

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**Local Transportation Fund
Financial Statements**

Year Ended June 30, 2012

ORANGE COUNTY TRANSPORTATION AUTHORITY

**LOCAL TRANSPORTATION FUND
FINANCIAL STATEMENTS**

JUNE 30, 2012

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Change in Fund Balance	4
Notes to Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual	8
Supplementary Information	
Schedule of Disbursements	9
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 <i>Government Auditing Standards</i>	10



INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the accompanying financial statements of the Local Transportation Fund (LTF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 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 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 LTF 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 LTF 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of disbursements listed as supplementary information in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the LTF. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of disbursements is fairly stated in all material respects in relation to the financial statements taken as a whole.



Laguna Hills, California
October 29, 2012

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**BALANCE SHEET
JUNE 30, 2012**

ASSETS

Cash and Investments	\$ 2,168,328
Interest Receivable	4,527
Due from Other Governments (Note 4)	<u>25,784,766</u>
Total Assets	<u><u>\$ 27,957,621</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Governments	<u>\$ 417,654</u>
Total Liabilities	<u>417,654</u>

FUND BALANCE

Restricted:	
Transportation Programs	<u>27,539,967</u>
Total Liabilities and Fund Balance	<u><u>\$ 27,957,621</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

REVENUE

Local Transportation Sales Tax Allocations	\$ 138,278,447
Contributions from Other Agencies	755,806
Investment Income	<u>32,913</u>
Total Revenues	<u>139,067,166</u>

EXPENDITURES

Current:

Supplies and Services	1,669,243
Contributions to Other Agencies	<u>3,392,206</u>
Total Expenditures	<u>5,061,449</u>

Excess of Revenues Over Expenditures 134,005,717

OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 5) (130,414,298)

Net Change in Fund Balance 3,591,419

Fund Balance, Beginning of Year	<u>23,948,548</u>
Fund Balance, End of Year	<u>\$ 27,539,967</u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

NOTE 1 – REPORTING ENTITY

The Local Transportation Fund (LTF) is a special revenue fund of the Orange County Transportation Authority (OCTA). The LTF financial statements do not purport to, and do not, present fairly, the financial position of OCTA as of June 30, 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 certain transit projects within Orange County.

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

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

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

Diversion of TDA Funding

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

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

Fund Accounting

The LTF activities and transactions are recorded and accounted for in a special revenue fund of the OCTA. Special revenue funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds. The LTF accounts for revenues received and expenditures made for certain transit projects within Orange County. Financing is generated from a 1/4 percent sales and use tax pursuant to the California Transportation Development Act (TDA). Expenditures of these monies must be made in accordance with TDA provisions. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Basis of Accounting

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

Cash and Investments

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

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

Use of Estimates

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

Fund Balance

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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

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

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

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 LTF, amounts are restricted pursuant to the Transportation Development Act.

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

NOTE 3 – BUDGETARY DATA

The LTF maintains accounting control through formal adoption of an annual operating budget. The operating budget is prepared in conformity with accounting principles generally accepted in the United States. The adopted budget may be amended by the OCTA Board of Directors (Board) to increase appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations, adjusted for supplemental appropriations, during the year. OCTA division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as: Salaries and Benefits, Supplies and Services, and Capital Outlay. Supplies and Services 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 \$25,784,766 represents a TDA receivable due from the State of California.

NOTE 5 – TRANSFERS

Transfers to other OCTA funds during the fiscal year ended June 30, 2012 consisted of the following:

OCTD for transit operations	\$ 127,422,870
OCTA for planning and administration	<u>2,991,428</u>
Total	<u><u>\$ 130,414,298</u></u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION 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				
Local Transportation Sales Tax Allocations	\$ 128,981,727	\$ 128,981,727	\$ 138,278,447	\$ 9,296,720
Contributions from other agencies	-	-	755,806	755,806
Investment Income	109,493	109,493	32,913	(76,580)
Total Revenues	<u>129,091,220</u>	<u>129,091,220</u>	<u>139,067,166</u>	<u>9,975,946</u>
Expenditures				
Current:				
Supplies and Services	1,403,362	1,403,362	1,669,243	(265,881)
Contributions to Other Local Agencies	3,970,264	3,970,264	3,392,206	578,058
Total Expenditures	<u>5,373,626</u>	<u>5,373,626</u>	<u>5,061,449</u>	<u>312,177</u>
Excess of Revenues over Expenditures	<u>123,717,594</u>	<u>123,717,594</u>	<u>134,005,717</u>	<u>10,288,123</u>
Other Financing Uses				
Transfers to Other OCTA funds (note 5)	(125,352,806)	(125,352,806)	(130,414,298)	(5,061,492)
Total Other Financing Uses	<u>(125,352,806)</u>	<u>(125,352,806)</u>	<u>(130,414,298)</u>	<u>(5,061,492)</u>
Net Change in Fund Balance	(1,635,212)	(1,635,212)	3,591,419	5,226,631
Fund Balance, Beginning of Year	19,430,802	19,430,802	23,948,548	4,517,746
Fund Balance, End of Year	<u>\$ 17,795,590</u>	<u>\$ 17,795,590</u>	<u>\$ 27,539,967</u>	<u>\$ 9,744,377</u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**SCHEDULE OF DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Claimant	Article 3 Administration	Article 3 Planning	Article 3 Bicycles and Pedestrian Facilities	Article 4 Operating and Capital	Article 4.5 Paratransit Operating and Capital	Total
City of Brea			\$ 500,000			\$ 500,000
City of Laguna Beach				\$ 975,051		975,051
City of Orange			447,157			447,157
City of San Juan Capistrano			241,500			241,500
City of Villa Park			96,300			96,300
City of Westminster					\$ 65,456	65,456
County of Orange	\$ 3,329					3,329
Jewish Family Services					71,848	71,848
Korean American Seniors Association					81,949	81,949
Orange County Transit District				121,237,009	6,118,061	127,355,070
Orange County Transportation Authority	120,915	\$ 2,870,513				2,991,428
Southern California Association of Governments			837,768			837,768
Vietnamese Community of Orange County, Inc.					71,848	71,848
Total disbursements	<u>\$ 124,244</u>	<u>\$ 3,708,281</u>	<u>\$ 1,284,957</u>	<u>\$ 122,212,060</u>	<u>\$ 6,409,162</u>	<u>\$ 133,738,704</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 Local Transportation Fund (LTF), 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 LTF 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 LTF'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 §6661 and §6662 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6661 and §6662 of Part 21 of the California Code of Regulations.

This report is intended solely for the information and use of the Board of Directors, management of OCTA, and the 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