

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**State Transit Assistance Fund
Financial Statements**

Year Ended June 30, 2016

ORANGE COUNTY TRANSPORTATION AUTHORITY

**STATE TRANSIT ASSISTANCE FUND
FINANCIAL STATEMENTS**

JUNE 30, 2016

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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 State Transit Assistance Fund (STAF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2016, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STAF, as of June 30, 2016, 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 STAF and do not purport to, and do not, present fairly the financial position of OCTA as of June 30, 2016, 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. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, the STAF adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 8-9 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of OCTA's internal control over financial reporting, as it relates to the STAF, 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, as it relates to the STAF.



Laguna Hills, California
October 31, 2016

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**BALANCE SHEET
JUNE 30, 2016**

ASSETS

Cash and Investments	\$ 18,811
Interest Receivable	13
Due from Other Governments (Note 3)	<u>10,538,121</u>
Total Assets	<u><u>\$ 10,556,945</u></u>

DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

DEFERRED INFLOWS OF RESOURCES

Unavailable Revenue - Sales Tax	<u>\$ 10,538,121</u>
Total Liabilities	<u>10,538,121</u>

FUND BALANCE

Restricted:	
Total Fund Balance	<u>18,824</u>
Total Deferred Inflows of Resources and Fund Balance	<u><u>\$ 10,556,945</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

REVENUE

State Transit Assistance Sales Tax Allocations	\$ 7,918,730
Interest and Investment Income	5,206
Miscellaneous	5,306
Total Revenues	<u>7,929,242</u>

EXPENDITURES

Current:

Supplies and Services	<u>517</u>
Total Expenditures	<u>517</u>

Excess of Revenues over Expenditures 7,928,725

OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 4)	<u>(7,925,629)</u>
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Net Change in Fund Balance 3,096

Fund Balance, Beginning of Year	<u>15,728</u>
Fund Balance, End of Year	<u>\$ 18,824</u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – REPORTING ENTITY

The State Transit Assistance Fund (STAF) is a special revenue fund of the Orange County Transportation Authority (OCTA). The STAF financial statements do not purport to, and do not, present fairly, the financial position of OCTA, as of June 30, 2016, 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 funds transferred to the Orange County Transit District (OCTD) for operations and fare assistance for seniors and disabled persons.

The STAF provides a second source of Transportation Development Act (TDA) funding for transportation planning and mass transportation purposes as specified by the State of California Legislature. Funds for the program are derived from sales taxes on gasoline and use taxes on diesel fuel.

The STAF funds are allocated through an appropriation to the State Controller by the Legislature for allocation by formula to each Transportation Planning Agency (TPA). The OCTA serves as the regional TPA for the County of Orange, California (County). The formula allocates 50 percent of the funds according to population and the remaining 50 percent according to operator revenues from the prior fiscal year. The allocations are based on the operator's share of revenues compared to all of the other operators in the State. The STAF allocations are deposited in the OCTA's STAF, which is maintained by the Auditor-Controller of the County. The allocation to OCTA's STAF must be made in a resolution adopted by OCTA's governing board. Payments from the STAF are made by the County Auditor-Controller in accordance with the allocation instructions in the allocation resolution.

The STAF funds may not be allocated to fund administration or streets and roads projects. Operators receiving the STAF funds must meet qualifying criteria based on the subsidy per revenue vehicle hour received in the previous year, taking into consideration the change in the Consumer Price Index within the operator's region.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the STAF 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.

Fund Accounting

The STAF activities and transactions are recorded and accounted for in a special revenue fund of the OCTA. This fund is used to account for funds transferred to OCTD transit for operations and fare assistance for senior and disabled persons. Funding is provided by sales taxes on gasoline and use taxes on diesel fuel. Expenditure of these funds is governed by the provisions of the TDA. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The STAF 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 STAF 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 STAF categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the STAF held no individual investments. All funds are invested in OCIP.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The STAF's assessment of the significance of particular inputs to these fair value measurements require judgment and considers factors specific to each asset or liability.

Deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, the STAF's investment in the OCIP at June 30, 2016 of \$18,811 is uncategorized, not defined as a Level 1, Level 2, or Level 3 input.

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 STAF'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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

The STAF 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.

Fund balance for the year ended June 30, 2016 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 STAF, 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 – DUE FROM OTHER GOVERNMENTS

Due from other governments of \$10,538,121 represents a TDA receivable due from the State of California.

NOTE 4 – TRANSFERS TO OTHER OCTA FUNDS

Transfers to OCTD of \$7,925,629 for the year ended June 30, 2016 were for the purpose of funding transit operations.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND (BUDGETARY BASIS)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State Transit Assistance Sales Tax Allocations	\$ 20,887,347	\$ 15,837,460	\$ 7,918,730	\$ (7,918,730)
Interest and Investment Income	-	-	5,206	5,206
Miscellaneous	-	-	5,306	5,306
Total Revenues	<u>20,887,347</u>	<u>15,837,460</u>	<u>7,929,242</u>	<u>(7,908,218)</u>
Expenditures				
Supplies and Services	-	-	517	(517)
Total Expenditures	<u>-</u>	<u>-</u>	<u>517</u>	<u>(517)</u>
Excess of Revenues over Expenditures	<u>20,887,347</u>	<u>15,837,460</u>	<u>7,928,725</u>	<u>(7,908,735)</u>
Other Financing Uses				
Transfers to Other OCTA Funds (Note 4)	(20,887,347)	(20,887,347)	(7,925,629)	12,961,718
Total Other Financing Uses	<u>(20,887,347)</u>	<u>(20,887,347)</u>	<u>(7,925,629)</u>	<u>12,961,718</u>
Net Change in Fund Balance	-	(5,049,887)	3,096	5,052,983
Fund Balance, Beginning of Year	15,728	15,728	15,728	-
Fund Balance, End of Year	<u>\$ 15,728</u>	<u>\$ (5,034,159)</u>	<u>\$ 18,824</u>	<u>\$ 5,052,983</u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 – BUDGETARY DATA

The STAF 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, 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 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.

There were no excess of expenditures over appropriations for fiscal year 2015-16.



**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 State Transit Assistance Fund (STAF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2016. Our report included an emphasis-of-matter that the STAF financial statements do not purport to, and do not, present fairly the financial position of OCTA, and the STAF adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Also, our report notes that the financial statements do not include management's discussion and analysis.

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), as it relates to the STAF, 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.

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

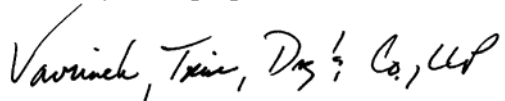
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the STAF'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 §6750 and §6751 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 §6750 and §6751 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, 2016