Orange County Local Transportation Authority

(A Component Unit of the Orange County Transportation Authority)

Annual Financial and Compliance Report

Year Ended June 30, 2017

Orange County Local Transportation Authority
(A Component Unit of the Orange County Transportation Authority)

Audited Financial Statements

Year Ended June 30, 2017

Contents

INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Local Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCLTA'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of OCLTA as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the budgetary comparison information on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OCLTA's basic financial statements. The debt service budgetary comparison schedule on page 36 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the debt service budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
October 31, 2017

As management of the Orange County Local Transportation Authority (OCLTA), we offer readers of the OCLTA's financial statements this narrative overview and analysis of the OCLTA's Measure M financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total net position of the OCLTA was $617,934 and consisted of restricted net position of $16,630 and unrestricted net position of $601,304.

- Net position increased $75,501 during fiscal year 2016-17. This increase was primarily due to an increase in sales tax revenue in excess of program costs.

- OCLTA's governmental funds reported combined ending fund balances of $909,908 an increase of $75,903 from the prior year. The increase is primarily due to an increase in sales tax revenue in excess of expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the OCLTA's basic financial statements, which are comprised of three components including government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements. Because the OCLTA is a governmental activity of the Orange County Transportation Authority (OCTA), governmental funds are used to account for its Measure M program activities. The basic financial statements include only the activities of the OCLTA.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the OCLTA's finances using the accrual basis of accounting, in a manner similar to a private-sector business.

The statement of net position presents information on all of the OCLTA's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the OCLTA is improving or deteriorating.

The statement of activities presents information showing how the OCLTA's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with Measure M finance-related legal requirements. The OCLTA uses governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental funds financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the OCLTA's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the OCLTA's near-term financing decisions. Both the governmental funds balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OCLTA maintains two individual governmental funds which are considered to be major funds. Information is presented separately in the governmental funds balance sheet and in the related statement of revenues, expenditures and changes in fund balances for the OCLTA's major governmental funds.

The governmental funds financial statements can be found on pages 12-15 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-33 of this report.

The OCLTA adopts an annual budget for its two funds. A budgetary comparison schedule has been provided for the LTA special revenue fund as required supplementary information on page 34 and the LTA debt service fund as other supplementary information on page 36 to demonstrate compliance with the annual appropriated budget.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the OCLTA's financial position. At June 30, 2017, the OCLTA's assets exceeded liabilities by $617,934, a $75,501 increase from June 30, 2016. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the OCLTA's governmental activities.

Total assets increased by $62,033, or 6.4%, from June 30, 2016. This increase is primarily due to an increase in cash and investments as a result of revenues exceeding program expenses during the fiscal year.

Total liabilities decreased by $13,468, or 3.2%, from June 30, 2016 primarily due to the decrease of unearned revenue for the grade separation projects in addition to a decrease in total outstanding bonds due to principal and interest payments.

Unrestricted net position represents the portion of net position that is available for general use as specified in the Measure M program. Unrestricted net position from governmental activities changed from $530,439 at June 30, 2016 to $601,304 at June 30, 2017. This increase was primarily due to sales tax revenue over expenses.

Table 1
Orange County Local Transportation Authority
Net Position

	Governmental Activities	
	2017	2016
Current and other assets	$1,023,552	$ 969,387
Assets held for resale	7,868	-
Total assets	1,031,420	969,387
Current liabilities	93,669	99,060
Long-term liabilities	319,817	327,894
Total liabilities	413,486	426,954
Net position:		
Restricted	16,630	11,994
Unrestricted	601,304	530,439
Total net position	$ 617,934	$ 542,433

Governmental activities increased the OCLTA's net position by $75,501. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, increased by $7,843, or 2.6%, from the prior year as a result of continued improvement in the economy.

Table 2
Orange County Local Transportation Authority
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	$ 94	$ 204
Operating grants and contributions	76,787	110,846
General revenues:		
Sales taxes	308,780	300,937
Unrestricted investment earnings	8,869	17,528
Other miscellaneous revenue	-	299
Total revenues	394,530	429,814
Expenses:		
Measure M program	302,016	289,291
Indirect expense allocation	17,013	15,670
Total expenses	319,029	304,961
Increase in net position	75,501	124,853
Net position – beginning	542,433	417,580
Net position – end of year	$ 617,934	$ 542,433

OCLTA expenses shown on the statement of activities consist of:

	Governmental Activities	
	2017	2016
Supplies and services	$ 47,878	$ 56,604
Contributions to other local agencies	123,431	105,824
Infrastructure	88,230	89,240
Depreciation expense	-	32
Interest expense	20,614	20,927
Transfer to other OCTA funds	21,863	16,664
Total expenses	$302,016	$289,291

Total revenues decreased by $35,284, or 8.2%, from fiscal year 2015-16 primarily due to a decrease in operating grants and contributions for freeway and grade separation projects due to the completion of these projects.

Total expenses increased by $14,068, or 4.6%, from fiscal year 2015-16 primarily due to an increase in expenses related to the I-405 improvement project, transfers for expenses related to the commuter rail program and contributions to cities for street and roads projects such as the Bristol Street widening project.

Financial Analysis of the OCLTA's Funds

As of June 30, 2017, the OCLTA's governmental funds reported combined ending fund balances of $909,908, an increase of $75,903 compared to fiscal year 2015-16. The majority of fund balances, 98%, are assigned for transportation programs related to Measure M projects. The remaining fund balance of $13,665 is restricted for debt service on M2 sales tax revenue bonds issued to accelerate funding for M2 projects.

OCLTA's major governmental funds include the following significant changes:

The LTA fund increased by $74,232, which represents an increase of 9% in comparison to fiscal year 2015-16. This increase is primarily due to excess of revenues over expenditures. In fiscal year 2016-17, total revenues decreased $15,335 primarily due to a decrease in contributions received for the grade separation projects due to the completion of these projects. This decrease was offset by a 3% increase in sales tax revenue. Total expenditures increased $5,464 primarily due to an increase in expenditures related to the I-405 improvement project and the Bristol Street widening project. This increase was offset by a decrease in expenditures related to the grade separation projects.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the OCLTA had $0 net of accumulated depreciation invested in capital assets including improvements and machinery.

A summary of the OCLTA's capital assets, net of depreciation, follows:

	Governmental Activities	
	2017	2016
Improvements	$ -	$ -
Machinery	32	32
Total capital assets	32	32
Less accumulated depreciation	(32)	(32)
Total capital assets, net	$ -	$ -

More detailed information about the OCLTA's capital assets is presented in note 6 to the financial statements.

OCLTA has outstanding capital expenditure commitments, the most significant of which are: $990,667 for the I-405 improvement project, $46,230 for the I-5 freeway widening construction project, and $10,985 for the I-5 HOV freeway construction project.

Debt Administration

As of June 30, 2017, the OCLTA had $318,010 in sales tax revenue bonds compared to $325,485 as of the prior fiscal year.

The OCLTA maintains an "AA+" rating from Standard & Poor's Corporation (S&P), an "AA+" rating from Fitch Ratings (Fitch) and an "Aa2" rating from Moody's Investors Services (Moody's) for its M2 Sales Tax Revenue Bonds.

Additional information on the OCLTA's long-term debt can be found in note 7 to the financial statements, respectively.

Economic and Other Factors

The OCLTA is responsible for administering Measure M, the half-cent transportation sales tax, which originally passed in 1990 and was delivered as promised to the residents of Orange County, with over $4 billion invested in improvements to freeways, streets and roads and transit services. Measure M1 (M1) ended in March 2011, and collection of sales tax under Measure M2 (M2) began in April 2011. M2 was overwhelmingly approved by the voters of Orange County in 2006 because of the tangible results that were realized through M1. The passage of M2 has allowed for the continuation of transportation improvements through March 31, 2041. Allocation of M2 funds remains the same as the original M1 with 43 percent slated for freeway improvements, 32 percent for streets and roads, and 25 percent for transit projects and programs.

Although revenue collection for M2 projects did not begin until April 2011, OCTA began delivering projects early based on the five-year M2 Early Action Plan (EAP) adopted in 2007 and subsequent M2020 Plan adopted in 2012. Both delivery plans were developed to accelerate M2 freeway, streets and roads, transit, and environmental projects. In response to lower actual sales tax revenue, a new forecasting methodology was adopted in March 2016. This prompted the need to revisit the assumptions built into the M2020 plan. A new program/project delivery framework for the next ten years, called the Next 10 Plan was adopted by the Board of Directors on November 14, 2016.

The OCLTA adopted its fiscal year 2017-18 annual budget on June 12, 2017. Approximately $543 million in Measure M2 funds are budgeted to improve transportation within Orange County. These funds will provide improvements to freeways and streets and roads throughout Orange County, as well as fund rail and bus transit programs. These funds include $170 million to make improvements along Interstate 405, Interstate 5, State Route 91, State Route 55, and State Route 57. Approximately $157 million is budgeted to improve streets and roads, including $54 million to fund the Local Fair Share Program, $53 million for the Regional Capacity Program, and $22 million for the OC Bridges Project. In addition, the M2 transit budget consist of $125 million in bus and rail projects, including $46 million to continue the OC Streetcar project. Lastly, $59 million will be designated for future M2 projects.

Contacting the OCLTA's Management

This financial report is designed to provide a general overview of the OCLTA's finances for all those with an interest in the OCLTA's finances and to demonstrate OCLTA accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division of the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Net Position
June 30, 2017

(amounts expressed in thousands)	Governmental Activities
Assets	
Cash and investments	$ 904,474
Receivables:	
Interest	2,160
Operating grants	7,590
Other	2,647
Due from OCTA	9,462
Due from other governments	92,937
Restricted cash and investments	2,965
Other assets	1,317
Assets held for resale	7,868
Total Assets	**1,031,420**
Liabilities	
Accounts payable	44,731
Accrued interest payable	7,838
Due to OCTA	1,324
Due to other governments	20,603
Unearned revenue	16,516
Other liabilities	17
Advance from OCTA	2,640
Noncurrent liabilities:	
Due within one year	7,775
Due in more than one year	312,042
Total Liabilities	**413,486**
Net Position	
Restricted for:	
Debt service	13,665
Environmental Mitigation Program	2,965
Unrestricted	601,304
Total Net Position	**$ 617,934**

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Activities
Year Ended June 30, 2017

(amounts expressed in thousands)	Expenses	Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Program governmental activities:					
Measure M program	$ 302,016	$ 17,013	$ 94	$ 76,787	$ (242,148)
Total governmental activities	$ 302,016	$ 17,013	$ 94	$ 76,787	(242,148)
General revenues:					
Sales taxes					308,780
Unrestricted investment earnings					8,869
Total general revenues					317,649
Change in net position					75,501
Net position - beginning					542,433
Net position - ending					**$ 617,934**

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Balance Sheet - Governmental Funds
June 30, 2017

(amounts expressed in thousands)	LTA	LTA Debt Service	Total OCLTA
Assets			
Cash and investments	$ 893,231	$ 11,243	$ 904,474
Receivables:			
Interest	2,154	6	2,160
Operating grants	7,590	-	7,590
Other	2,647	-	2,647
Due from OCTA	9,462	-	9,462
Due from other governments	90,521	2,416	92,937
Restricted cash and investments:			
Investments	2,965	-	2,965
Other assets	1,317	-	1,317
Assets held for resale	2,071	-	2,071
Total Assets	**$ 1,011,958**	**$ 13,665**	**$ 1,025,623**
Liabilities			
Accounts payable	$ 44,731	$ -	$ 44,731
Due to OCTA	1,324	-	1,324
Due to other governments	20,603	-	20,603
Unearned revenue	16,516	-	16,516
Other liabilities	17	-	17
Advance from OCTA	2,640	-	2,640
Total Liabilities	**85,831**	**-**	**85,831**
Deferred Inflows of Resources			
Unavailable revenue - grant reimbursements	29,884	-	29,884
Total Deferred Inflows of Resources	**29,884**	**-**	**29,884**
Fund Balances			
Restricted for:			
Debt service	-	13,665	13,665
Environmental Mitigation Program	2,965	-	2,965
Assigned to:			
Transportation programs	893,278	-	893,278
Total Fund Balances	**896,243**	**13,665**	**909,908**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 1,011,958**	**$ 13,665**	**$ 1,025,623**

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Net Position (page 10) are different because:

Total fund balances (page 12)	$	909,908
Assets held for resale are not financial resources and, therefore, are not reported in the funds, unless a sales contract is executed prior to the issuance of the financial statements.		5,797
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is reported as a deferred inflow of resources in the funds.		29,884
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.		(7,838)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(319,817)
Net position of governmental activities (page 10)	**$**	**617,934**

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

(amounts expressed in thousands)	LTA	LTA Debt Service	Total OCLTA
Revenues			
Sales taxes	$ 308,780	$ -	$ 308,780
Contributions from other agencies	72,243	-	72,243
Interest	2,524	8,946	11,470
Miscellaneous	6,898	-	6,898
Total Revenues	**390,445**	**8,946**	**399,391**
Expenditures			
Current:			
General government:			
Supplies and services	64,891	-	64,891
Transportation:			
Contributions to other local agencies	123,431	-	123,431
Capital outlay	84,485	-	84,485
Debt service:			
Principal payments on long-term debt	-	7,475	7,475
Interest	25	21,318	21,343
Total Expenditures	**272,832**	**28,793**	**301,625**
Excess (deficiency) of revenues over (under) expenditures	**117,613**	**(19,847)**	**97,766**
Other financing sources (uses)			
Transfers in	8,912	30,430	39,342
Transfers out	(30,430)	(8,912)	(39,342)
Transfers to OCTA	(21,863)	-	(21,863)
Total other financing sources (uses)	**(43,381)**	**21,518**	**(21,863)**
Net change in fund balances	**74,232**	**1,671**	**75,903**
Fund balances - beginning	822,011	11,994	834,005
Fund balances - ending	**$ 896,243**	**$ 13,665**	**$ 909,908**

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 14)	$	75,903
Donations and/or sales related to land held for resale are not reported as revenues in governmental funds, unless a sales contract is executed prior to the issuance of the financial statements. However, they are included in the Statement of Activities.		5,797
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		(14,403)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		8,204
Change in net position of governmental activities (page 11)	**$**	**75,501**

See accompanying notes to the financial statements.

1. Summary of Significant Accounting Policies

Reporting Entity

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M. This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the Measure M sales tax program. The original Measure M Program (M1) commenced on April 1, 1991 for a period of 20 years.

On November 7, 2006, Orange County voters approved the renewal of Measure M for a period of 30 more years from April 1, 2011 to March 31, 2041. Renewed Measure M (M2) allocates funds to freeway, street and road, transit, and environmental improvements.

On June 20, 1991, under the authority of Senate Bill 838, the Orange County Transportation Authority (OCTA) was formed as a special district by merging several agencies and funds, including the OCLTA, a component unit of the OCTA. Accordingly, the OCLTA's financial activities are included with the financial activities of the OCTA for financial reporting purposes.

The OCTA governing board (Board) consists of 17 voting members and one non-voting member and also serves as the OCLTA governing board. Measure M requires that an 11 member Taxpayer's Oversight Committee (TOC) monitor the use of Measure M funds and ensures that all revenues collected from Measure M is spent on voter-approved transportation projects.

These financial statements include only the activities of the OCLTA, a component unit of the OCTA. These financial statements are not intended to present the activities of the OCTA.

Basis of Presentation

The OCLTA's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Statements: The statement of net position and the statement of activities report information on all of the OCLTA. The effect of significant interfund activity has been removed from these statements. The OCLTA provides only governmental activities which are supported principally by sales taxes.

The statement of activities demonstrates the degree to which the OCLTA Measure M program expenses are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with Measure M, and allocated indirect expenses. Interest expense related to the sales tax revenue bonds is reported as a direct expense of the Measure M program. The borrowings are considered essential to the creation or continuing existence of the Measure M program. For the year ended June 30, 2017, interest expense of $20,614 was included in Measure M program costs. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by Measure M; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Measure M program. Taxes and other items are not reported as program revenues and instead are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information about the OCLTA's governmental funds. The OCLTA considers all of its Measure M funds as major governmental funds. They are comprised of the following:

- *Local Transportation Authority (LTA) Fund* - This fund is the general operating fund for the OCLTA and accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for 20 years pursuant to Measure M, which became effective April 1, 1991, and was renewed for an additional 30 years from April 1, 2011 to March 31, 2041. The Measure M ordinance requires that sales tax revenues only be expended on projects included in the ordinance. A decision to use the revenues for any other purpose must be put to the voters in another election.
- *LTA Debt Service Fund* - This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the OCLTA.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the OCLTA considers revenues to be available if they are collected within 90 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred; however, principal and interest expenditures on long-term debt of governmental funds are recorded only when payment is due.

Those revenues susceptible to accrual are sales taxes collected and held by the state at year-end on behalf of the OCLTA, intergovernmental revenues and interest revenue. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the OCLTA; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Cash and Investments

The OCLTA maintains cash and investments in a pool with other OCTA cash and investments and in accordance with the Investment Policy (Policy) originally adopted by the Board on May 8, 1995, and most recently amended June 12, 2017. The Policy complies with, or is more restrictive than, the California Government Code (Code). Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Pooled cash and investment earnings are allocated based on average daily dollar account balances.

OCTA holds investments that are measured at fair value on a recurring basis. OCTA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs - other than quoted prices included in Level 1 - that are observable including quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active; Level 3 inputs are unobservable inputs.

Investments in U.S. government and U.S. agency securities, medium term notes, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities, and corporate notes are carried at fair value based on quoted market prices, except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date, which are carried at amortized cost which approximates fair value. The Orange County Investment Pool (OCIP) is carried at fair value based on the value of each participating dollar as provided by the OCIP. The state managed Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF.

The Policy requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and may be more restrictive than applicable state statutes for the following investment types: OCTA notes and bonds, U.S. treasuries, federal instrumentality securities, federal agencies, State of California and local agency obligations, banker's acceptance, commercial paper, negotiable certificates of deposit, repurchase agreements, medium-term maturity corporate securities, money market funds, other mutual funds, mortgage or asset-backed securities, LAIF, OCIP, variable and floating rate securities and bank deposits. Investment agreements are also allowed for bond issues.

In addition, OCLTA has restricted investments held by the California Community foundation (CCF). The amount invested in the CCF investment pool is a restricted asset as approved for funding by the OCTA Board of Directors in October of 2014. The CCF is headquartered in Los Angeles, California and has 65 employees. CCF is a community foundation and holds a 501 (c) 3 status, which meets California State Government Code requirements for community foundations. Legislation providing for OCTA to use a qualified organization to hold and manage the endowment is provided in Government Code §§65965-65968. An investment committee of 14 members has full discretion over investment decisions. The Endowment Pool is a diversified pool aiming for capital growth for long-term grant making with an asset allocation of approximately 45% equity, 25% alternative investments, 10% real assets and 20% fixed income.

The purpose of the agreement between CCF and OCLTA is to provide for the establishment of a fund within the CCF to receive and hold M2 Environmental Mitigation Program contributions made by OCTA during the endowment funding period for use in establishing the permanent endowment pursuant to the conservation plan. OCLTA is the beneficiary of the fund and, therefore, has reported a restricted asset in the financial statements.

The CCF shall hold, administer, invest, and reinvest the fund in accordance with the CCF's proposal and the objectives set forth in the Scope of Work of the Request for Proposal, each of which is incorporated into the agreement by reference, and in compliance with all applicable state and federal laws, including, but not limited to, Sections 65965, 65966, 69667, and 65968 of the California Government Code and the Uniform Prudent Management of Institutional Funds Act, California Probate Code Section 18501 et seq. The agreement shall remain in place in full force and effect through December 31, 2019.

The fair value of OCTA's investment in this pool is reported in the accompanying financial statements at amounts based upon OCTA's pro-rata share of the fair value provided by CCF for the entire CCF portfolio (in relation to the amortized cost of that portfolio).

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered and transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances are reported as due to/from other funds. Any residual balances outstanding between the Measure M program governmental activities and other OCTA funds are reported in the government-wide financial statements as due to/from other OCTA funds.

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2016-17, $17,013 of administrative services were charged to the OCLTA and are reported as general government expenditures in the governmental funds.

Assets Held for Resale

OCLTA holds title to donated property in connection with the purchase of rights-of-way for infrastructure not held by OCLTA. These assets are reported as assets held for resale in the governmental activities column in the government-wide financial statements except in cases in which OCLTA has entered into a sales contract prior to the issuance of the financial statements for assets held for resale. In these cases, the assets held for resale are reported in the governmental funds financial statements. Proceeds received will be recorded in the LTA fund.

Capital Assets

Capital assets including land, right-of-way improvements, and machinery and equipment, are reported in the government-wide financial statements. Capital assets are defined by the OCLTA as assets with an initial, individual cost of more than $5 and a useful life exceeding one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the acquisition date. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Freeway construction and certain purchases of right-of-way property, for which title vests with the California Department of Transportation (Caltrans), are included in capital outlay. Infrastructure consisting primarily of freeway construction and right-of-way acquisition is not recorded as a capital asset in those instances where the OCLTA does not intend to maintain or operate the property when complete.

Right-of-way improvements and machinery and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset Type	Useful Life
Right-of-way improvements	10-30 years
Machinery and equipment	3-10 years

Year Ended June 30, 2017
(in thousands)

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. OCLTA has one type of deferred inflow, unavailable revenue which occurs only under a modified accrual basis of accounting. Accordingly, the item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for grant reimbursements. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts in the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Contributions to Other Agencies

Contributions to other agencies primarily represent sales tax revenues received by the OCLTA and disbursed to cities for competitive projects, the local fair share program, and the senior mobility program, and to other agencies for projects which are in accordance with the Measure M ordinance.

Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources and is classified into three categories:

- *Net investment in capital assets* - This balance reflects the net position of the OCLTA that is invested in capital assets, net of related debt. This net position is generally not accessible for other purposes.

- *Restricted net position* - This balance represents net position that is not accessible for general use because use is subject to restrictions enforceable by third parties. The government-wide statement of net position reports net position restricted by external parties for debt service.

- *Unrestricted net position* – This balance represents the net position that is available for general use as specified in the Measure M program.

Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the OCLTA is bound to honor constraints on the specific purposes for which amounts can be spent.

The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

- *Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

- *Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. This classification also includes residual amounts assigned for specific projects. The Board establishes and modifies assignments of fund balance through the adoption of the budget and subsequent budget amendments. The Board retains the authority to assign fund balance.

When both restricted and unrestricted resources are available for use, it is the OCLTA's policy to use restricted resources first and then unrestricted resources as they are needed. When using unrestricted fund balance amounts, the committed amounts would be reduced first followed by the assigned amounts.

Use of Estimates

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

2. Reconciliation of Government-wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this $(319,817) difference are as follows:

Bonds payable	$ (318,010)
Plus unamortized bond issuance premium (to be amortized to interest expense)	(1,807)
Net adjustment to decrease fund balances - total governmental funds to arrive at net position - governmental activities	$ (319,817)

Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and change in net position - governmental activities as reported in the government-wide statement of activities.

(in thousands)

One element of that reconciliation states that "The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $8,204 difference are as follows:

Principal repayments	$ 7,475
Change in accrued interest	127
Amortization of premium	602
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position - governmental activities	$ 8,204

3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2017:

Investments:	
With OCTA Commingled Investment Pool	$ 791,889
With Trustee	112,585
With CA Community Foundation	2,965
Total Cash and Investments	$ 907,439

Total deposits and investments are reported in the financial statements as:

Unrestricted Cash and Investments	$ 904,474
Restricted Cash and Investments	2,965
Total Cash and Investments	$ 907,439

As of June 30, 2017, OCLTA had the following investments:

Investment	Fair Value	Principal	Interest Rate	Yield	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	$791,889	$794,521	*	*	*	*
Money Market Funds **	112,585	112,585	Variable	0.820% - 0.830%	7/1/17	1 Day
CA Community Foundation Investment Fund	2,965	2,965	N/A	N/A	N/A	N/A
Total Investments	$907,439	$910,071				

(in thousands)

* Refer to the OCTA CAFR for information related to the OCTA Commingled Investment Pool.

** Money Market Funds are measured at amortized cost, which approximates fair value, due to their short-term maturity.

The Portfolio Weighted Average Maturity is 1.87 years.

As of June 30, 2017, OCLTA had $791,889 invested in the OCTA's commingled investment Pool (CIP). Refer to the OCTA Comprehensive Annual Financial Report (CAFR) for details on valuation techniques and fair value hierarchy, interest rate risk, variable rate notes and custodial credit risk. Deposits and withdrawals in OCTA's CIP are made on the basis of $1.00 (absolute dollars) and not fair value. Accordingly, the OCLTA's investment in OCTA's CIP at June 30, 2017 is uncategorized, not defined as Level 1, Level 2, or Level 3 input.

As of June 30, 2017, OCLTA had $2,965 invested in the CA Community Foundation investment fund. The amount invested is valued using significant unobservable inputs and, therefore, classified as Level 3.

Credit Risk

The Policy sets minimum acceptable credit ratings for investments from any of the three NRSROs: S&P, Moody's, and Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A" by two of the three rating services. The OCTA Commingled Investment Pool and the CA Community Foundation Investment Fund are not rated.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2017. (NR means Not Rated, US means obligation of the United States (U.S.) government or obligations explicitly guaranteed by the U. S. government):

Investments	S&P	Moody's	Fitch	% of Portfolio
OCTA Commingled Investment Pool	NR	NR	NR	87.26%
Held by Trustee:				
Money Market Funds	AAA	Aaa	AAA	12.41%
CA Community Foundation Investment Fund	NR	NR	NR	.33%
Total				100.00%

(in thousands)

4. Due From/To Other Governments

Amounts due from other governments as of June 30, 2017 in the fund financial statements are $92,937 and are comprised of $57,010 of sales taxes, $33,511 of project reimbursements and $2,416 representing the interest receivable on Build America Bonds.

Amounts due to other governments as of June 30, 2017 are $20,603 and are comprised of $19,699 for transportation projects and $904 for other miscellaneous transactions.

5. Related Party Transactions and Interfund Transfers

Related party transactions:

As of June 30, 2017, OCLTA has $9,462 receivable from other OCTA funds for the I-405 Express Lanes project.

As of June 30, 2017, OCLTA owes $1,324 to other OCTA funds as follows:

	Amount	Explanation
General Fund	$ 627	Placentia Rail Station, ARTIC
OCUTT	50	Local Fair Share funds withheld from City of Placentia
Capital Project Fund	647	OC Streetcar project
Total	$ 1,324	

During fiscal year 2016-17, transfers of $21,863 from OCLTA to OCTA were made mainly to fund the OC Streetcar project, for the M2 fare stabilization and senior mobility programs and to fund the deficit cash position of the CURE Fund and expenditures related to Service Authority for Freeway Emergencies.

OCTA advanced monies to OCLTA to cover expenditures such as election costs, administrative costs, and accrued interest. Interest accrues monthly at an interest rate representing OCTA's rate of return on short-term investments, adjusted each July (0.79% for fiscal year 2016-17). As of June 30, 2017, OCLTA owes OCTA $2,640. OCLTA began repaying OCTA when Measure M funds were collected.

Interfund Transfers:

During fiscal year 2016-17, the LTA Fund transferred $30,430 to the LTA Debt Service Fund for debt service payments. Additionally, the LTA Debt Service Fund transferred $8,912 in excess interest earnings to the LTA Fund.

(in thousands)

6. Capital Assets

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	$ 32	$ -	$ -	$ 32
Total capital assets, being depreciated	32	-	-	32
Less accumulated depreciation for:				
Machinery and equipment	(32)	-	-	(32)
Total accumulated depreciation	(32)	-	-	(32)
Total Measure M capital assets, being depreciated, net	-	-	-	-
Total Measure M capital assets, net	$ -	$ -	$ -	$ -

7. Long-Term Debt

Sales Tax Revenue Bonds

On December 9, 2010, OCLTA issued $293,540 in Measure M2 Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) and $59,030 in 2010 Series B (Tax-Exempt Bonds), to finance and refinance the costs of certain transportation projects located in Orange County, to restructure the Tax Exempt Commercial Paper (TECP) Program, and to fund capitalized interest and costs of issuance related to the 2010 Series Bonds. A reserve fund is not required in connection with the 2010 Series Bonds per the bond indenture. The transaction closed on December 23, 2010. A total of $75,000 was used to refund outstanding TECP. The Measure M sales tax is the source of revenue for repaying this debt.

A summary of the bonds outstanding is as follows:

	2010 Series A (Taxable Build America Bonds)	2010 Series B (Tax-Exempt Bonds)
Issuance date	12/9/10	12/9/10
Original issue amount	$ 293,540	$ 59,030
Original issue premium	-	6,023
Net bond proceeds	$ 293,540	$ 65,053

Year Ended June 30, 2017
(in thousands)

	2010 Series A (Taxable Build America Bonds)	2010 Series B (Tax-Exempt Bonds)
Issuance costs	$ 1,905	$ 274
Interest rates	5.56% - 6.91%	3.00% - 5.00%
Maturity range	2021-2041	2014-2020
Final maturity	2041	2020
Bonds outstanding	$ 293,540	$ 24,470
Plus unamortized premium	-	1,807
Total	$ 293,540	$ 26,277

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest
2018	$ 7,775	$ 21,018
2019	8,165	20,629
2020	8,530	20,263
2021	8,915	19,879
2022	9,235	19,384
2023-2027	52,025	87,930
2028-2032	64,575	68,621
2033-2037	80,430	44,222
2038-2041	78,360	13,830
Total	$ 318,010	$ 315,776

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Measure M program activities:					
Sales tax revenue bonds	$ 325,485	$ -	$ 7,475	$ 318,010	$ 7,775
Unamortized premium	2,409	-	602	1,807	-
Total Measure M program activities long-term liabilities	$ 327,894	$ -	$ 8,077	$ 319,817	$ 7,775

Pledged Revenue

OCLTA has debt issuances outstanding that are repaid and secured by the pledging of certain revenues. The amount and terms of the debt commitments are indicated in the bonds outstanding table found on pages 27 and 28. The purposes for which the proceeds of the debt issuances were utilized are disclosed in the debt description located on page 27.

(in thousands)

For the year ended June 30, 2017, debt service payments as a percentage of the pledged gross revenue net of the local fair share program and other expenses as required by the debt agreement, are indicated in the following table:

Description of Pledged Revenue	Annual Amount of Net Pledged Revenue	Annual Debt Service Payments	Pledged Revenue Coverage
Measure M2 Net Sales Tax Revenue	$ 239,727	$ 22,495*	10.66

*OCLTA recorded $6,298 in Build America Bonds subsidy to offset annual debt service payments for Measure M2 Sales Tax Revenue Bonds in fiscal year 2016-17.

8. Commitments and Contingencies

Purchase Commitments

The OCLTA has various long-term outstanding contracts that extend over several years and rely on future years' revenues. Total commitments at June 30, 2017, were $1,481,626. The most significant is $990,667 for the I-405 improvement project. The majority of the commitments are for the expansion and improvement of Orange County's freeway and road systems.

Federal Grants

OCTA receives federal grants for transportation projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits would not have a material effect on the OCLTA's financial position or changes in financial position.

9. Excess of Expenditures over Appropriations

In the LTA Debt Service Fund, expenditures exceeded appropriations for transfers out in the amount of $1,954. During the year, an analysis was done on amounts required to be maintained in the LTA Debt Service Fund. It was determined that there was an excess amount of funds in the LTA Debt Service Fund due to the receipt of Build America Bonds subsidy, interest earnings, and the timing of the debt service payment. The excess amount was transferred to the LTA Fund. An analysis is conducted on an annual basis during the fiscal year to determine the appropriate amount to be transferred, if necessary.

10. Subsequent Events

TIFIA and Line of Credit Disclosure

During the fiscal year, OCTA continued with its pursuit of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the I-405 Improvement Project (Project). During most of the year, OCTA negotiated key terms and conditions of the loan with the Build America Bureau Credit Programs Office (Bureau). One key term the Bureau insisted upon was that $900 million in future Measure M2 (M2) debt issuances be committed funds at the time of closing the TIFIA loan. Therefore, because of this requirement, OCTA issued a Request for Proposal for letter or line of credit services. In May 2017, the OCTA Board of Directors selected Bank of America N.A. (BANA) to provide a $900 million line of credit to meet the Bureau's requirement. The line of credit was set up as two separate Credit and Fee Agreements, one with a 2019 maturity and the other with a 2021 maturity. The cost for the BANA Line is 26 basis points per year for the 2019 maturity and 36 basis points per year for the 2021 maturity.

The payment obligations owed to BANA under the Credit and Fee Agreements is payable and secured by a pledge of, lien on, and security interest in the M2 sales tax revenues, including earnings on such amounts, subject only to the provisions of the Master Indenture. The pledge, lien, and security interest shall be junior and subordinate only to the pledge of M2 sales tax revenues in favor of the Senior Lien Debt pursuant to the express terms of the Master Indenture.

In June 2017, the OCTA Board of Directors approved the terms and conditions for the TIFIA Loan Agreement along with the supporting Indenture and Supplemental Indenture documents. The loan is secured with future I-405 Express Lanes revenues, has a final maturity of December 1, 2057, and has a fixed interest rate of 2.91 percent.

On July 26, 2017, OCTA and the Bureau executed the final TIFIA Loan Agreement in the amount of $628.93 million. Also on this date, OCTA and BANA executed the two Credit and Fee Agreements.

11. Effect of New Pronouncements

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, <u>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</u>. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This statement is effective for OCLTA's fiscal year ending June 30, 2017. This Statement does not apply to OCLTA.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This statement is effective for OCLTA's fiscal year ending June 30, 2018. OCLTA has not determined the effect of this statement.

GASB Statement No. 77

In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. This statement is effective for OCLTA's fiscal year ending June 30, 2017. OCLTA has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 80

In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This Statement is effective for OCLTA's fiscal year ending June 30, 2017. OCLTA has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 81

In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. However, OCLTA decided to early implement this Statement. Therefore, this Statement is effective for OCLTA's fiscal year ending June 30, 2017. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 83

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. This Statement is effective for OCLTA's fiscal year ending June 30, 2019. OCLTA has not determined the effect of this Statement.

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This Statement is effective for OCLTA's fiscal year ending June 30, 2020. OCLTA has not determined the effect of this Statement.

GASB Statement No. 85

In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is effective for OCLTA's fiscal year ending June 30, 2018. OCLTA has not determined the effect of this Statement.

GASB Statement No. 86

In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement is effective for OCLTA's fiscal year ending June 30, 2018. OCLTA has not determined the effect of this Statement.

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for OCLTA's fiscal year ending June 30, 2021. OCLTA has not determined the effect of this Statement.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Required Supplementary Information
Budgetary Comparison Schedule - LTA Fund (Budgetary Basis)
Year Ended June 30, 2017

(amounts expressed in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues:				
Sales taxes	$ 314,348	$ 314,348	$ 308,780	$ (5,568)
Contributions from other agencies	154,869	300,669	142,103	(158,566)
Interest	6,528	6,528	2,524	(4,004)
Miscellaneous	104	104	6,898	6,794
Total revenues	**475,849**	**621,649**	**460,305**	**(161,344)**
Expenditures:				
Current:				
General government	142,255	142,321	97,922	44,399
Transportation:				
Contributions to other local agencies	175,978	173,297	123,827	49,470
Capital outlay	237,480	1,132,191	992,379	139,812
Debt service:				
Interest on long-term debt and commercial paper	-	-	25	(25)
Total expenditures	**555,713**	**1,447,809**	**1,214,153**	**233,656**
Excess (deficiency) of revenues over (under) expenditures	**(79,864)**	**(826,160)**	**(753,848)**	**72,312**
Other financing sources (uses):				
Transfers in	(6,195)	(6,195)	8,912	15,107
Transfers from OCTA	13,153	13,153	-	(13,153)
Transfers out	(22,300)	(22,302)	(30,430)	(8,128)
Transfers to OCTA	(57,882)	(57,880)	(21,863)	36,017
Total other financing uses	**(73,224)**	**(73,224)**	**(43,381)**	**29,843**
Net change in fund balance	**$ (153,088)**	**$ (899,384)**	**$ (797,229)**	**$ 102,155**

Reconciliation to GAAP:

Net change in fund balance (budgetary basis)	$ (797,229)
Less: Estimated revenues for encumbrances outstanding at June 30	69,860
Add: Current year encumbrances outstanding at June 30	941,321
Net change in fund balance (GAAP basis)	$ 74,232

See accompanying notes to the required supplementary information.

1. Budgetary Data

The OCLTA establishes accounting control through formal adoption of an annual operating budget for the LTA and the debt service governmental funds. The budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as Salaries and Benefits, Supplies and Services and Capital Outlay. Supplies and Services includes Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2017 is available from the OCTA Finance and Administration Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

There were no excess of expenditures over appropriations for fiscal year 2016-17.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Other Supplementary Information
Budgetary Comparison Schedule - LTA Debt Service Fund (Budgetary Basis)
Year Ended June 30, 2017

(amounts expressed in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues:				
Interest	$ 6,492	$ 6,492	$ 8,946	$ 2,454
Total revenues	**6,492**	**6,492**	**8,946**	**2,454**
Expenditures:				
Debt service:				
Principal payments on long-term debt	7,475	7,475	7,475	-
Interest on long-term debt	21,318	21,318	21,318	-
Total expenditures	**28,793**	**28,793**	**28,793**	**-**
Deficiency of revenues under expenditures	**(22,301)**	**(22,301)**	**(19,847)**	**2,454**
Other financing sources:				
Transfers in	22,302	22,302	30,430	8,128
Transfers out	(6,958)	(6,958)	(8,912)	(1,954)
Total other financing sources	15,344	15,344	21,518	6,174
Net change in fund balance	**$ (6,957)**	**$ (6,957)**	**$ 1,671**	**$ 8,628**

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
October 31, 2017