

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**Local Transportation Fund
Financial Statements**

Year Ended June 30, 2013

ORANGE COUNTY TRANSPORTATION AUTHORITY

**LOCAL TRANSPORTATION FUND
FINANCIAL STATEMENTS**

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Transportation Fund (LTF), a special revenue fund of the Orange County Transportation Authority (OCTA), 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.

Auditor's 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 of 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 risk of material misstatement of the financial statements, due to error or fraud. 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 LTF as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the LTF and do not purport to, and do not, present fairly the financial position of OCTA as of June 30, 2013, and the changes in its financial position thereof for the year then ended, in conformity 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 budgetary comparison information on page 8 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 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 LTF's financial statements. The Schedule of Disbursements (Schedule) is presented for 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 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, 2013, on our consideration of OCTA'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 OCTA's internal control over financial reporting and compliance.



Laguna Hills, California
October 31, 2013

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**BALANCE SHEET
JUNE 30, 2013**

ASSETS

Cash and Investments	\$ 14,989,876
Interest Receivable	1,007
Due from Other Governments (Note 4)	<u>26,313,229</u>
Total Assets	<u><u>\$ 41,304,112</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Governments (Note 5)	<u>\$ 14,384,929</u>
Total Liabilities	<u>14,384,929</u>

FUND BALANCE

Restricted:	
Transportation Programs	<u>26,919,183</u>
Total Liabilities and Fund Balance	<u><u>\$ 41,304,112</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

REVENUE

Local Transportation Sales Tax Allocations	\$ 141,570,715
Total Revenues	<u>141,570,715</u>

EXPENDITURES

Current:

Supplies and Services	1,877,961
Contributions to Other Agencies	<u>3,600,256</u>
Total Expenditures	<u>5,478,217</u>

Excess of Revenues Over Expenditures 136,092,498

OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 6) (136,714,782)

Net Change in Fund Balance (622,284)

Fund Balance, Beginning of Year	<u>27,541,467</u>
Fund Balance, End of Year	<u>\$ 26,919,183</u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

NOTE 1 – REPORTING ENTITY

The Local Transportation Fund (LTF) is a special revenue fund of the Orange County Transportation Authority (OCTA). The LTF financial statements do not purport to, and do not, present fairly, the financial position of OCTA as of June 30, 2013 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. This fund is used to account for revenues received and expenditures made for certain transit projects within Orange County.

The LTF was created by the Transportation Development Act (TDA) for specific transportation purposes. Revenues to the LTF are derived from a ¼ cent retail sales tax collected statewide. The ¼ cent is returned by the State Board of Equalization (SBOE) to each county according to the amount of tax collected in that county.

The Orange County Transit District (OCTD) of OCTA is a transit operator and OCTA is the regional Transportation Planning Agency (TPA) for the County of Orange, California (County). Annually, the TPA determines each area's apportionment of LTF revenues. Generally, County LTF revenues are apportioned by population. Where there is a transit operator, separate apportionments are made to areas within and outside the district. Once funds are apportioned, they are only available for allocation to claimants in that area. Payments from the LTF are made by the County Auditor-Controller in accordance with allocation instructions issued by OCTA.

Article 3 of the TDA stipulates that, based on the County's population of more than 500,000, OCTA is eligible to receive LTF revenues solely for claims for the following, which are allocated in specific priority order: administration, planning and programming; Section 99234 of Article 3, which are claims for pedestrian and bicycle facilities; Article 4, which are for general transit operations and services; and Article 4.5, which are claims for community transit services.

Diversion of TDA Funding

In September 1995, as a result of, and to assist the County in, recovering from its December 1994 bankruptcy, the California State Legislature adopted legislation diverting \$38 million annually to the County from OCTA's TDA sales tax revenue. Diversion from OCTA of the TDA revenue began on July 1, 1996, for a 15-year period, and ended June 2011. In return, \$23 million in annual County gasoline tax revenue is being diverted to OCTA. Diversion to OCTA of the gasoline tax revenue began on July 1, 1997, for a 16-year period, through June 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the LTF are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles for governmental units.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Fund Accounting

The LTF activities and transactions are recorded and accounted for in a special revenue fund of the OCTA. Special revenue funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds. The LTF accounts for revenues received and expenditures made for certain transit projects within Orange County. Financing is generated from a 1/4 percent sales and use tax pursuant to the TDA. Expenditures of these monies must be made in accordance with TDA provisions. 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, and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Basis of Accounting

The LTF financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are accrued when they become both measurable and available. Measurable means that amounts can be estimated or otherwise determined. Available means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 90 days of year end. Expenditures are recorded when the liability is incurred. Liabilities are considered current when they are expected to be liquidated with available financial resources.

Cash and Investments

The LTF maintains its deposits in the Orange County Investment Pool (OCIP), as required by State statute. Oversight of the OCIP is performed by the Orange County Treasury Oversight Committee. The fair value of the LTF's position in the OCIP is the same as the value of the OCIP shares. Investment income earned by the pooled cash and investments in the OCIP is allocated based on average cash and investment balance.

For information on cash and investment disclosures relating to LTF's deposits in the OCIP, please see OCTA's Comprehensive Annual Financial Report.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Fund Balance

The LTF classifies fund balance based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Fund balance for the year ended June 30, 2013 consists of the following:

Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation. For the LTF, amounts are restricted pursuant to the Transportation Development Act.

When funds of different classifications are available for the same purpose, the spending priority is to spend restricted resources before unrestricted resources, and within the unrestricted category, committed followed by assigned fund balance.

NOTE 3 – BUDGETARY DATA

The LTF maintains accounting control through formal adoption of an annual operating budget. The operating budget is prepared in conformity with accounting principles generally accepted in the United States. The adopted budget may be amended by the OCTA Board of Directors (Board) to increase 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. OCTA 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 include 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, is at the major object level. With the exception of amounts that have been encumbered, appropriations lapse at year end.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Due from other governments of \$26,313,229 represents a TDA receivable due from the State of California.

NOTE 5 – DUE TO OTHER GOVERNMENTS

Due to other governments during the fiscal year ended June 30, 2013 consisted of the following:

OCTD for transit operations	\$ 12,947,867
OCTA for planning and administration	698,909
Other Agencies	<u>738,153</u>
Total	<u><u>\$ 14,384,929</u></u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

NOTE 6 – TRANSFERS

Transfers to other OCTA funds during the fiscal year ended June 30, 2013 consisted of the following:

OCTD for transit operations	\$ 133,456,845
OCTA for planning and administration	<u>3,257,937</u>
Total	<u>\$ 136,714,782</u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND (BUDGETARY BASIS)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local Transportation Sales Tax Allocations	\$ 144,213,724	\$ 144,213,724	\$ 141,570,715	\$ (2,643,009)
Investment Income	46,272	46,272	-	(46,272)
Total Revenues	<u>144,259,996</u>	<u>144,259,996</u>	<u>141,570,715</u>	<u>(2,689,281)</u>
Expenditures				
Current:				
Supplies and Services	1,586,351	1,586,351	1,877,961	(291,610)
Contributions to Other Local Agencies	1,343,391	1,343,391	3,600,256	(2,256,865)
Total Expenditures	<u>2,929,742</u>	<u>2,929,742</u>	<u>5,478,217</u>	<u>(2,548,475)</u>
Excess of Revenues over Expenditures	<u>141,330,254</u>	<u>141,330,254</u>	<u>136,092,498</u>	<u>(5,237,756)</u>
Other Financing Uses				
Transfers to Other OCTA funds (Note 6)	(141,996,119)	(141,996,119)	(136,714,782)	5,281,337
Total Other Financing Uses	<u>(141,996,119)</u>	<u>(141,996,119)</u>	<u>(136,714,782)</u>	<u>5,281,337</u>
Net Change in Fund Balance	<u>(665,865)</u>	<u>(665,865)</u>	<u>(622,284)</u>	<u>43,581</u>
Fund Balance, Beginning of Year	<u>27,541,467</u>	<u>27,541,467</u>	<u>27,541,467</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 26,875,602</u>	<u>\$ 26,875,602</u>	<u>\$ 26,919,183</u>	<u>\$ 43,581</u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**SCHEDULE OF DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Claimant	Article 3 Administration	Article 3 Planning	Article 3 Bicycles and Pedestrian Facilities	Article 4 Operating and Capital	Article 4.5 Paratransit Operating and Capital	Total
City of Brea					\$ 3,884	\$ 3,884
City of Costa Mesa					13,506	13,506
City of Garden Grove					58,663	58,663
City of La Habra					8,726	8,726
City of Laguna Beach				\$ 1,639,389		1,639,389
City of Laguna Hills					6,148	6,148
City of Laguna Woods			\$ 123,296		60,336	183,632
City of Newport Beach					5,742	5,742
City of Santa Ana					14,276	14,276
City of Seal Beach					15,644	15,644
City of Westminster					69,510	69,510
County of Orange	\$ 3,758		293,585			297,343
Jewish Family Services					76,298	76,298
Korean American Seniors Association					87,025	87,025
Orange County Transit District				127,207,049	6,249,796	133,456,845
Orange County Transportation Authority	125,421	\$ 3,132,516				3,257,937
Southern California Association of Governments		1,044,172				1,044,172
Vietnamese Community of Orange County, Inc.					76,298	76,298
Total disbursements	<u>\$ 129,179</u>	<u>\$ 4,176,688</u>	<u>\$ 416,881</u>	<u>\$ 128,846,438</u>	<u>\$ 6,745,852</u>	<u>\$ 140,315,038</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 Local Transportation Fund (LTF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the LTF's basic financial statements and have issued our report thereon dated October 31, 2013. Our report included an emphasis-of-matter that the LTF financial statements do not purport to, and do not, present fairly the financial position of OCTA.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA'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 OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over financial reporting.

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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 LTF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including §6661 and §6662 of Part 21 of the California Code of Regulations, 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 §6661 and §6662 of Part 21 of the California Code of Regulations.

Purpose of 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 OCTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
October 31, 2013