

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT FUNDS
Financial Statements and Supplemental Data
Year Ended June 30, 2013

LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT FUNDS

Financial Statements and Supplemental Data

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2013, and the related notes to the 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TDA Funds of LBMTL, an enterprise fund of the City, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, the TDA Funds of the City adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the TDA Funds' basic financial statements. The accompanying schedule of allocations (supplementary information) is presented for purposes 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. The 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Prior-Year Comparative Information

We have previously audited the 2012 financial statements of the TDA Funds of LBMTL, an enterprise fund of the City, and we expressed an unmodified audit opinion on the financial statements in our report dated December 18, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of the City's internal control over financial reporting for the TDA Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting for the TDA Funds and compliance.



Laguna Hills, California
December 13, 2013

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF NET POSITION
JUNE 30, 2013
(with Comparative Totals for June 30, 2012)**

	Article 4	
	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and Investments	\$ 726,417	\$ 88,109
Receivables:		
Accrued Revenues	335,238	351,240
Intergovernmental	56,986	-
Prepaid Expenses	<u>35,875</u>	<u>33,364</u>
Total Current Assets	<u>1,154,516</u>	<u>472,713</u>
Capital Assets, Net (Note 3)	<u>2,642,078</u>	<u>2,834,552</u>
Total Assets	<u>3,796,594</u>	<u>3,307,265</u>
LIABILITIES		
Liabilities:		
Accounts Payable and Accrued Liabilities	85,007	81,286
Compensated Absences	17,784	18,975
Unearned Revenue	<u>661,267</u>	<u>-</u>
Total Liabilities	<u>764,058</u>	<u>100,261</u>
NET POSITION		
Net investment in capital assets	2,642,078	2,834,552
Restricted	<u>390,458</u>	<u>372,452</u>
Total Net Position	<u>\$ 3,032,536</u>	<u>\$ 3,207,004</u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013
(with Comparative Totals for June 30, 2012)**

	Article 4	
	2013	2012
Operating Revenues:		
Passenger Revenues	\$ 326,722	\$ 318,205
Total Revenues	<u>326,722</u>	<u>318,205</u>
Operating Expenses:		
Transit Administration	279,242	328,957
Transit Maintenance	428,726	421,835
Transit Operations	1,248,275	1,283,753
Depreciation	192,474	198,951
Total Operating Expenses	<u>2,148,717</u>	<u>2,233,496</u>
Operating income (loss)	<u>(1,821,995)</u>	<u>(1,915,291)</u>
Non-Operating Revenues:		
TDA Allocation	978,122	975,051
Investment Income	-	3,936
Intergovernmental Revenues (Note 4)	326,005	346,070
Total Non-Operating Revenues	<u>1,304,127</u>	<u>1,325,057</u>
Income (loss) before transfers	(517,868)	(590,234)
Transfers from the City of Laguna Beach, Net (Note 5)	<u>343,400</u>	<u>391,300</u>
Change in Net Position	(174,468)	(198,934)
Net position at beginning of year	<u>3,207,004</u>	<u>3,405,938</u>
Net position at end of year	<u><u>\$ 3,032,536</u></u>	<u><u>\$ 3,207,004</u></u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013
(with Comparative Totals for June 30, 2012)**

	Article 4	
	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 285,738	\$ 269,282
Cash payment to suppliers for goods and services	(771,336)	(890,620)
Cash payment to employees for services	(1,184,888)	(1,154,460)
Net cash provided by (used for) operating activities	<u>(1,670,486)</u>	<u>(1,775,798)</u>
Cash flows from noncapital financing activities:		
Operating grant proceeds received	1,304,127	1,321,121
Cash received for operating grants (TDA Allocation) (Note 2)	86,267	-
Cash received from the City of Laguna Beach	343,400	391,300
Net cash provided by noncapital financing activities	<u>1,733,794</u>	<u>1,712,421</u>
Cash flows from capital and related financing activities:		
Cash received (returned) for capital grants (Note 2)	<u>575,000</u>	<u>(675,226)</u>
Net cash provided by (used for) capital and related financing activities	<u>575,000</u>	<u>(675,226)</u>
Cash flows from investing activities:		
Interest received	<u>-</u>	<u>3,936</u>
Net cash provided by investing activities	<u>-</u>	<u>3,936</u>
Net increase (decrease) in cash and cash equivalents	638,308	(734,667)
Cash and cash equivalents at beginning of year	<u>88,109</u>	<u>822,776</u>
Cash and cash equivalents at end of year	<u>\$ 726,417</u>	<u>\$ 88,109</u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF CASH FLOWS, CONTINUED
YEAR ENDED JUNE 30, 2013
(with Comparative Totals for June 30, 2012)**

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (1,821,995)	\$ (1,915,291)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	192,474	198,951
(Increase) decrease in receivables	(40,984)	(48,923)
(Increase) decrease in prepaids	(2,511)	17,632
Increase (decrease) in accounts payable and accrued liabilities	3,721	(23,926)
Increase (decrease) in compensated absences	<u>(1,191)</u>	<u>(4,241)</u>
Net cash provided by (used for) operating activities	<u>\$ (1,670,486)</u>	<u>\$ (1,775,798)</u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – GENERAL INFORMATION

The financial statements are intended to reflect the financial position and results of operations for the Laguna Beach Municipal Transit Lines' (LBMTL's) Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) only.

Pursuant to Section 99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

The City of Laguna Beach, California (City), acting on behalf of LBMTL, submits a claim to the Orange County Transportation Authority (OCTA) for disbursement of Article 4 funds. The City may submit the claim either prior or subsequent to incurring allowable expenses. After review and approval of the claim, OCTA issues the allocation disbursement instructions to the County of Orange Auditor-Controller. Following instructions from OCTA, funds are disbursed from the County of Orange, Local Transportation Fund to the City.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, net position segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City accounts for the activity of LBMTL and the TDA Funds in its Municipal Transit Fund, which is an Enterprise Fund.

Enterprise Funds are used to account for operations that are financed primarily through user charges, or where the governing body has decided that determination of net income is appropriate.

Measurement Focus and Basis of Accounting

Enterprise funds of the City are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash and Investments

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the TDA Funds based upon the average cash balance. The investment policies and the risks related to Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the TDA Funds, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained at City Hall. For the purpose of the cash flow statement, amounts maintained in the City Pool are considered cash and cash equivalents.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Capital Assets

Capital assets are recorded at costs where historical records are available and at estimated historical costs where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported in the respective statement of net assets. The range of lives used for depreciation purposes for each fixed asset class is as follows:

<u>Capital Asset Class</u>	<u>Useful Life (in Years)</u>
Buildings and improvements	30
Office equipment and machinery	5
Furniture and fixtures	3 to 8
Equipment, machinery and tools	3 to 8
Automotive equipment	2 to 30

Unearned Revenue

Unearned revenue represents TDA Program revenue and other LBMTL revenues received in advance of the recognition of the related expense. During fiscal year 2012-13 LBMTL deferred \$86,267 of unspent TDA Program revenue and \$575,000 of unspent OCTA capital grant revenue.

Prior Year Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in the TDA Program’s financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City’s TDA Program financial statements for the year ended June 30, 2012, from which this selected financial data was derived. The presentation of certain prior year balances has been reclassified to conform to the current year presentation.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements – Effective in Current Fiscal Year

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objection of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The TDA Funds of LBMTL, an enterprise fund of the City, implemented this pronouncement effective July 1, 2012. Management has determined that there was not a material effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The TDA Funds of LBMTL, an enterprise fund of the City, implemented this pronouncement, effective July 1, 2012.

New Accounting Pronouncements - Effective in Future Fiscal Years

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. Management has not determined the effect on the financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

New Accounting Pronouncements - Effective in Future Fiscal Years, (Continued)

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. Management has not determined if there will be an effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of *Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and *Statement No. 50, Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. This Statement is specifically for pension plan providers.

GASB Statement No. 68 – In June 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. Management has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. Management has not determined the effect on the financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. Management has not determined the effect on the financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Total capital assets not being depreciated	<u>196,106</u>	<u>-</u>	<u>-</u>	<u>196,106</u>
Capital assets being depreciated:				
Buildings and improvements	1,950,672	-	-	1,950,672
Office equipment and machinery	51,146	-	-	51,146
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery and tools	27,963	-	-	27,963
Automotive equipment	3,464,199	-	-	3,464,199
Total capital assets being depreciated	5,495,480	-	-	5,495,480
Accumulated depreciation	<u>(2,857,034)</u>	<u>(192,474)</u>	<u>-</u>	<u>(3,049,508)</u>
Total capital assets being Depreciated, net	<u>2,638,446</u>	<u>(192,474)</u>	<u>-</u>	<u>2,445,972</u>
Capital assets, net	<u>\$ 2,834,552</u>	<u>\$ (192,474)</u>	<u>\$ -</u>	<u>\$ 2,642,078</u>

NOTE 4 – INTERGOVERNMENTAL REVENUES

Intergovernmental revenues represent grants earned during fiscal year 2012-13 from other governments as follows:

	<u>Year Ended June 30, 2013</u>
OCTA Prop 1B Funding	\$ 71,069
OCTA Operating Assistance	254,936
Total	<u>\$ 326,005</u>

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
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ARTICLE 4 FUNDS
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – TRANSFERS FROM THE CITY OF LAGUNA BEACH

Interfund transfers represent the amount of operating funds transferred (to) or from the Municipal Transit Fund as follows:

	<u>Year Ended June 30, 2013</u>
Transfers from the City of Laguna Beach Parking Fund	<u>\$ 343,400</u>

LBMTL is eligible to receive TDA Article 4 funding up to 50% of its operating expenses. The City transfers from its Parking Fund the additional funds necessary to cover operational expenditures above the 50% TDA limit.

SUPPLEMENTARY INFORMATION

**LAGUNA BEACH MUNICIPAL TRANSIT LINES
TRANSPORTATION DEVELOPMENT ACT
ARTICLE 4 FUNDS
OPERATING AND CAPITAL PROGRAM**

**SCHEDULE OF ALLOCATIONS RECEIVED AND EXPENDED, BY PROJECT YEAR
YEAR ENDED JUNE 30, 2013**

<u>Project Description</u>	<u>Project Type</u>	<u>Year Allocated</u>	<u>Allocation Amount</u>	<u>Unspent Allocations at 06/30/2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Unspent Allocations at 06/30/2013</u>	<u>Project Status</u>
Transit Program	Local	2012-13	\$ 1,064,389	\$ -	\$ 1,064,389	\$ 978,122	\$ 86,267	Open
Totals			<u>\$ 1,064,389</u>	<u>\$ -</u>	<u>\$ 1,064,389</u>	<u>\$ 978,122</u>	<u>\$ 86,267</u>	



**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 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 Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2013. Our report included an emphasis of matter paragraph stating that the financial statements of the TDA Funds do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013. Our report also included an emphasis of matter paragraph regarding the TDA Funds' adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements of the TDA Funds are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority, 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*, including the requirements of Section 6667 of part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority.

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.



Laguna Hills, California

December 13, 2013