

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2013

(with Independent Auditors' Report Thereon)

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Council of Governments
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Orange County Council of Governments (OCCOG), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OCCOG'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 the general fund of OCCOG, as of June 30, 2013, 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.

Emphasis of Matter

As described in Note 3 of the financial statements, OCCOG adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, on pages 3 through 5 and 12, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of OCCOG'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 OCCOG's internal control over financial reporting and compliance.



Laguna Hills, California
December 17, 2013

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Management's Discussion and Analysis

As Management of the Orange County Council of Governments (OCCOG), we offer readers of OCCOG's financial statements this narrative overview and analysis of OCCOG's financial activities for the fiscal year ended June 30, 2013.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to OCCOG's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of OCCOG's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of OCCOG's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indication on whether the financial position of OCCOG is improving or deteriorating.

The statement of activities presents information showing how OCCOG'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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements may be found on pages 6-7.

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. OCCOG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. OCCOG consists of a single governmental fund.

Governmental Funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. OCCOG consists of a

single governmental fund. The fund financial statements may be found on pages 8-9.

Government-wide Financial Analysis

Total net position increased \$30,421 or 63.42% during the current fiscal year. The increase is primarily due to lower than anticipated expenses associated with the transition to a new OCCOG administrator for fiscal year 2013-14, as well as lower than anticipated legal fees and other miscellaneous expenses. The new OCCOG administrator began providing services during January 2013 in order to be ready to take over at the beginning of fiscal year 2013-14.

The OCCOG Board of Directors adopted a formal budget for the fiscal year ended June 30, 2013. All revenues come from member agencies that pay annual membership dues and a pro rata share of the estimated fees for demographic research performed by California State University, Fullerton.

The City of Villa Park discontinued membership in OCCOG resulting in a shortfall of member dues totaling \$2,375.

OCCOG contracted with the Orange County Transportation Authority (OCTA) to provide administrative support services to OCCOG for \$141,000 per year. The contract with OCTA expired on June 30, 2013. A contract with Gwenn Norton Perry, an independent contractor, was executed to replace OCTA as the OCCOG administrator beginning July 1, 2013.

OCCOG has no employees and therefore does not provide any pension or other post employment benefits. OCCOG does not participate in any public entity risk pools.

Table 1
Orange County Council Of Governments
Net Position

	Governmental Activities	
	2013	2012
Current and other assets	\$90,547	\$48,795
Total assets	90,547	48,795
Current liabilities	12,161	830
Total liabilities	12,161	830
Net position:		
Unrestricted	78,386	47,965
Total Net Position	\$78,386	\$47,965

Table 2
Orange County Council Of Governments
Changes in Net Position

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Member Dues and Fees	\$318,328	\$240,038
Total revenues	318,328	240,038
Expenses:		
General government	287,907	236,971
Total expenses	287,907	236,971
Changes in net Position	30,421	3,067
Net position—beginning of year	47,965	44,898
Net position—end of year	\$78,386	\$47,965

General Fund Budgetary Highlights

All revenues are collected from member agencies. Members pay annual membership dues that fund expenses related to the administration of OCCOG. Members also reimburse OCCOG for the cost of demographic research performed by California State University, Fullerton.

The City of Villa Park chose to discontinue membership in OCCOG resulting in actual membership dues being \$2,375 less than were budgeted. Total expenditures were \$32,796 less than the total appropriation. This was primarily due to lower than expected costs associated with the early transition to a new OCCOG administrator, from Dave Simpson at OCTA to an independent contractor, Gwenn Norton-Perry. The new administrator began work during January 2013 to learn the operation before taking over sole administrative responsibility for OCCOG on July 1, 2013.

Contacting OCCOG Management

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the OCCOG at 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Net Position
June 30, 2013

		<u>Governmental Activities</u>
	<u>Assets</u>	
Cash (note 2)		\$ 90,547
Total assets		<u>90,547</u>
	<u>Liabilities</u>	
Accounts payable		12,161
Total Liabilities		<u>12,161</u>
	<u>Net Position:</u>	
Net position: Unrestricted		78,386
Total net position		<u>\$ 78,386</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Activities
Year Ended June 30, 2012

	<u>Governmental Activities</u>
Program revenues, operating grants and contributions:	
Membership dues	\$ 318,328
Expenses:	
General government	<u>(287,907)</u>
Change in net position	30,421
Net position, beginning of year	<u>47,965</u>
Net position, end of year	<u>\$ 78,386</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Governmental Fund
Balance Sheet
June 30, 2012

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 90,547
Total assets	<u>90,547</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	12,161
Total liabilities	<u>12,161</u>
Fund Balance:	
Unassigned	<u>78,386</u>
Total fund balance	<u>78,386</u>
Total liabilities and fund balance	<u>\$ 90,547</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Governmental Fund
Statement of Revenues, Expenditures and Change in Fund Balance
Year Ended June 30, 2012

	<u>General Fund</u>
Revenues:	
Membership dues	\$ 318,328
Total revenues	<u>318,328</u>
Expenditures:	
Current:	
General government:	
Demographic research	78,487
Administrative	189,796
Professional services	16,112
Miscellaneous expenses	<u>3,512</u>
Total Expenditures	<u>287,907</u>
Net change in fund balance	30,421
Fund balance, beginning of year	<u>47,965</u>
Fund balance, end of year	<u>\$ 78,386</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2013

(1) Summary of Significant Accounting Policies

(a) Organization

A Joint Exercise of Powers Agreement (Agreement) between public agencies located in Orange County, California (Members) created the Orange County Council of Governments (OCCOG) in August 1996. The Agreement may not be terminated except by an affirmative vote of a majority of total voting membership of the Board of Directors.

OCCOG was formed to enable Members to engage in regional and cooperative planning and coordination of government services. The goal and intent of OCCOG is one of voluntary cooperation among cities for the collective benefit of cities in Orange County.

The books and records for OCCOG for the year ended June 30, 2013 are maintained by the Orange County Council of Governments at 550 South Main Street, P.O. Box 14184, Orange, California 92863-1484.

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basis financial statements of OCCOG are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements are presented 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 the related cash flows.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2013

of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

OCCOG reports the following major governmental fund:

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

(c) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and may include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

(2) Cash

Cash consists of bank demand deposit accounts. The California Government Code requires California banks and savings and loan associations to secure a government's deposits by pledging government securities with a value of 110% of a government's deposits. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes at 150% of the value of the government's total deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. These securities are physically held in an undivided pool of all California public agency depositors. As of June 30, 2013, OCCOG held \$90,547 in bank deposits and did not have any amounts in excess of Federal Deposit Insurance Corporation limits.

(3) Effect of New Pronouncements

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. OCCOG implemented this statement effective July 1, 2012.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Membership dues and fees	\$ 320,703	\$ 320,703	\$ 318,328	\$ (2,375)
Total revenues	320,703	320,703	318,328	(2,375)
Expenditures:				
Current:				
General government:				
Demographic research	78,487	78,487	78,487	-
Administrative	208,216	208,216	189,796	18,420
Professional services	20,000	20,000	16,112	3,888
Miscellaneous expenses	14,000	14,000	3,512	10,488
Total expenditures	320,703	320,703	287,907	32,796
Excess of revenues over expenditures	-	-	30,421	30,421
Net change in fund balance	\$ -	\$ -	\$ 30,421	\$ 30,421

See accompanying notes to the required supplementary information.

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**Note to Required Supplementary Information
Year Ended June 30, 2013**

Budgetary Data

OCCOG establishes accounting control through formal adoption of an annual operating budget. The adopted budget can be amended by the Board as unforeseen circumstances come to management's attention.



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 Council of Governments
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 the general fund of the Orange County Council of Governments (OCCOG), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OCCOG's basic financial statements, and have issued our report thereon dated December 17, 2013. Our report included an emphasis of matter paragraph regarding OCCOG's adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCCOG'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 OCCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of OCCOG'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 OCCOG'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
December 17, 2013