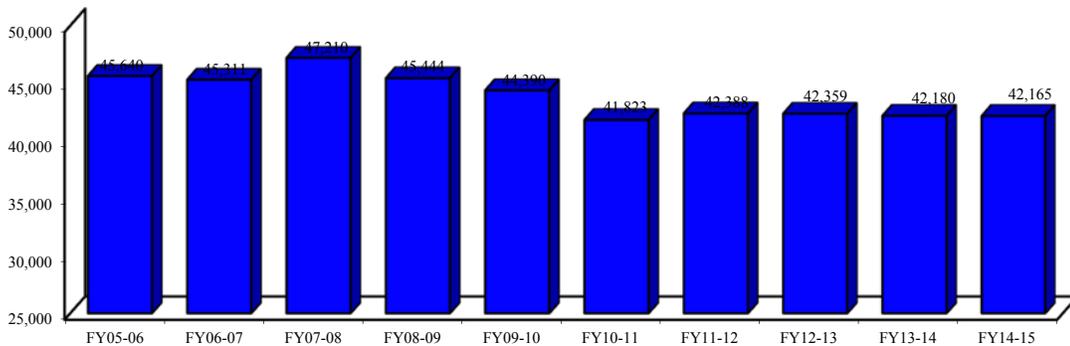
During nearly twenty-three years of Metrolink operations, ridership grew steadily with slight declines in FY06-07 and FY08 through FY11. In FY07-08, record fuel prices helped drive a significant increase in ridership. During the latter part of FY08 through FY11 ridership steadily declined, which was 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. Since FY05-06 the Annual and Average Weekday Ridership is based on unaudited conductor counts.

ANNUAL RIDERSHIP



AVERAGE WEEKDAY RIDERSHIP



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

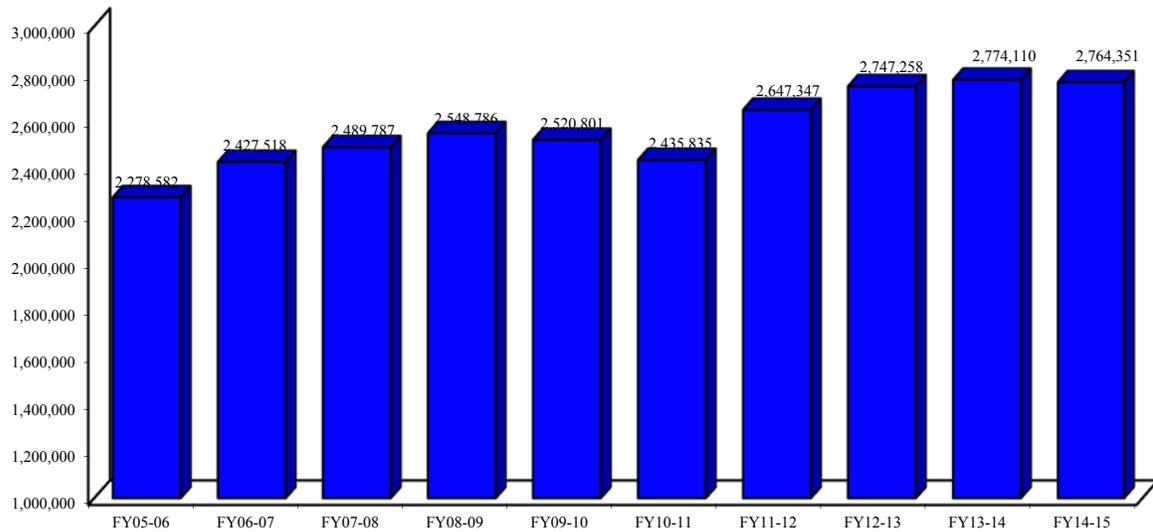
Total Train Miles

June 30, 2015

TOTAL TRAIN MILES: 2005-06 THROUGH 2014-15

Until FY09-10 total Train Miles realized annual yearly increases due to additions of new trains, routes, 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 new 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) as well Orange County line.

TOTAL TRAIN MILES



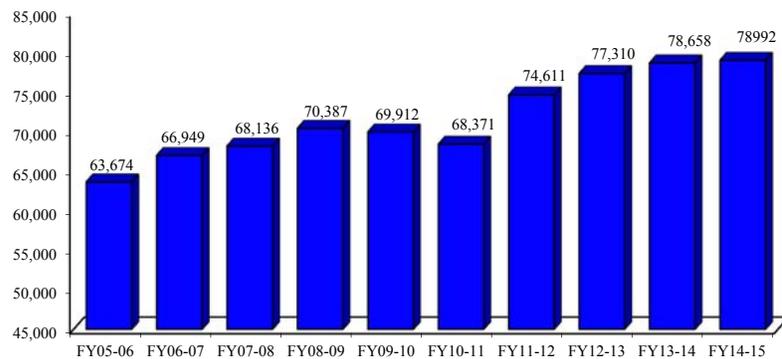
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Service Hours and On-Time Performance

June 30, 2015

SERVICE HOURS: 2005-06 THROUGH 2014-15

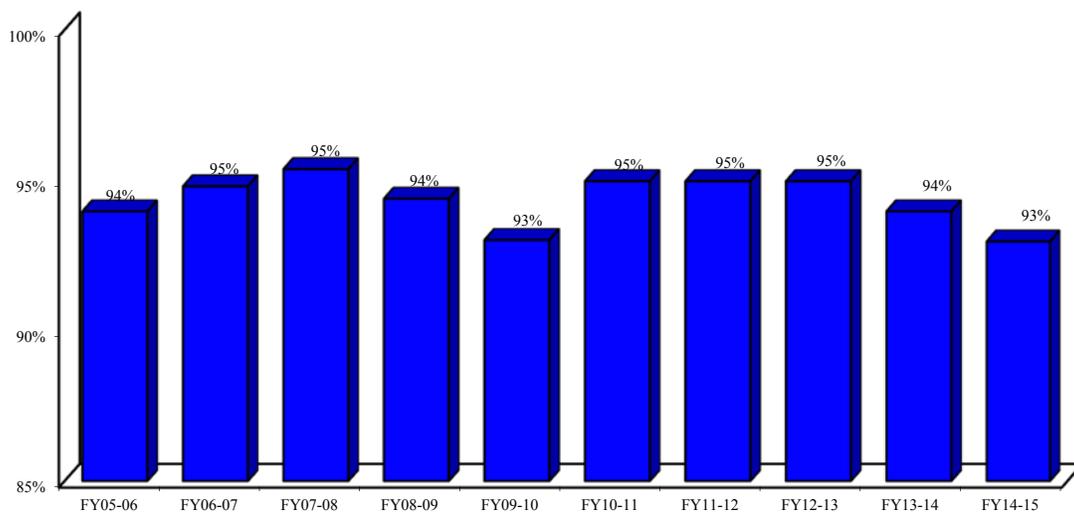
SERVICE HOURS



ON-TIME PERFORMANCE: 2005-06 THROUGH 2014-15

On-Time Performance remained relatively stable for the last couple fiscal years. The change of train schedule affect the on-time performance ratio.

ON-TIME PERFORMANCE



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Miscellaneous Statistics

June 30, 2015

(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 Associated Governments Ventura County Transportation Commission	
Counties Served	Los Angeles County Orange County Riverside County San Bernardino County Northern San Diego County Ventura County	
Highway-Rail Grade Crossings	Total Network At-Grade Crossings	451
	Public At-Grade Crossings	376
	Pedestrian At-Grade Crossings	12
	Private At-Grade Crossings	35
	SCRRA Maintained At-Grade Crossings	300
2015-16 Operating Budget	Operations	\$186,580
	Maintenance of Way	<u>42,388</u>
	Total	\$228,968

Source: SCRRA's June 2015 Fact Sheet and operating budget

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Ticket Categories
June 30, 2015



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

Monthly Passes, Round-trip tickets and 7-Day Pass offer increasing discounts off the One-Way price. Tickets and passes, available through the Ticket Vending Machine include:

TYPES OF FARES

ADULT	YOUTH	CHILD	SENIOR
<ul style="list-style-type: none"> Ages 19 to 64 Weekdays and Weekends Regular Fare 	<ul style="list-style-type: none"> Ages 6 to 18 Weekdays- Regular Fare Weekends- 25% off One-Way and Round-Trip Tickets excluding Weekend Day Pass 	<ul style="list-style-type: none"> Ages 5 and under ride free Three children ride free with an adult using a valid ticket- each additional child pays Youth Fare 	<ul style="list-style-type: none"> 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 to far inspector upon request
DISABLED	STUDENTS	SCHOOL GROUP TRAVEL	RECREATIONAL GROUP TRAVEL
<ul style="list-style-type: none"> 50% off One-Way or Round-Trip and 25% off Monthly Pass and 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 Card, Medical ID Card, DMV placard Personal Care Attendants PCA Must have a Valid Metrolink 	<ul style="list-style-type: none"> 15% off all Metrolink tickets available through Metrolink Ticket Vending Machines. Except Weekend Day Pass 	<ul style="list-style-type: none"> 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 travel date-800-371-LINK(5465) Limited space available 	<ul style="list-style-type: none"> For groups of ten or more person, maximum 50 Tickets cost \$12 per person, all ages Reservations must be made at least three weeks in advance-800-371-LINK(5465) Limited space available
<p>PCA card if assisting a person with a disability</p>		<ul style="list-style-type: none"> \$3 per person 	

TYPES OF TICKETS

One-Way Ticket:

Valid for a single one-way trip from the station where purchased to the selected destination. One-way tickets are valid for 3 hours from time of purchase. Future dated one Way tickets do not have time limitation.

Round-Trip Ticket:

- Destination portion is valid for 3 hours from time of purchase. Return portion is valid any time on day of purchase
- Future Dated round trip tickets do not have time limitation

Weekend Day Pass:

The \$10.00 Weekend Day Pass is available at all Ticket Vending Machines TVM

It is available on Saturday and Sunday only

It is only valid on Saturday or Sunday only. No advanced purchase option

The validity date is the date of purchase only and includes free transfers to buss and light rail/subway

Monthly Pass:

Valid for unlimited travel between the station where purchased and slected destination during a calendar month.

- Monthly passes are sold 25th prior-14th current Month
- Valid only during month printed on pass . Do not photocoy or laminate.

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 tains 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 station or the destination station is in Riverside or San Bernardino County).

Seven Day Pass

The 7-Day Pass is valid for unlimited travel during a consecutive seven-day period between station pairs. The ticket is valid starting on the day when the pass is purchased.