

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**State Transit Assistance Fund
Financial Statements**

Year Ended June 30, 2012

ORANGE COUNTY TRANSPORTATION AUTHORITY

**STATE TRANSIT ASSISTANCE FUND
FINANCIAL STATEMENTS**

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

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, 2012, as listed in the table of contents. These financial statements are the responsibility of OCTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012, 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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the STAF of OCTA as of June 30, 2012, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 on our consideration of OCTA's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Vavrinch, Train, Day & Co., LLP

Laguna Hills, California
October 29, 2012

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

**BALANCE SHEET
JUNE 30, 2012**

ASSETS

Cash and Investments	\$ 3,147
Interest Receivable	851
Due from Other Governments (Note 4)	<u>6,253,909</u>
Total Assets	<u><u>\$ 6,257,907</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other OCTA Funds (Note 5)	\$ 6,253,909
Total Liabilities	<u>6,253,909</u>

FUND BALANCE

Restricted:	
Transportation Programs	<u>3,998</u>
Total Liabilities and Fund Balance	<u><u>\$ 6,257,907</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, 2012**

REVENUE

State Transit Assistance Sales Tax Allocations	\$ 22,312,191
Investment Income	3,607
Total Revenues	<u>22,315,798</u>

EXPENDITURES

Current:

Supplies and Services	369
Contributions to Other Agencies	376
Total Expenditures	<u>745</u>

Excess of Revenues over Expenditures 22,315,053

OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 6) (22,312,191)

Net Change in Fund Balance 2,862

Fund Balance, Beginning of Year	<u>1,136</u>
Fund Balance, End of Year	<u>\$ 3,998</u>

See accompanying notes to financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. This fund is used to account for revenues received and expenditures made for Orange County Transit District (OCTD) 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 a statewide sales tax on gasoline and 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 revenues received and expenditures made for OCTD transit 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, 2012**

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 fair value of the STAF's position in the OCIP is the same as the value of the OCIP shares. Investment income earned by the pooled cash and investments in the OCIP is allocated based on average cash and investment balance.

For information on cash and investment disclosures relating to the 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.

Fund Balance

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy 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, 2012 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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – 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. 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 includes Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, is at the major object level. With the exception of amounts that have been encumbered, appropriations lapse at year end.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Due from other governments of \$6,253,909 represents a TDA receivable due from the State of California.

NOTE 5 – DUE TO OTHER OCTA FUNDS

Due to other OCTA funds of \$6,253,909 represents a TDA payable due to the Orange County Transportation District.

NOTE 6 – TRANSFERS TO OTHER OCTA FUNDS

Transfers to OCTD of \$22,312,191 during the fiscal year ended June 30, 2012 is for the purpose of funding transit operations.

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales Tax Revenue	\$ 19,381,668	\$ 19,381,668	\$ 22,312,191	\$ 2,930,523
Interest and Investment Income	-	-	3,607	3,607
Total Revenues	<u>19,381,668</u>	<u>19,381,668</u>	<u>22,315,798</u>	<u>2,934,130</u>
Expenditures				
Current:				
General Government:				
Supplies and Services	-	-	369	(369)
Contributions to Other Local Agencies	174,620	174,620	376	174,244
Total Expenditures	<u>174,620</u>	<u>174,620</u>	<u>745</u>	<u>173,875</u>
Excess of Revenues over Expenditures	<u>19,207,048</u>	<u>19,207,048</u>	<u>22,315,053</u>	<u>3,108,005</u>
Other Financing Uses				
Transfers Out	(19,207,048)	(19,207,048)	(22,312,191)	(3,105,143)
Total Other Financing Uses	<u>(19,207,048)</u>	<u>(19,207,048)</u>	<u>(22,312,191)</u>	<u>(3,105,143)</u>
Net Change in Fund Balance	-	-	2,862	2,862
Fund Balance, Beginning of Year	1,136	1,136	1,136	-
Fund Balance, End of Year	<u>\$ 1,136</u>	<u>\$ 1,136</u>	<u>\$ 3,998</u>	<u>\$ 2,862</u>



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

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited 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, 2012, and have issued our report thereon dated October 29, 2012. Our report included an explanatory paragraph that the STAF financial statements do not purport to, and do not, present fairly the financial position of OCTA. 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.

Internal Control Over Financial Reporting

Management of the OCTA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered OCTA's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the STAF's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the STAF's financial statements are free of 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.

This report is intended solely for the information and use of the Board of Directors, management of OCTA, and California Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California
October 29, 2012