

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

ANNUAL FINANCIAL AND  
COMPLIANCE REPORT

Year Ended June 30, 2015

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

Audited Financial Statements

Year Ended June 30, 2015

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## 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), as of and for the year ended June 30, 2015, 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.

## ***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 the OCLTA, as of June 30, 2015, 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 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 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. 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 30, 2015, 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.



Laguna Hills, California  
October 30, 2015

**Orange County Local Transportation Authority**  
**Management's Discussion and Analysis**  
**(unaudited)**  
**For the Fiscal Year Ended June 30, 2015**

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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, 2015. 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 \$417,580 and consisted of net investment in capital assets of \$645, restricted net position of \$12,006 and unrestricted net position of \$404,929.
- Net position increased \$68,773 during fiscal year 2014-15. 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 \$728,504 an increase of \$67,195 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, liabilities and deferred inflows, 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.

## Orange County Local Transportation Authority Management's Discussion and Analysis

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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.

**Orange County Local Transportation Authority  
Management's Discussion and Analysis**

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**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, 2015, the OCLTA's assets exceeded liabilities and deferred inflows by \$417,580, a \$68,773 increase from June 30, 2014. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the OCLTA's governmental activities.

Current and other assets increased by \$22,030 or 3% from June 30, 2014. The increase is primarily due to the receipt of additional Proposition 1B (Prop 1B) Public Transportation Modernization, Improvement and Service Enhancement Account funding.

Total liabilities decreased \$46,782 from June 30, 2014 primarily due to the retirement of the commercial paper notes program.

Unrestricted net position represents the portion of net position that is available for general use as specified in the M1 and M2 programs. Unrestricted net position from governmental activities changed from \$336,120 at June 30, 2014 to \$404,929 at June 30, 2015. This increase was primarily due to sales tax revenue over expenditures.

Table 1  
Orange County Local Transportation Authority  
Net Position

	Governmental Activities	
	2015	2014
Current and other assets	\$ 864,521	\$ 842,491
Capital assets, net	645	684
Total assets	865,166	843,175
Current liabilities	111,879	151,194
Long-term liabilities	335,707	343,174
Total liabilities	447,586	494,368
Net position:		
Invested in capital assets, net of related debt	645	684
Restricted	12,006	12,003
Unrestricted	404,929	336,120
Total net position	\$ 417,580	\$ 348,807

Governmental activities increased the OCLTA's net position by \$68,773. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, increased by \$11,969, or 4%, from the prior year as a result of continued improvement in the economy. Operating

**Orange County Local Transportation Authority  
Management's Discussion and Analysis**

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grants and contributions decreased \$25,231, or 19%, from the prior year primarily due to the reduction in reimbursements for the grade separation projects.

OCLTA expenses shown on the statement of activities consist of:

	Governmental Activities	
	2015	2014
Supplies and services	\$ 47,618	\$ 29,800
Contributions to other local agencies	122,625	186,435
Infrastructure	109,824	133,365
Depreciation expense	39	39
Interest expense	21,223	21,563
Transfer to other OCTA funds	28,054	2,798
Loss on sale of excess land	-	935
Total expenses	\$329,383	\$374,935

Total expenses decreased \$45,552, or 12% from the prior year primarily due to the contribution to the City of Anaheim for ARTIC in the prior fiscal year.

Table 2  
Orange County Local Transportation Authority  
Changes in Net Position

	Governmental Activities	
	2015	2014
Revenues:		
Program revenues:		
Charges for services	\$ 911	\$ 553
Operating grants and contributions	111,145	136,376
General revenues:		
Sales taxes	291,556	279,587
Unrestricted investment earnings	11,535	11,809
Other miscellaneous revenue	-	187
Total revenues	415,147	428,512
Expenses:		
Measure M program	329,383	374,935
Indirect expense allocation	16,991	14,892
Increase in net position	68,773	38,685
Net position - beginning	348,807	310,122
Net position - end of year	\$ 417,580	\$ 348,807

**Orange County Local Transportation Authority  
Management's Discussion and Analysis**

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**Financial Analysis of the OCLTA's Funds**

As of June 30, 2015, the OCLTA's governmental funds reported combined ending fund balances of \$728,504, an increase of \$67,195 compared to fiscal year 2013-14. The majority of fund balances, 96%, are assigned for transportation programs related to Measure M projects. Fund balance of \$12,006 is restricted for debt service on M2 sales tax revenue bonds issued to accelerate funding for M2 projects. The remaining fund balance of \$17,036 is considered nonspendable as the funds have been deposited with the State for condemnation deposits and an advance payment to the City of Anaheim for the Anaheim Regional Transportation Intermodal Center (ARTIC) project.

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

The LTA fund increased by \$67,192, primarily due to a decrease of expenditures along with a slight increase in sales tax revenue in excess of expenditures.

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2015, the OCLTA had \$645 net of accumulated depreciation invested in capital assets including improvements and machinery.

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

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Improvements	\$ 1,086	\$ 1,086
Machinery	32	32
Total capital assets	<u>1,118</u>	<u>1,118</u>
Less accumulated depreciation	<u>(473)</u>	<u>(434)</u>
Total capital assets, net	<u>\$ 645</u>	<u>\$ 684</u>

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

OCTA has outstanding capital expenditure commitments, the most significant of which are: \$20,182 for the Lakewood grade separation project, \$16,771 for the Orangethorpe grade separation project, \$10,517 for the Tustin grade separation project, and \$10,349 for the I-5 HOV freeway construction project.

**Orange County Local Transportation Authority  
Management’s Discussion and Analysis**

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Debt Administration

As of June 30, 2015, the OCLTA had \$332,695 in sales tax revenue bonds and commercial paper notes outstanding, as follows:

	Governmental Activities	
	2015	2014
Sales tax revenue bonds	\$332,695	\$339,560
Commercial paper notes	-	25,000
Totals	\$332,695	\$364,560

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 short-term debt and long-term debt can be found in notes 7 and 8 to the financial statements, respectively.

**Economic and Other Factors**

The OCLTA includes the Measure M program half cent sales tax which has delivered on promises made to the residents of Orange County in 1990, with over \$4 billion invested in improvements to freeways, streets and roads and transit services. M1 ended March 2011, and collection of sales tax under 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 for 30 more years. In an effort to expedite transportation projects, the OCTA Board (Board) approved the M2 Early Action Plan (EAP) in 2007, paving the way for financing projects in 2007 through 2012. In July 2010 the Board approved the comprehensive Capital Action Plan (CAP). The CAP expanded the scope of the EAP to include other priority OCTA capital projects.

All major elements of the Board directed EAP and CAP are nearing completion. In September 2012, the Board adopted a new plan, M2020, outlining the projects and programs for all modes that can be accomplished between now and the year 2020.

M2020 commits to meeting a total of 14 objectives in the eight-year period. In all, more than \$5 billion in transportation improvements promised to the voters in M2 will be completed or under construction by 2020. In addition, the groundwork will be laid for another \$1.4 billion in freeway improvements by environmentally clearing all remaining projects to be shelf ready in the event additional federal, state, or local funding becomes available.

M2020 includes freeway improvements projects, streets and roads improvement projects, transit capital projects, freeway environmental mitigation efforts, and environmental cleanup. These and other critical capital projects will be captured in a more comprehensive capital program document that will continue to ensure coordinated project delivery and decision making with respect to resource management, funding, and procedures.

## **Orange County Local Transportation Authority Management's Discussion and Analysis**

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The OCLTA adopted its fiscal year 2015-16 annual budget on June 8, 2015. Approximately \$449 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 \$129 million to make improvements primarily along Interstate 405, Interstate 5, State Route 91, State Route 55, and State Route 57. Approximately \$187 million is budgeted to improve streets and roads, including \$68 million to continue the OC Bridges project. An additional \$61 million is included to fund transit programs, including the OC Streetcar (\$40 million) project.

### **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, 2015**

<i>(amounts expressed in thousands)</i>	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 737,333
Receivables:	
Interest	1,212
Operating grants	12,372
Other	32
Due from other governments	91,101
Condemnation deposits	8,536
Other assets	8,500
Assets held for resale	5,435
Capital assets:	
Depreciable, net	645
<b>Total Assets</b>	<b>865,166</b>
<b>Liabilities</b>	
Accounts payable	30,536
Accrued interest payable	8,049
Due to other OCTA funds	545
Due to other governments	24,291
Unearned revenue	44,593
Other liabilities	20
Advance from other OCTA funds	3,845
Noncurrent liabilities:	
Due within one year	7,210
Due in more than one year	328,497
<b>Total Liabilities</b>	<b>447,586</b>
<b>Net Position</b>	
Net investment in capital assets	645
Restricted for:	
Debt service	12,006
Unrestricted for:	
Measure M program	404,929
<b>Total Net Position</b>	<b>\$ 417,580</b>

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, 2015**

<i>(amounts expressed in thousands)</i>	Expenses	Indirect Expense Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
Program governmental activities:					
Measure M program	\$ 329,383	\$ 16,991	\$ 911	\$ 111,145	\$ (234,318)
Total governmental activities	<u>329,383</u>	<u>16,991</u>	<u>911</u>	<u>111,145</u>	<u>(234,318)</u>
General revenues:					
Sales taxes					291,556
Unrestricted investment earnings					<u>11,535</u>
Total general revenues					<u>303,091</u>
Change in net position					68,773
Net position - beginning					<u>348,807</u>
<b>Net position - ending</b>					<u><b>\$ 417,580</b></u>

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, 2015**

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
<b>Assets</b>			
Cash and investments	\$ 725,329	\$ 12,004	\$ 737,333
Receivables:			
Interest	1,210	2	1,212
Operating grants	12,372	-	12,372
Other	32	-	32
Due from other governments	88,506	-	88,506
Condemnation deposits	8,536	-	8,536
Other assets	8,500	-	8,500
<b>Total Assets</b>	<b>\$ 844,485</b>	<b>\$ 12,006</b>	<b>\$ 856,491</b>
<b>Liabilities</b>			
Accounts payable	\$ 30,536	\$ -	\$ 30,536
Due to other OCTA funds	545	-	545
Due to other governments	24,291	-	24,291
Unearned revenue	44,593	-	44,593
Other liabilities	20	-	20
Advance from OCTA	3,845	-	3,845
<b>Total Liabilities</b>	<b>103,830</b>	<b>-</b>	<b>103,830</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - grant reimbursements	24,157	-	24,157
<b>Total Deferred Inflows of Resources</b>	<b>24,157</b>	<b>-</b>	<b>24,157</b>
<b>Fund Balances</b>			
Nonspendable:			
Condemnation deposits	8,536	-	8,536
Other assets	8,500	-	8,500
Restricted for:			
Debt service	-	12,006	12,006
Assigned to:			
Transportation programs	699,462	-	699,462
<b>Total Fund Balances</b>	<b>716,498</b>	<b>12,006</b>	<b>728,504</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 844,485</b>	<b>\$ 12,006</b>	<b>\$ 856,491</b>

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, 2015**

*(amounts expressed in thousands)*

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

<b>Total fund balances (page 12)</b>	\$	728,504
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		645
Interest receivable on the Build America Bonds is not reported in the funds.		2,595
Assets held for resale are not financial resources and, therefore, are not reported in the funds.		5,435
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is reported as a deferred inflow of resources in the funds.		24,157
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.		(8,049)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(335,707)</u>
<b>Net position of governmental activities (page 10)</b>	<b>\$</b>	<b><u>417,580</u></b>

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, 2015**

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
<b>Revenues</b>			
Sales taxes	\$ 291,556	\$ -	\$ 291,556
Contributions from other agencies	114,694	-	114,694
Interest	5,075	6,460	11,535
Miscellaneous	3,340	-	3,340
<b>Total Revenues</b>	<b>414,665</b>	<b>6,460</b>	<b>421,125</b>
<b>Expenditures</b>			
Current:			
General government:			
Supplies and services	64,609	-	64,609
Transportation:			
Contributions to other local agencies	122,625	-	122,625
Capital outlay	109,824	-	109,824
Debt service:			
Principal payments on long-term debt	-	6,865	6,865
Interest	26	21,927	21,953
<b>Total Expenditures</b>	<b>297,084</b>	<b>28,792</b>	<b>325,876</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>117,581</b>	<b>(22,332)</b>	<b>95,249</b>
<b>Other financing sources (uses)</b>			
Transfers in	6,458	28,793	35,251
Transfers out	(28,793)	(6,458)	(35,251)
Transfers to OCTA	(28,054)	-	(28,054)
<b>Total other financing sources (uses)</b>	<b>(50,389)</b>	<b>22,335</b>	<b>(28,054)</b>
<b>Net change in fund balances</b>	<b>67,192</b>	<b>3</b>	<b>67,195</b>
Fund balances - beginning	649,306	12,003	661,309
<b>Fund balances - ending</b>	<b>\$ 716,498</b>	<b>\$ 12,006</b>	<b>\$ 728,504</b>

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, 2015**

*(amounts expressed in thousands)*

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

<b>Net change in fund balances - total governmental funds (page 14)</b>	\$	67,195
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount of depreciation expense recorded in the current period.		(39)
The net effect of various miscellaneous transactions involving the sale of land held for resale is to decrease net position.		(2,429)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		(3,549)
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.		7,595
<b>Change in net position of governmental activities (page 11)</b>	<b>\$</b>	<b>68,773</b>

See accompanying notes to the financial statements.

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

**Notes to The Financial Statements**

**Year Ended June 30, 2015**

(in thousands)

**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. Under M1, funds are required to be distributed to four modes: freeways, regional streets and roads, local streets and roads, and transit.

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 functions as the OCLTA governing board. Measure M requires that an 11 member Taxpayer's Oversight Committee (TOC) monitors 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.

Orange County Local Transportation Authority  
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Year Ended June 30, 2015  
(in thousands)

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 and commercial paper 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, 2015, interest expense of \$21,223 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 recently 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.

Orange County Local Transportation Authority  
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Year Ended June 30, 2015  
(in thousands)

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 May 22, 2015. 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.

Investments in U.S. government and U.S. agency securities, medium term notes, repurchase agreements, variable and floating rate securities, commercial paper, mortgage and asset-backed securities, and corporate notes are carried at fair value based on quoted market prices, except for securities with a remaining maturity of one year or less at purchase date, which are carried at cost. Treasury mutual funds are carried at fair value based on each fund's share price. 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.

### **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

Orange County Local Transportation Authority  
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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 2014-15, \$16,991 of administrative services were charged to the OCLTA and are reported as general government expenditures in the governmental funds.

**Assets Held for Resale**

The OCLTA holds title to property in connection with the purchase of rights-of-way for infrastructure not held by the OCLTA (see below). These assets are reported as assets held for resale in the government-wide financial statements and will be sold and the proceeds reimbursed to the project that funded the expenditure.

**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 estimated fair value at the date of donation. 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:

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

**Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position 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.

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Year Ended June 30, 2015  
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In addition to liabilities, the statement of financial position 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, liabilities and deferred outflows/inflows 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. 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.

Year Ended June 30, 2015  
(in thousands)

### **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. 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 OCLTA applies the default established by GASB 54, whereby 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.

Orange County Local Transportation Authority  
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Year Ended June 30, 2015  
(in thousands)

One element of that reconciliation explains that “Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this \$645 difference are as follows:

Capital assets	\$ 1,118
Less accumulated depreciation	<u>(473)</u>
Net adjustment to increase fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ 645</u>

Another 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 \$(335,707) difference are as follows:

Bonds payable	\$ (332,695)
Plus unamortized bond issuance premium (to be amortized to interest expense)	<u>(3,012)</u>
Net adjustment to decrease fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ (335,707)</u>

**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.

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 \$7,595 difference are as follows:

Bonds payable	\$ 6,865
Change in accrued interest	128
Amortization of premium	<u>602</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position - governmental activities	<u>\$ 7,595</u>

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2015  
(in thousands)

### 3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2015:

Investments:		
With OCTA Commingled Investment Pool	\$	652,135
With Trustee		85,198
		<u>85,198</u>
Total cash and investments	\$	<u>737,333</u>

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

Cash and Investments	\$	737,333
		<u>737,333</u>
Total Cash and Investments	\$	<u>737,333</u>

As of June 30, 2015, OCLTA had the following investments:

Investment	Fair Value	Principal	Interest Rate Range	Yield	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$652,135	\$653,925	Discount .087%-8.75%	.010% - 4.366%	7/1/15- 6/1/20	1.90
U.S. Treasuries Notes	20,286	20,286	Discount .060% - 4.25%	.008% - .163%	7/15/15- 7/15/16	.31
U.S. Agency Notes	1,999	1,999	Discount	.091%	8/7/15	.13
Mortgage and Asset Backed Securities	108	108		.432% - .460% .544%	7/15/16	1.04
Variable Rate Notes	330	330	Variable	.545%	5/27/16	.91
Money Market & Mutual Funds	<u>62,475</u>	<u>62,475</u>	Variable	.020%- .070%	7/1/15	1 Day
Total Investments	<u>\$737,333</u>	<u>\$739,123</u>				
Portfolio Weighted Average Maturity						.40

The Interest Rate Range for the OCTA Commingled Investment Pool represents the interest rate ranges of the investments within the pool.

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2015  
(in thousands)

**Interest Rate Risk**

OCTA manages exposure to declines in fair value from increasing interest rates by having a Policy that limits maturities to five years while also staggering maturities. OCTA maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore, less sensitive to interest rate changes. In accordance with the Policy, amounts restricted for debt service reserves are invested in accordance with the maturity provision of their specific indenture, which may extend beyond five years.

As of June 30, 2015, OCLTA was a participant in OCTA's commingled investment pool which had mortgage and asset-backed securities totaling \$91,745. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three nationally recognized statistical rating organizations (NRSROs).

As of June 30, 2015, OCTA's commingled investment pool and OCLTA held the following variable rate notes (LIBOR refers to the London Interbank Offered Rate):

<b>Investment</b>	<b>Fair Value</b>	<b>Coupon Multiplier</b>	<b>Coupon Reset Date</b>
American Express	\$ 1,007	LIBOR + 59 basis points	Quarterly
American Express	1,632	LIBOR + 51 basis points	Quarterly
American Express	538	LIBOR + 55 basis points	Quarterly
Bank of America	301	LIBOR + 87 basis points	Quarterly
Bank of Oklahoma	1,396	LIBOR + 69 basis points	Quarterly
Barclay's	2,999	LIBOR + 34 basis points	Monthly
BNP Paribas	1,292	LIBOR + 59 basis points	Quarterly
Citigroup Inc.	499	LIBOR + 54 basis points	Quarterly
Citigroup Inc.	629	LIBOR + 77 basis points	Quarterly
Citigroup Inc.	2,193	LIBOR + 69 basis points	Quarterly
Daimler Finance	1,079	LIBOR + 86 basis points	Quarterly
Duke Energy	1,821	LIBOR + 20 basis points	Quarterly
Duke Energy	1,876	LIBOR + 35 basis points	Quarterly
E-Bay	985	LIBOR + 20 basis points	Quarterly
E-Bay	493	LIBOR + 20 basis points	Quarterly
Fannie Mae	724	LIBOR + 20 basis points	Monthly
Fannie Mae	1,960	Variable	Monthly
General Electric	2,995	LIBOR + 45 basis points	Quarterly
General Electric	1,096	LIBOR + 65 basis points	Quarterly
Goldman Sachs	1,354	LIBOR + 120 basis points	Quarterly
HSBC USA	823	LIBOR + 88 basis points	Quarterly
HSBC USA	1,355	LIBOR + 61 basis points	Quarterly
IBM	170	LIBOR + 37 basis points	Quarterly

Orange County Local Transportation Authority  
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Year Ended June 30, 2015  
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<b>Investment</b>	<b>Fair Value</b>	<b>Coupon Multiplier</b>	<b>Coupon Reset Date</b>
Johnson & Johnson	1,150	LIBOR + 7 basis points	Quarterly
JP Morgan Chase	1,300	LIBOR + 45 basis points	Quarterly
JP Morgan Chase	544	LIBOR + 90 basis points	Quarterly
JP Morgan Chase	848	LIBOR + 95.5 basis points	Quarterly
JP Morgan Chase	1,510	LIBOR + 90 basis points	Quarterly
JP Morgan Chase	431	LIBOR + 52 basis points	Quarterly
Manufacturers & Traders	1,337	LIBOR + 37.5 basis points	Quarterly
Medtronic	1,245	LIBOR + 9 basis points	Quarterly
Merck & Company	1,373	LIBOR + 37.5 basis points	Quarterly
Morgan Stanley	1,319	LIBOR + 128 basis points	Quarterly
Morgan Stanley	1,300	LIBOR + 85 basis points	Quarterly
Morgan Stanley	1,348	LIBOR + 114 basis points	Quarterly
National City Bank	1,343	LIBOR + 37 basis points	Quarterly
National Rural Utilities	330	LIBOR + 25 basis points	Quarterly
PACCAR Financial	231	LIBOR + 60 basis points	Quarterly
Rockwell	1,090	LIBOR + 35 basis points	Quarterly
Toronto-Dominion Bank	1,368	LIBOR + 56 basis points	Quarterly
USB AG Stamford	588	LIBOR + 85 basis points	Quarterly
Wells Fargo Bank	1,097	LIBOR + 21 basis points	Quarterly
Westpac	833	LIBOR + 74 basis points	Quarterly
<b>Total Variable Rate Notes</b>	<b>\$ 49,802</b>		

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Policy requires that a third party bank custody department hold all securities owned by OCTA. All trades are settled on a delivery versus payment basis through OCTA's safekeeping agent. At June 30, 2015, OCTA did not have any deposits or securities exposed to custodial credit risk and there was no securities lending.

### 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

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rated no less than an “A” by two of the three rating services. LAIF and the OCTA Commingled Investment Pool 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, 2015. (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	88.45%
Held by Trustee:				
U.S. Treasury Notes:				
Notes	A-1+	P-1	AAA	0.27%
Notes	AA+	Aaa	AAA	2.48%
U.S. Agency Notes	A-1	P-1	F-1	0.27%
Mortgage and Asset Backed Securities	AAA	Aaa	NR	0.01%
Variable Rate Notes	A	A2	A	0.05%
Money Market and Mutual Funds	AAAm	Aaa	AAA	8.47%
Total				<u>100.00%</u>

**Concentration of Credit Risk**

At June 30, 2015, OCTA did not exceed the Policy maximum concentrations as stated below:

Issuer/Counter-Party Diversification Guidelines for All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and OCTA Debt.

- 5% for any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities.

Issuer/Counter-Party Diversification Guidelines for Federal Agencies, Federal Instruments and Repurchase Agreements.

- 35% for any one Federal Agency or Federal Instrumentalities.
- 50% for any one repurchase agreement counter-party name if the maturity/term is less than or equal to 7 days.

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- 35% for any one repurchase agreement counter-party name if the maturity/term is greater than 7 days.

#### **Investment in State Investment Pool**

OCTA is a voluntary participant in LAIF which is regulated by the California Government Code. The Investment Advisory Board provides oversight for LAIF, consisting of five members as designated by statute, which includes the Treasurer of the State of California. The fair value of OCTA's investment in this pool is reported in the accompanying financial statements based upon OCTA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

#### **4. Due From/To Other Governments**

Amounts due from other governments as of June 30, 2015 in the fund statements are \$88,506 and are comprised of \$54,033 of sales taxes and \$34,473 of project reimbursements. An additional \$2,595 is included in the government-wide statements representing the interest receivable on Build America Bonds (see note 8).

Amounts due to other governments as of June 30, 2015 are \$24,291 and are comprised of \$23,392 for transportation projects and \$899 for other miscellaneous transactions.

#### **5. Related Party Transactions and Interfund Transfers**

##### **Related party transactions:**

During fiscal year 2014-15, transfers of \$28,054 from OCLTA to OCTA were made to close out the M1 fund for the freeway program to complete the West County Connector freeway project, and for the M2 fare stabilization and senior mobility programs.

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 (0.54% for fiscal year 2014-15). As of June 30, 2015, OCLTA owes OCTA \$3,845.

##### **Interfund Transfers:**

During fiscal year 2014-15, the LTA Fund transferred \$28,793 to the LTA Debt Service Fund for debt service payments. Additionally, the LTA Debt Service Fund transferred \$6,458 in excess interest earnings to the LTA Fund.

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**6. Capital Assets**

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Right-of-way improvements	\$ 1,086	\$ -	\$ -	\$ 1,086
Machinery and equipment	32	-	-	32
Total capital assets, being depreciated	1,118	-	-	1,118
Less accumulated depreciation for:				
Right-of-way improvements	(407)	(36)	-	(443)
Machinery and equipment	(27)	(3)	-	(30)
Total accumulated depreciation	(434)	(39)	-	(473)
Total Measure M capital assets, being depreciated, net	684	(39)	-	645
Total Measure M capital assets, net	\$ 684	\$ (39)	\$ -	\$ 645

Depreciation expense charged to the Measure M program was \$39.

**7. Short-Term Debt**

On October 28, 2014, OCTA retired the \$25,000 Tax-Exempt Commercial Paper. The JP Morgan Letter of Credit expired October 31, 2014 and OCLTA elected not to pursue another Letter of Credit facility.

**Changes in Short-Term Debt**

Short-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Issued	Redemptions	Ending Balance
Tax exempt commercial paper – M2	\$ 25,000	\$ -	\$ 25,000	\$ -
Total short-term debt	\$ 25,000	\$ -	\$ 25,000	\$ -

**8. 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

Orange County Local Transportation Authority  
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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	<u>\$ 293,540</u>	<u>\$ 65,053</u>
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	\$ 39,155
Plus unamortized premium	-	3,012
Total	<u><u>\$ 293,540</u></u>	<u><u>\$ 42,167</u></u>

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest
2016	7,210	21,584
2017	7,475	21,317
2018	7,775	21,018
2019	8,165	20,629
2020	8,530	20,263
2021-2025	48,060	94,027
2026-2030	59,145	76,975
2031-2035	73,670	54,628
2036-2040	91,765	26,793
2041	20,900	1,444
Total	<u><u>\$ 332,695</u></u>	<u><u>\$ 358,678</u></u>

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**Changes in Long-Term Liabilities**

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Measure M program activities:					
Sales tax revenue bonds	\$ 339,560	\$ -	\$ 6,865	\$ 332,695	\$ 7,210
Unamortized premium	3,614	-	602	3,012	-
Total Measure M program activities long-term liabilities	\$ 343,174	\$ -	\$ 7,467	\$ 335,707	\$ 7,210

**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 29. The purposes for which the proceeds of the debt issuances were utilized are disclosed in the debt description located on pages 28-29.

For the year ended June 30, 2015, 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	\$ 227,936	\$ 22,338*	10.20

\*OCLTA received \$6,454 in Build America Bonds subsidy to offset annual debt service payments for Measure M2 Sales Tax Revenue Bonds.

**9. 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, 2015, were \$745,493, the majority of which relate to the expansion of Orange County's freeway and road systems, grade separation projects, and the engineering of a rapid connection fixed guideway transit system.

Year Ended June 30, 2015  
(in thousands)

## **Federal Grants**

The OCLTA 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.

## **10. Effect of New Pronouncements**

### **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 does not apply to OCLTA.

### **GASB Statement No. 69**

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. During fiscal year 2014-15, OCLTA did not have any government combinations and disposals of government operations.

### **GASB Statement No. 71**

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contribution entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement does not apply to OCLTA.

### **GASB Statement No. 73**

In June 2015, GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The objective of this Statement is to improve the usefulness of information about pensions included in the general

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2015  
(in thousands)

purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions in Statement 73 are effective for OCLTA's fiscal year ending June 30, 2016—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal year ending June 30, 2017.

**GASB Statement No. 74**

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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.

**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.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2015  
(in thousands)

**GASB Statement No. 76**

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement is effective for OCLTA’s fiscal year ending June 30, 2016.

**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, 2016.

**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, 2015**

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Sales taxes	\$ 301,846	\$ 301,846	\$ 291,557	\$ (10,289)
Contributions from other agencies	133,009	133,009	200,787	67,778
Interest	5,238	5,238	5,075	(163)
Miscellaneous	220	220	3,339	3,119
<b>Total revenues</b>	<b>440,313</b>	<b>440,313</b>	<b>500,758</b>	<b>60,445</b>
<b>Expenditures:</b>				
Current:				
General government	169,022	170,952	128,164	42,788
Transportation:				
Contributions to other local agencies	214,174	210,744	122,674	88,070
Capital outlay	238,139	240,439	162,641	77,798
Debt service:				
Interest on long-term debt and commercial paper	125	125	26	99
<b>Total expenditures</b>	<b>621,460</b>	<b>622,260</b>	<b>413,505</b>	<b>208,755</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(181,147)</b>	<b>(181,947)</b>	<b>87,253</b>	<b>269,200</b>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	6,458	6,458
Transfers out	(22,233)	(22,233)	(28,793)	(6,560)
Transfers to OCTA	(13,657)	(13,657)	(28,054)	(14,397)
<b>Total other financing uses</b>	<b>(35,890)</b>	<b>(35,890)</b>	<b>(50,389)</b>	<b>(14,499)</b>
<b>Net change in fund balance</b>	<b>\$ (217,037)</b>	<b>\$ (217,837)</b>	<b>\$ 36,864</b>	<b>\$ 254,701</b>
<b>Reconciliation to GAAP:</b>				
Net change in fund balance (budgetary basis)			\$ 36,864	
Less: Estimated revenues for encumbrances outstanding at June 30			86,093	
Add: Current year encumbrances outstanding at June 30			116,421	
Net change in fund balance (GAAP basis)			\$ 67,192	

See accompanying notes to the required supplementary information.

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

**Notes to Required Supplementary Information**

**Year Ended June 30, 2015**

(in thousands)

**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. 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 2015 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 2014-15.

**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, 2015**

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Interest	\$ 6,559	\$ 6,559	\$ 6,460	\$ (99)
<b>Total revenues</b>	<b>6,559</b>	<b>6,559</b>	<b>6,460</b>	<b>(99)</b>
<b>Expenditures:</b>				
Debt service:				
Principal payments on long-term debt	6,865	6,865	6,865	-
Interest on long-term debt and commercial paper	21,927	21,927	21,927	-
<b>Total expenditures</b>	<b>28,792</b>	<b>28,792</b>	<b>28,792</b>	<b>-</b>
<b>Deficiency of revenues under expenditures</b>	<b>(22,233)</b>	<b>(22,233)</b>	<b>(22,332)</b>	<b>(99)</b>
<b>Other financing sources:</b>				
Transfers in	22,233	22,233	28,793	6,560
Transfers out	-	-	(6,458)	(6,458)
<b>Total other financing sources</b>	<b>22,233</b>	<b>22,233</b>	<b>22,335</b>	<b>102</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ 3</b>



**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, 2015, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements, and have issued our report thereon dated October 30, 2015.

**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.

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



Laguna Hills, California  
October 30, 2015