

# **Orange County Transportation Authority**



## **Finance and Administration Committee Meeting Agenda Wednesday, January 11, 2017 at 10:30 a.m.**

550 South Main Street, Board Room - Conf. Room 07, Orange, California

### **Committee Members**

Todd Spitzer, Chairman  
Andrew Do  
Michael Hennessey  
Steve Jones  
Miguel Pulido  
Michelle Steel

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Agenda descriptions are intended to give members of the public a general summary of items of business to be transacted or discussed. The posting of the recommended actions does not indicate what action will be taken. The Committee may take any action which it deems to be appropriate on the agenda item and is not limited in any way by the notice of the recommended action.

All documents relative to the items referenced in this agenda are available for public inspection at [www.octa.net](http://www.octa.net) or through the Clerk of the Board's office at the OCTA Headquarters, 600 South Main Street, Orange, California.

### **Call to Order**

### **Pledge of Allegiance - Director Do**

#### **1. Public Comments**

### **Special Calendar**

There are no Special Calendar matters.

## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **Consent Calendar (Items 2 through 15)**

All items on the Consent Calendar are to be approved in one motion unless a Committee Member or a member of the public requests separate action or discussion on a specific item.

#### **2. Approval of Minutes**

##### **Overview**

Approval of the minutes of the Finance and Administration Committee meeting of November 9, 2016.

#### **3. Fiscal Year 2015-16 Annual Financial and Agreed-Upon Procedures Reports**

##### **Executive Director**

Janet Sutter

##### **Overview**

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has completed its annual audits of the Orange County Transportation Authority and related entities for the fiscal year 2015-16. Additionally, reports have been issued on the results of agreed-upon procedures applied to determine compliance with certain state, federal, and local requirements. All reports are included herewith.

##### **Recommendation**

Receive and file the fiscal year 2015-16 annual financial and agreed-upon procedures reports as an information item.

#### **4. Fiscal Year 2015-16 Management Letter**

##### **Executive Director**

Janet Sutter

##### **Overview**

In connection with the annual audit of the Orange County Transportation Authority's financial statements, schedules, and agreements for fiscal year 2015-16, Vavrinek, Trine, Day & Company, LLP, has issued a management letter with four recommendations for improvement to internal controls.

## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **4. (Continued)**

#### **Recommendations**

- A. Receive and file the Orange County Transportation Authority Management Letter June 30, 2016.
- B. Direct staff to implement auditor recommendations related to the information technology environment.

### **5. Fiscal Year 2015-16 Auditor's Communication to Those Charged with Governance**

#### **Executive Director**

Janet Sutter

#### **Overview**

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on its Comprehensive Annual Financial Report, various fund financial statements, schedules, and agreements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, conducted the annual audit of the Orange County Transportation Authority's financial statements, schedules, and agreements for fiscal year 2015-16, and has issued reports thereon. Vavrinek, Trine, Day & Company, LLP, as required by United States Generally Accepted Auditing Standards and Office of Management and Budget Circular A-133, has herewith issued its Auditor's Communication to Those Charged with Governance.

#### **Recommendation**

Receive and file as an information item.

### **6. Laguna Beach Municipal Transit Lines, Annual Transportation Development Act Program Audit for Fiscal Year 2015-16**

#### **Executive Director**

Janet Sutter

#### **Overview**

Pursuant to Part 21, Section 6667 of the California Code of Regulations, an audit of Transportation Development Act Article 4 Funds disbursed to the City of Laguna Beach has been conducted for the fiscal year ended June 30, 2016, by Vavrinek, Trine, Day & Company, LLP.

## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **6. (Continued)**

#### **Recommendation**

Receive and file the Laguna Beach Municipal Transit Lines, Transportation Development Act Program audit for fiscal year 2015-16, as an information item.

### **7. Payment Card Industry Data Security Standard Compliance, Internal Audit Report No. 17-502**

#### **Executive Director**

Janet Sutter

#### **Overview**

The Internal Audit Department has completed an audit of Payment Card Industry Data Security Standard compliance. Based on the audit, the Orange County Transportation Authority is not in compliance with standards and reporting requirements of the Payment Card Industry Data Security Standard or related payment card issuer standards.

#### **Recommendation**

Direct staff to implement two recommendations provided in Payment Card Industry Data Security Standard Compliance, Internal Audit Report No. 17-502.

### **8. Fiscal Year 2016-17 First Quarter Grant Reimbursement Status Report**

#### **Author/Executive Director**

Rene I. Vega/Andrew Oftelie

#### **Overview**

The Quarterly Grant Reimbursement Status Report summarizes grant activities for information purposes for the Orange County Transportation Authority Board of Directors. This report focuses on activity for the period of July through September 2016.

#### **Recommendation**

Receive and file as an information item.



## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **9. Orange County Treasurer's Management Report - October 2016**

#### **Author/Executive Director**

Rodney Johnson/Andrew Oftelie

#### **Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the Orange County Investment Pool. Each month the Orange County Treasurer publishes a comprehensive report detailing the composition of the pool and the prevailing economic and market conditions. The attached Treasurer's Management Report for the Orange County Investment Pool is for the month ending October 31, 2016. The report has been reviewed and is consistent with the investment practices of the Orange County Treasurer.

#### **Recommendation**

Receive and file as an information item.

### **10. Orange County Transportation Authority Investment and Debt Programs - October 2016**

#### **Author/Executive Director**

Rodney Johnson/Andrew Oftelie

#### **Overview**

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's Debt Program. This report is for the month ending October 31, 2016. The report has been reviewed and is consistent with the investment practices contained in the investment policy.

#### **Recommendation**

Receive and file as an information item.

## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **11. Local Agency Investment Fund - October 2016**

#### **Author/Executive Director**

Rodney Johnson/Andrew Oftelie

#### **Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending October 31, 2016. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

#### **Recommendation**

Receive and file as an information item.

### **12. Local Agency Investment Fund - November 2016**

#### **Author/Executive Director**

Rodney Johnson/Andrew Oftelie

#### **Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending November 30, 2016. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

#### **Recommendation**

Receive and file as an information item.

## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **13. Orange County Treasurer's Management Report - November 2016**

#### **Author/Executive Director**

Rodney Johnson/Andrew Oftelie

#### **Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the Orange County Investment Pool. Each month the Orange County Treasurer publishes a comprehensive report detailing the composition of the pool and the prevailing economic and market conditions. The attached Treasurer's Management Report for the Orange County Investment Pool is for the month ending November 30, 2016. The report has been reviewed and is consistent with the investment practices of the Orange County Treasurer.

#### **Recommendation**

Receive and file as an information item.

### **14. Orange County Transportation Authority Investment and Debt Programs Report - November 2016**

#### **Author/Executive Director**

Rodney Johnson/Andrew Oftelie

#### **Overview**

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending November 30, 2016. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

#### **Recommendation**

Receive and file as an information item.

## **FINANCE AND ADMINISTRATION COMMITTEE MEETING AGENDA**

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### **Regular Calendar**

#### **15. Fiscal Year 2016-17 First Quarter Budget Status Report**

##### **Author/Executive Director**

Scott Arbuckle/Andrew Oftelie

##### **Overview**

The Orange County Transportation Authority's staff has implemented the fiscal year 2016-17 budget. This report summarizes the material variances between the budget and actual revenues and expenses through the first quarter of fiscal year 2016-17.

##### **Recommendation**

Receive and file as an information item

### **Discussion Items**

#### **16. Bristol Street Widening Project Audit Update**

##### **Executive Director**

Jim Beil

##### **Overview**

Staff will provide an update on the audit results resolution with the City of Santa Ana for the Bristol Street Widening Project.

#### **17. Chief Executive Officer's Report**

#### **18. Committee Members' Reports**

#### **19. Closed Session**

There are no Closed Session items scheduled.

#### **20. Adjournment**

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, February 8, 2017**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.



# MINUTES

## *Finance and Administration Committee Meeting*

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### **Committee Members Present**

*Todd Spitzer, Chairman  
Jim Katapodis, Vice Chairman  
Michael Hennessey  
Steve Jones  
Gary A. Miller  
Miguel Pulido  
Michelle Steel*

### **Staff Present**

*Darrell Johnson, Chief Executive Officer  
Ken Phipps, Deputy Chief Executive Officer  
Laurena Weinert, Clerk of the Board  
Gina Claridge, Deputy Clerk of the Board  
James Donich, General Counsel*

### **Committee Members Absent**

*Andrew Do*

## **Call to Order**

The November 9, 2016 regular meeting of the Finance and Administration Committee was called to order by Committee Chairman Spitzer at 10:33 a.m.

## **Pledge of Allegiance**

Director Miller led in the Pledge of Allegiance.

### **1. Public Comments**

No public comments were received.

## **Special Calendar**

There are no Special Calendar matters.

## **Consent Calendar (Items 2 through 11)**

### **2. Approval of Minutes**

This item was pulled by Director Miller who requested a correction to the minutes of the October 12, 2016 Finance and Administration Committee meeting (Item 11, Page 4, Third Paragraph), to read:

“Director Miller inquired if the two outstanding lawsuits with the cities of Seal Beach and Long Beach were ~~fully~~ disclosed in the 139 page written presentation given to the Build America ...”



# MINUTES

## *Finance and Administration Committee Meeting*

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### **2. (Continued)**

A motion was made by Director Miller, seconded by Director Pulido, and declared passed by those present, to approve minutes of the October 12, 2016 meeting.

### **3. Fiscal Year 2016-17 Internal Audit Plan, First Quarter Update**

This item was pulled by Director Spitzer, who inquired on the audit findings regarding charging and rates related to the City of Santa Ana's (City) audit of the Bristol Street Widening Project, led by the City.

Janet Sutter, Executive Director of Internal Audit, reported that there were several audit recommendations given to the City, including a request to credit back some amounts to the Orange County Transportation Authority (OCTA) due to overbilling of labor rates, as well as a request to amend the cooperative agreement to address credits for right-of-way (ROW) properties that have not been sold. Ms. Sutter stated that upon the six-month audit follow-up, the City disagreed with some of the proposed corrective actions.

A lengthy discussion ensued regarding:

- The City and OCTA have difference in opinion related to the labor rate.
- How the overhead portion of the labor rate is being allocated.
- The City has recently provided written communication to OCTA indicating the appropriate adjustments will be made and the cooperative agreement will be amended.
- Excess property/ROW, in the amount of \$443,078.
- Estimated time to resolve the issue.
- Good faith efforts the City can implement in the interim.

Committee Chairman Spitzer requested that staff work with the City to resolve outstanding credits, in the amount of \$261,764 for labor overbillings, and \$443,078 in excess ROW property charged to the cooperative agreement.

Committee Chairman Spitzer also proposed a recommendation to direct staff to return to the December 14, 2016 Finance and Administration Committee with an update on the status of outstanding items related to the audit of the Bristol Street Widening Project, led by the City.



# MINUTES

## *Finance and Administration Committee Meeting*

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### **3. (Continued)**

A motion was made by Director Pulido, seconded by Committee Vice Chairman Katapodis, and declared passed by those present, to:

- A. Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2016-17 Internal Audit Plan.
- B. Direct staff to return to the December 14, 2016 Finance and Administration Committee with an update on the status of outstanding items related to the Audit of the Bristol Street Widening Project, led by the City of Santa Ana.

### **4. Property Insurance Policy Renewal**

A motion was made by Director Steel, seconded by Director Miller, and declared passed by those present, to authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A36214, in the amount of \$550,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2016 to December 1, 2017.

### **5. Local Agency Investment Fund – September 2016**

A motion was made by Director Steel, seconded by Director Miller, and declared passed by those present, to receive and file as an information item.

### **6. Orange County Transportation Authority Investment and Debt Programs Report - September 2016**

A motion was made by Director Steel, seconded by Director Miller, and declared passed by those present, to receive and file as an information item.

### **7. Orange County Treasurer's Management Report – September 2016**

A motion was made Director Steel, seconded by Director Miller, and declared passed by those present to, receive and file as an information item.



# MINUTES

## *Finance and Administration Committee Meeting*

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**8. Orange County Employees Retirement System Early Payment for Fiscal Year 2017-18**

A motion was made Director Steel, seconded by Director Miller, and declared passed by those present, to authorize the early payment of approximately \$25.1 million by January 17, 2017, to the Orange County Employees Retirement System for member contributions for fiscal year 2017-18.

**9. First Quarter Fiscal Year 2016-17 Procurement Status Report**

A motion was made by Director Steel, seconded by Director Miller, and declared passed by those present, to receive and file as an information item.

**10. Amendment to Agreement for Consultant Services to Implement the Federal Disadvantaged Business Enterprise Program**

This item was pulled by Director Spitzer who inquired on the Disadvantaged Business Enterprise (DBE) process for design-build (DB) projects when selecting and using consultants.

A lengthy discussion ensued regarding:

- How the consultant ensures that OCTA is DBE-compliant.
- Process to verify if consultants/sub consultants are DBE certified.
- Required monthly reports by the DBE consultant and the Contracts Administration & Materials Management Department (CAMM).
- CAMM oversight of consultants.
- DBE compliance accountability and who is liable for non-compliance, penalties, etcetera.
- Required indemnification provisions, bonding, and insurance coverage provided by the consultant for errors and omissions.

A motion was made by Vice Chairman Katapodis, seconded by Director Miller, and declared passed by those present, to authorize the Chief Executive Officer to negotiate and execute Amendment No. 2 to Agreement No. C-4-1514 between the Orange County Transportation Authority and Padilla & Associates, Inc., in the amount of \$300,000, to provide assistance in administering the Federal Disadvantaged Business Enterprise Program on the Interstate 405 Design-Build Improvement Project. This amendment will increase the maximum obligation of the agreement to a total contract value of \$900,000.

Board Vice Chairman Hennessey was not present to vote on this item.





# MINUTES

## *Finance and Administration Committee Meeting*

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### **11. Measure M2 Sales Tax Forecast**

A motion was made by Director Steel, seconded by Director Miller, and declared passed by those present, to receive and file as an information item.

### **Regular Calendar**

### **12. Fiscal Year 2015-16 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements**

Andrew Oftelie, Executive Director of Finance and Administration, provided opening comments and a brief update on the item, and introduced Roger Alfaro, Partner, Vavrinek, Trine, Day and Company, LLP.

Mr. Alfaro reported on the following:

- Process focuses heavily on OCTA's internal controls.
- Risk assessment and planning process to identify key controls that OCTA has in place, including:
  - Revenue recognition
  - Treasury and investment management
  - Payroll
  - Accounts payable management
  - Financial reporting and process used to produce financial statements
- OCTA newly-adopted accounting policies with respect to:
  - Fair value measurement
  - Application and disclosure related to OCTA's investments
- No deficiencies were identified in the internal controls that would be considered material weaknesses.
- No difficulties were encountered during the audit.

A short discussion ensued, and Mr. Oftelie thanked several OCTA staff members for their efforts and countless hours spent to ensure the Comprehensive Annual Financial Report was delivered on time.

A motion was made by Board Vice Chairman Hennessey, seconded by Committee Vice Chairman Katapodis, and declared passed by those present, to receive and file the fiscal year 2015-16 Comprehensive Annual Financial Report and 91 Express Lanes Fund Financial Statements.

Director Pulido was not present to vote on this item.



### **13. Fare Policy Recommendations**

Andrew Oftelie, Executive Director of Finance and Administration, provided opening comments and introduced Sean Murdock, Director of Finance and Administration.

Committee Chairman Spitzer asked what the difference was in today's presentation than what has been previously presented to the full Board of Directors (Board).

Darrell Johnson, Chief Executive Officer (CEO), reported that the Board previously expressed concerns regarding staff's proposed recommendations related to ACCESS. He also stated that the Board requested that staff extract all activities related to ACCESS, return with a comprehensive review of the ACCESS Program, and directed staff to host a community meeting in the First District prior to the final fare recommendations return to the Board.

Mr. Murdock provided a PowerPoint presentation as follows:

- Background;
- CH2M Hill assessment of goals and current structure;
- Fare study recommendations;
- Public involvement; and
- Next steps.

A discussion ensued regarding:

- Intracounty and intercounty Express route fares increase.
- If staff took into account the overall economics for the fare change.
- There is less of a subsidy with the proposed changes.
- The Board approved a reduction to the Day Pass cost and boardings are expected to increase.
- Fare policy constraints.
- Staff fully analyzed the economics with the constraints of the farebox recovery requirement, the ACCESS fare constraint, as well as the goal of to increase ridership.

Committee Chairman Spitzer stated that before fares are increased, the public should also be informed on what OCTA is doing internally to reduce its costs.

Darrell Johnson, CEO, stated that at the November 10, 2016 Transit Committee meeting, a quarterly report will be provided which addresses Committee Chairman Spitzer's concerns, and discusses significant changes being made, such as cost per revenue vehicle hour, ACCESS cost per hour, shifts to contracted cost per hour, subsidy per route, and riders per route.



# MINUTES

## *Finance and Administration Committee Meeting*

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### **13. (Continued)**

Committee Vice Chairman Katapodis stated that he did not feel that going from \$5.00 to \$4.00 for the Day Pass will make a big difference in ridership, but felt that everything else staff has done to date is great.

After a short discussion ensued, a motion was made by Committee Vice Chairman Katapodis, seconded by Board Vice Chairman Hennessey, and declared passed by those present, to:

- A. Direct staff to return to the Board of Directors in 2017 with a recommendation for the price of the Day Pass following the promotional period, which ends on April 9, 2017.
- B. Eliminate the 5-Ride and 7-Day Passes.
- C. Categorize routes 206, 211, 212, 213, 216 as intracounty Express routes.
- D. Set fares for intracounty Express routes to \$4.00 and intercounty Express routes to \$7.00.
- E. Require proof of eligibility at the point of sale for the purchase of reduced fare media.

Committee Chairman Spitzer voted in opposition to Recommendation D.

Director Pulido was not present to vote on this item.

### **Discussion Items**

#### **14. Chief Executive Officer's Report**

Darrell Johnson, CEO, reported that:

- OCTA will host a customer roundtable at 6:00 p.m. this evening at the OCTA offices to solicit feedback from riders regarding the October bus service change.
- OCTA will host a wilderness preserve hike and equestrian ride at the Ferber Ranch Preserve in Trabuco Canyon on Saturday, November 19, 2016.
- There were 14 ballot initiatives on the local option sales tax (six renewals and seven new ones, with seven fails and six passes).



# MINUTES

## *Finance and Administration Committee Meeting*

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### **14. (Continued)**

- The Next 10 Plan will be presented to the Board on Monday, November 14, 2016. Staff will propose, as part of the recommendations, to perform a market analysis of the construction industry and the professional services industry, similar to what was done after the passage of Measure M2 in 2006.

### **15. Committee Members' Reports**

Committee Chairman Spitzer inquired on how the recent passage of the ballot measure legalizing the recreational use of marijuana will affect OCTA and if OCTA will be adopting a policy to be in compliance with the Federal Transit Administration. Mr. Johnson stated that an item to address this will be agendized for the next Finance and Administration Committee meeting.

Committee Chairman Spitzer reported that the next Finance and Administration Committee meeting is scheduled for November 23, 2016, and inquired if the Committee would like to meet the day before the Thanksgiving Holiday.

Mr. Johnson, CEO, reported that as of now, there is no business need to meet, other than to address the above item that was proposed to be agendized. If needed, staff can provide a memorandum to the Committee with that information.

The consensus of the Committee is to cancel the November 23, 2016, Finance and Administration Committee meeting.

### **16. Closed Session**

A Closed Session was not conducted at this meeting.



# MINUTES

## *Finance and Administration Committee Meeting*

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### 19. Adjournment

The meeting adjourned at 11:49 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, December 14, 2016**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room – Conference Room 07, Orange, California.

ATTEST

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Gina Claridge  
Deputy Clerk of the Board

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Todd Spitzer  
Committee Chairman



**January 11, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2015-16 Annual Financial and Agreed-Upon  
Procedures Reports

### **Overview**

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has completed its annual audits of the Orange County Transportation Authority and related entities for the fiscal year 2015-16. Additionally, reports have been issued on the results of agreed-upon procedures applied to determine compliance with certain state, federal, and local requirements. All reports are included herewith.

### **Recommendation**

Receive and file the fiscal year 2015-16 annual financial and agreed-upon procedures reports as an information item.

### **Background**

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting OCTA's results of operations and financial position at fiscal year-end. The financial statements are included in OCTA's Comprehensive Annual Financial Report (CAFR), which was presented to the Board of Directors on November 23, 2016. In connection with the preparation of the CAFR, Vavrinek, Trine, Day & Company, LLP (VTD) also provides opinions on other financial reports of OCTA.

The audits were performed under current accounting and auditing standards, including generally accepted auditing standards, the standards set forth for

financial audits in the Government Accountability Office's *Government Auditing Standards*, the provisions of the federal Single Audit Act of 1984 (as amended) and the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as well as the following additional requirements, where applicable:

- *State of California Transportation Development Act*, including the requirements of the *Southern California Association of Governments' Transportation Development Act Conformance Auditing Guide*;
- *Renewed Measure M Transportation Investment Plan*;
- *Special District and Transit District Reporting Requirements*, as specified by the California State Controller; and
- *Section 1.5 of Article XIII B of the California Constitution*, with procedures specified by the League of California Cities in *Article XIII B Appropriations Limitation Uniform Guidelines*

### ***Discussion***

VTD has completed its annual financial audits and has issued independent auditor opinions for the fiscal year ended June 30, 2016. In addition, results of certain agreed-upon procedures reviews are presented. Reports are included as Attachments A through J.

There were no recommendations resulting from the procedures performed.

### ***Summary***

VTD has audited OCTA's CAFR for the fiscal year ended June 30, 2016, and has issued an unmodified opinion thereon. VTD has also issued unmodified opinions on various other financial statements, which are attached hereto. No findings or recommendations were included in these reports.

***Attachments***

- A. Orange County Transportation Authority Single Audit Report on Federal Awards Year Ended June 30, 2016
- B. Orange County Local Transportation Authority (A Component Unit of the Orange County Transportation Authority) Annual Financial and Compliance Report Year Ended June 30, 2016
- C. Orange County Transportation Authority Local Transportation Fund Financial Statements Year Ended June 30, 2016
- D. Orange County Transportation Authority State Transit Assistance Fund Financial Statements Year Ended June 30, 2016
- E. Orange County Transportation Authority Independent Auditors' Report on Proposition 1B and Transportation Development Act Year Ended June 30, 2016
- F. Orange County Local Transportation Authority Report on Agreed-Upon Procedures Applied to Measure M2 Status Report Year Ended June 30, 2016
- G. Orange County Transportation Authority Independent Accountants' Report on Agreed-Upon Procedures Performed with Respect to the Treasury Department Year Ended June 30, 2016
- H. Orange County Transportation Authority Independent Accountants' Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit Calculation For the Fiscal Year Ended June 30, 2016
- I. Orange County Local Transportation Authority Independent Accountants' Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit Calculation For the Fiscal Year Ended June 30, 2016
- J. Orange County Transportation Authority Agreed-Upon Procedures Performed With Respect to the National Transit Database Report For the Period July 1, 2015 through June 30, 2016

**Prepared by:**



Janet Sutter  
Executive Director, Internal Audit  
714-560-5591



**ORANGE COUNTY  
TRANSPORTATION AUTHORITY**

Single Audit Report on  
Federal Awards

Year Ended June 30, 2016

# ORANGE COUNTY TRANSPORTATION AUTHORITY

## Single Audit Report on Federal Awards

Year Ended June 30, 2016

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**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, THE TRANSPORTATION DEVELOPMENT ACT, CALIFORNIA  
GOVERNMENT CODE §8879.50, AND STATE SENATE BILL 88 (2007)**

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated October 31, 2016. Our report included an emphasis-of-matter regarding OCTA's adoption of Government Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, and GASB Statement No. 82 – *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015.

**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) 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 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 OCTA'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 the applicable provisions of Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq., 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*, Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq.

## 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  
October 31, 2016



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Orange County Transportation Authority  
Orange, California

**Report on Compliance for Each Major Federal Program**

We have audited the Orange County Transportation Authority's (OCTA) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of OCTA's major federal programs for the year ended June 30, 2016. OCTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of OCTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OCTA's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, OCTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control over Compliance**

Management of OCTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OCTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OCTA, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated October 31, 2016, which contained unmodified opinions on those financial statements. Our report included an emphasis-of-matter regarding OCTA's adoption of Government Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, and GASB Statement No. 82 – *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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. 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Laguna Hills, California  
December 19, 2016

# ORANGE COUNTY TRANSPORTATION AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/ Pass-Through Identification Number</b>	<b>Federal Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b><u>U.S. Department of Transportation</u></b>				
Direct grants:				
Federal Transit Cluster:				
Federal Transit - Capital Investments Grants	20.500	CA-03-0754	\$ 16,099	\$ -
Federal Transit - Capital Investments Grants	20.500	CA-04-0078	1,069	1,069
Federal Transit - Capital Investments Grants	20.500	CA-04-0181	8,655	-
Federal Transit - Capital Investments Grants	20.500	CA-04-0122	34,623	25,778
Federal Transit - Capital Investments Grants	20.500	CA-04-0251	123,484	-
Federal Transit - Capital Investments Grants	20.500	CA-05-0269	537,793	-
Federal Transit - Capital Investments Grants	20.500	CA-55-0003	624,899	663,018
Total Federal Transit Capital Investments Grants			<u>1,346,622</u>	<u>689,865</u>
Federal Transit - Formula Grants	20.507	CA-90-Y860	3,506,628	689,022
Federal Transit - Formula Grants	20.507	CA-90-Y942	2,093,815	246,822
Federal Transit - Formula Grants	20.507	CA-90-Z027	2,000,486	16,069
Federal Transit - Formula Grants	20.507	CA-90-Z174	1,163,929	-
Federal Transit - Formula Grants	20.507	CA-95-X131	256,613	-
Federal Transit - Formula Grants	20.507	CA-95-X180	352,356	330,154
Federal Transit - Formula Grants	20.507	CA-95-X188	15,736,588	-
Federal Transit - Formula Grants	20.507	CA-95-X195	310,919	-
Federal Transit - Formula Grants	20.507	CA-95-X210	2,341,833	-
Federal Transit - Formula Grants	20.507	CA-95-X213	1,397,521	-
Federal Transit - Formula Grants	20.507	CA-95-X254	510,074	-
Federal Transit - Formula Grants	20.507	CA-95-X262	1,750,497	-
Federal Transit - Formula Grants	20.507	CA-95-X286	1,816,063	1,475,063
Federal Transit - Formula Grants	20.507	CA-2016-032-00	43,548,590	1,849,431
Federal Transit - Formula Grants	20.507	CA-2016-116-00	11,591,859	-
Federal Transit - Formula Grants	20.507	N/A	4,427	-
Total Federal Transit Capital Formula Grants			<u>88,382,198</u>	<u>4,606,561</u>
Bus and Bus Facilities Formula Program	20.526	CA-34-0019	(1,602,821)	-
Bus and Bus Facilities Formula Program	20.526	CA-2016-031-00	5,965,487	-
Total Bus and Facilities Formula Program			<u>4,362,666</u>	<u>-</u>
Total Federal Transit Cluster			<u>94,091,486</u>	<u>5,296,426</u>
Transit Services Programs Cluster:				
Job Access Reverse Commute Program	20.516	CA-37-X113	1,188,730	525,674
New Freedom Program	20.521	CA-57-X038	335,229	312,325
Total Transit Services Programs Cluster			<u>1,523,959</u>	<u>837,999</u>

Continued on the next page

See Note to Schedule of Expenditures of Federal Awards.



# ORANGE COUNTY TRANSPORTATION AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016 (continued)

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/ Pass-Through Identification Number</b>	<b>Federal Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b><u>U.S. Department of Transportation (continued)</u></b>				
Passed Through California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction:				
Tustin Rose RSTP	20.205	STPL-6071-(061)	\$ 4,078,795	\$ -
Sand Canyon Grade Separation RSTP	20.205	STPL-6071-(059)	134,623	-
I-5 from North I-405 to SR55	20.205	STPLN-6071-(093)	634,529	-
SR-91, SR-57 to SR-55	20.205	STPLN-6071-(096)	641,233	-
I-5 Widening from Oso Creek to Alicia Pkwy, Seg. 2	20.205	STPLN-6071-(102) RSTP	4,911,599	-
I-5 Widening from SR-76 to Oso Pkwy, Seg. 1	20.205	STPLN-6071-(103) RSTP	3,583,482	-
I-5 Widening from Alicia Pkwy to El Toro Rd., Seg. 3	20.205	STPLN-6071-(104) RSTP	2,896,336	-
I-405, I-5 to SR-55	20.205	STPLN-6071-(105) RSTP	2,127,886	-
SR 22 from I-405 to SR 55	20.205	CMLN-6071(035)	2,245	-
Beach Blvd @ I-405 Interchange	20.205	CMLN-6071(041)	74,921	-
I-405 only	20.205	CMLN-6071(043)	2,663,573	-
Kraemer Grade Sep	20.205	CMLN-6071(051)	(1,220,876)	-
Orangethorpe Grade Sep	20.205	CMLN-6071(060)	6,291,527	-
Lakeview Grade Sep	20.205	CMLN-6071(066)	3,253,656	-
I-5 from Ave Pico to South of Vista Hermosa	20.205	CMLN-6071(071)	1,808,372	-
I-5 from Vista Hermosa to PCH	20.205	CMLN-6071(072)	264,641	-
I-5 from PCH to San Juan Creek Road	20.205	CMLN-6071(073)	189,501	-
I-5 from SR 55 to SR 57	20.205	CMLN-6071(108)	1,171,505	-
I-5 from Orange/San Diego County line to Avenida Pico	20.205	CMLN-6071(112)	17,690	-
Total Highway Planning and Construction Cluster			33,525,238	-
PCH Corridor Study	20.Unknown	SLPP-6071(079)	(38,049)	-
Total U.S. Department of Transportation			129,102,634	6,134,425
<b><u>U.S. Department of Homeland Security</u></b>				
Direct grants:				
Office of Security Operations:				
National Explosives Detection Canine Team Program	97.072	N/A	166,274	-
Rail and Transit Security Grant Program (TSGP):				
Security & Emergency Mgmt Training (2014 TSGP)	97.075	N/A	461,411	-
Total U.S. Department of Homeland Security			627,685	-
<b>Total Expenditures of Federal Awards</b>			<b>\$ 129,730,319</b>	<b>\$ 6,134,425</b>

See Note to Schedule of Expenditures of Federal Awards.

## **ORANGE COUNTY TRANSPORTATION AUTHORITY**

### **NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016**

#### ***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

##### **A. Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by OCTA that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by OCTA from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

##### **B. Basis of Accounting**

Funds received under the various grant programs have been recorded within the general fund, special revenue, capital projects and enterprise funds of OCTA. OCTA utilizes the modified accrual method of accounting for governmental funds. The accrual basis of accounting is used for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards has been prepared accordingly.

##### **C. Relationship to Federal Reports**

Amounts reported in the accompanying Schedule of Expenditures to Federal Awards agree with the amounts reported in the related federal financial reports. However, certain timing differences may exist in the recognition of revenues and expenses/expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

##### **D. Indirect Cost Rate**

OCTA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**I. SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued on whether the financial statements audited  
were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

None reported

Noncompliance material to financial statements noted?

No

**FEDERAL AWARDS**

Internal control over major federal programs:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

None reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with  
2 CFR Section 200.516(a)?

No

Identification of major federal programs:

CFDA Number(s)  
20.500, 20.507 and 20.526

Name of Federal Program or Cluster  
Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:  
Auditee qualified as low-risk auditee?

\$ 3,000,000  
Yes

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**II. FINANCIAL STATEMENT FINDINGS**

None reported.

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None reported.

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

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

ANNUAL FINANCIAL AND  
COMPLIANCE REPORT

Year Ended June 30, 2016

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

Audited Financial Statements

Year Ended June 30, 2016

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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), a component unit 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, 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 OCLTA, as of June 30, 2016, 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 10 to the financial statements, OCLTA 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 the management's discussion and analysis on pages 3-9 and the budgetary comparison information on pages 32-33, 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 34 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 31, 2016, 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 31, 2016

**Orange County Local Transportation Authority**  
**Management's Discussion and Analysis**  
**(unaudited)**  
**For the Fiscal Year Ended June 30, 2016**

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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, 2016. 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 \$542,433 and consisted of restricted net position of \$11,994 and unrestricted net position of \$530,439.
- Net position increased \$124,853 during fiscal year 2015-16. 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 \$834,005 an increase of \$105,501 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 and liabilities, 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.

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

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

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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 16-31 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 32 and the LTA debt service fund as other supplementary information on page 34 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, 2016, the OCLTA's assets exceeded liabilities and deferred inflows by \$542,433, a \$124,853 increase from June 30, 2015. 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 \$104,866 or 12% from June 30, 2015. The substantial increase in cash is primarily due to the increase in sales tax revenue and a reduction in the grade separation program expenditures during the year.

Total liabilities decreased \$20,632 from June 30, 2015 primarily due to the decrease of unearned revenue for the grade separation projects.

Unrestricted net position represents the portion of net position that is available for general use as specified in the M2 program. Unrestricted net position from governmental activities changed from \$404,929 at June 30, 2015 to \$530,439 at June 30, 2016. This increase was primarily due to sales tax revenue over expenses.

Table 1  
Orange County Local Transportation Authority  
Net Position

	Governmental Activities	
	2016	2015
Current and other assets	\$ 969,387	\$ 864,521
Capital assets, net	-	645
Total assets	969,387	865,166
Current liabilities	99,060	111,879
Long-term liabilities	327,894	335,707
Total liabilities	426,954	447,586
Net position:		
Net investment in capital assets	-	645
Restricted	11,994	12,006
Unrestricted	530,439	404,929
Total net position	\$ 542,433	\$ 417,580

Governmental activities increased the OCLTA's net position by \$124,853. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, increased by \$9,381, or 3%, from the prior year as a result of continued improvement in the economy.

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

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OCLTA expenses shown on the statement of activities consist of:

	Governmental Activities	
	2016	2015
Supplies and services	\$ 56,604	\$ 47,618
Contributions to other local agencies	105,824	122,625
Infrastructure	89,240	109,824
Depreciation expense	32	39
Interest expense	20,927	21,223
Transfer to other OCTA funds	16,664	28,054
Total expenses	<u>\$289,291</u>	<u>\$329,383</u>

Total expenses decreased \$40,092, or 12% from the prior year primarily due to the completion of many of the grade separation projects.

Table 2  
Orange County Local Transportation Authority  
Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 204	\$ 911
Operating grants and contributions	110,846	111,145
General revenues:		
Sales taxes	300,937	291,556
Unrestricted investment earnings	17,528	11,535
Other miscellaneous revenue	299	-
Total revenues	<u>429,814</u>	<u>415,147</u>
Expenses:		
Measure M program	289,291	329,383
Indirect expense allocation	15,670	16,991
Total expenses	<u>304,961</u>	<u>346,374</u>
Increase in net position	124,853	68,773
Net position - beginning	417,580	348,807
Net position - end of year	<u>\$ 542,433</u>	<u>\$ 417,580</u>

**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, 2016, the OCLTA's governmental funds reported combined ending fund balances of \$834,005, an increase of \$105,501 compared to fiscal year 2014-15. The majority of fund balances, 98%, are assigned for transportation programs related to Measure M projects. Fund balance of \$11,994 is restricted for debt service on M2 sales tax revenue bonds issued to accelerate funding for M2 projects. The remaining fund balance of \$9,214 is considered nonspendable as the funds have been deposited with the State for condemnation deposits and an advance payment to the City of Fullerton for the Raymond Grade Separation project.

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

The LTA fund increased by \$105,513, primarily due to a decrease of expenditures related to the completion of some of the grade separation projects in the previous fiscal year, along with a slight increase in sales tax revenue in excess of expenditures.

**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2016, the OCLTA had \$0 net of accumulated depreciation invested in capital assets including improvements and machinery.

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

	Governmental Activities	
	2016	2015
Improvements	\$ -	\$ 1,086
Machinery	32	32
Total capital assets	32	1,118
Less accumulated depreciation	(32)	(473)
Total capital assets, net	\$ -	\$ 645

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: \$47,388 for the I-5 freeway widening project, \$14,144 for the I-5 HOV freeway project, and \$13,632 for the Lakeview grade separation project.

**Debt Administration**

As of June 30, 2016, the OCLTA had \$325,485 in sales tax revenue bonds compared to \$332,695 as of the prior fiscal year.

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

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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 long-term debt can be found in note 7 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.

The OCLTA adopted its fiscal year 2016-17 annual budget on June 13, 2016. Approximately \$544 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 \$230 million to make improvements primarily along Interstate 405, Interstate 5, State Route 91, State Route 55, and State Route 57. Approximately \$183 million is budgeted to improve streets and roads, including \$53 million to fund the Local Fair Share Program, \$53 million for the Regional Capacity Program, and \$50 million for the OC Bridges Project. In addition, the M2 transit budget includes \$61 million to continue the OC Streetcar project.



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

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**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, 2016**

<i>(amounts expressed in thousands)</i>	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 832,066
Receivables:	
Interest	1,526
Operating grants	14,823
Other	2,060
Due from other governments	109,698
Condemnation deposits	714
Other assets	8,500
<b>Total Assets</b>	<b>969,387</b>
<b>Liabilities</b>	
Accounts payable	32,578
Accrued interest payable	7,965
Due to other OCTA funds	4,866
Due to other governments	21,432
Unearned revenue	29,011
Other liabilities	20
Advance from other OCTA funds	3,188
Noncurrent liabilities:	
Due within one year	7,475
Due in more than one year	320,419
<b>Total Liabilities</b>	<b>426,954</b>
<b>Net Position</b>	
Restricted for:	
Debt service	11,994
Unrestricted	530,439
<b>Total Net Position</b>	<b>\$ 542,433</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, 2016**

<i>(amounts expressed in thousands)</i>	<b>Expenses</b>	<b>Indirect Expense Allocation</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>
			<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
					<b>Governmental Activities</b>
Program governmental activities:					
Measure M program	\$ 289,291	\$ 15,670	\$ 204	\$ 110,846	\$ (193,911)
Total governmental activities	<u>289,291</u>	<u>15,670</u>	<u>204</u>	<u>110,846</u>	<u>(193,911)</u>
General revenues:					
Sales taxes					300,937
Unrestricted investment earnings					17,528
Other miscellaneous revenue					299
Total general revenues					<u>318,764</u>
Change in net position					124,853
Net position - beginning					<u>417,580</u>
Net position - ending					<u><u>\$ 542,433</u></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, 2016**

<i>(amounts expressed in thousands)</i>	<b>LTA</b>	<b>LTA Debt Service</b>	<b>Total OCLTA</b>
<b>Assets</b>			
Cash and investments	\$ 820,074	\$ 11,992	\$ 832,066
Receivables:			
Interest	1,524	2	1,526
Operating grants	14,823	-	14,823
Other	2,060	-	2,060
Due from other governments	107,098	-	107,098
Condemnation deposits	714	-	714
Other assets	8,500	-	8,500
<b>Total Assets</b>	<b>\$ 954,793</b>	<b>\$ 11,994</b>	<b>\$ 966,787</b>
<b>Liabilities</b>			
Accounts payable	\$ 32,578	\$ -	\$ 32,578
Due to other OCTA funds	4,866	-	4,866
Due to other governments	21,432	-	21,432
Unearned revenue	29,011	-	29,011
Other liabilities	20	-	20
Advance from OCTA	3,188	-	3,188
<b>Total Liabilities</b>	<b>91,095</b>	<b>-</b>	<b>91,095</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - grant reimbursements	41,687	-	41,687
<b>Total Deferred Inflows of Resources</b>	<b>41,687</b>	<b>-</b>	<b>41,687</b>
<b>Fund Balances</b>			
Nonspendable:			
Condemnation deposits	714	-	714
Other assets	8,500	-	8,500
Restricted for:			
Debt service	-	11,994	11,994
Assigned to:			
Transportation programs	812,797	-	812,797
<b>Total Fund Balances</b>	<b>822,011</b>	<b>11,994</b>	<b>834,005</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 954,793</b>	<b>\$ 11,994</b>	<b>\$ 966,787</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, 2016**

*(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>	\$ 834,005
Interest receivable on the Build America Bonds is not reported in the funds.	2,600
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is reported as a deferred inflow of resources in the funds.	41,687
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.	(7,965)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(327,894)</u>
<b>Net position of governmental activities (page 10)</b>	<b><u><u>\$ 542,433</u></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, 2016**

<i>(amounts expressed in thousands)</i>	<b>LTA</b>	<b>LTA Debt Service</b>	<b>Total OCLTA</b>
<b>Revenues</b>			
Sales taxes	\$ 300,937	\$ -	\$ 300,937
Contributions from other agencies	93,316	-	93,316
Interest	11,023	6,501	17,524
Miscellaneous	504	-	504
<b>Total Revenues</b>	<b>405,780</b>	<b>6,501</b>	<b>412,281</b>
<b>Expenditures</b>			
Current:			
General government:			
Supplies and services	72,274	-	72,274
Transportation:			
Contributions to other local agencies	105,824	-	105,824
Capital outlay	89,240	-	89,240
Debt service:			
Principal payments on long-term debt	-	7,210	7,210
Interest	30	21,584	21,614
<b>Total Expenditures</b>	<b>267,368</b>	<b>28,794</b>	<b>296,162</b>
<b>Excess (deficiency) of revenues     over (under) expenditures</b>	<b>138,412</b>	<b>(22,293)</b>	<b>116,119</b>
<b>Other financing sources (uses)</b>			
Transfers in	6,513	28,794	35,307
Transfers out	(28,794)	(6,513)	(35,307)
Transfers to OCTA	(10,618)	-	(10,618)
<b>Total other financing sources (uses)</b>	<b>(32,899)</b>	<b>22,281</b>	<b>(10,618)</b>
<b>Net change in fund balances</b>	<b>105,513</b>	<b>(12)</b>	<b>105,501</b>
Fund balances - beginning	716,498	12,006	728,504
<b>Fund balances - ending</b>	<b>\$ 822,011</b>	<b>\$ 11,994</b>	<b>\$ 834,005</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, 2016**

*(amounts expressed in thousands)*

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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>	<b>\$ 105,501</b>
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 by which capital outlays exceeded depreciation in the current period.	(32)
Transfer assets held for resale to the OCTA General Fund	(6,046)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	17,534
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.	<u>7,896</u>
<b>Change in net position of governmental activities (page 11)</b>	<b><u><u>\$ 124,853</u></u></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, 2016**

(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.

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 one non-voting member and also serves as the OCLTA governing board. Measure M requires that an 11 member Taxpayer's Oversight Committee (TOC) monitor 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  
Notes to The Financial Statements

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Year Ended June 30, 2016  
(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, 2016, interest expense of \$20,927 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 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.

Year Ended June 30, 2016  
(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 June 13, 2016. 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.

OCTA holds investments that are measured at fair value on a recurring basis. OCTA 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 inputs-other than quoted prices included in Level 1 - that are observable including quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active; Level 3 inputs are unobservable inputs. OCTA's leveled investments are measured using Level 2 inputs.

Investments in U.S. government and U.S. agency securities, medium term notes, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities, and corporate notes are carried at fair value based on quoted market prices, except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date, which are carried at amortized cost which approximates fair value. 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,

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2016  
(in thousands)

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 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 2015-16, \$15,670 of administrative services were charged to the OCLTA and are reported as general government expenditures in the governmental funds.

**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 acquisition value at the acquisition date. Prior to fiscal year 2015-16, donated capital assets were 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

Year Ended June 30, 2016  
(in thousands)

### **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.

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.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2016  
(in thousands)

- *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.

### **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. This classification also includes residual amounts assigned for specific projects. 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.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2016  
(in thousands)

## 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.

One 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 \$(327,894) difference are as follows:

Bonds payable	\$ (325,485)
Plus unamortized bond issuance premium (to be amortized to interest expense)	<u>(2,409)</u>
Net adjustment to decrease fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ (327,894)</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 \$7,896 difference are as follows:

Bonds payable	\$ 7,210
Change in accrued interest	83
Amortization of premium	<u>603</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position - governmental activities	<u>\$ 7,896</u>

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2016  
(in thousands)

### 3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2016:

Investments:	
With OCTA Commingled Investment Pool	\$ 774,989
With Trustee	57,077
Total cash and investments	<u>\$ 832,066</u>

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

Cash and Investments	<u>\$ 832,066</u>
Total Cash and Investments	<u>\$ 832,066</u>

As of June 30, 2016, OCLTA had the following investments:

Investment	Fair Value	Principal	Interest Rate Range	Yield	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$774,989	\$771,748	Discount .001%-8.75%	.010% - 2.674%	7/1/16- 6/30/21	1.99
Money Market Funds *	<u>57,077</u>	<u>57,077</u>	Variable	.220%- .250%	7/1/16	1 Day
Total Investments	<u>\$832,066</u>	<u>\$828,825</u>				
Portfolio Weighted Average Maturity						1.90

\* Money Market Funds are measured at amortized cost which approximates fair value.

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

As of June 30, 2016, OCLTA had \$774,989 invested in the OCTA's commingled investment Pool (CIP). Refer to the OCTA Comprehensive Annual Financial Report (CAFR) for details on valuation techniques and fair value hierarchy, interest rate risk, variable rate notes and custodial credit risk. Deposits and withdrawals in OCTA's CIP are made on the basis of \$1.00 (absolute dollars) and not fair value. Accordingly, the OCLTA's investment in OCTA's CIP at June 30, 2016 is uncategorized, not defined as Level 1, Level 2, or Level 3 input.

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2016  
(in thousands)

### 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 rated no less than an "A" by two of the three rating services. The OCTA Commingled Investment Pool is 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, 2016. (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	93.14%
Held by Trustee:				
Money Market Funds	AAAm	Aaa	AAA	6.86%
Total				100.00%

### 4. Due From/To Other Governments

Amounts due from other governments as of June 30, 2016 in the fund statements are \$107,098 and are comprised of \$54,368 of sales taxes and \$52,730 of project reimbursements. An additional \$2,600 is included in the government-wide statements representing the interest receivable on Build America Bonds (see note 7).

Amounts due to other governments as of June 30, 2016 are \$21,432 and are comprised of \$20,551 for transportation projects and \$881 for other miscellaneous transactions.

### 5. Related Party Transactions and Interfund Transfers

#### Related party transactions:

As of June 30, 2016, OCLTA owes \$4,866 to other OCTA funds as follows:

	Amount	Explanation
General Fund	\$ 514	Placentia Rail Station, ARTIC
OCUTT	49	Local Fair Share funds withheld from City of Placentia
Capital Project Fund	4,303	OC Streetcar project
Total	\$ 4,866	



Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2016  
(in thousands)

During fiscal year 2015-16, transfers of \$10,618 from OCLTA to OCTA were made to fund the OC Streetcar 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 (0.77% for fiscal year 2015-16). As of June 30, 2016, OCLTA owes OCTA \$3,188.

OCLTA transferred Assets Held for Resale, related to the freeway program, to the General Fund in conjunction with the closing of the M1 program.

**Interfund Transfers:**

During fiscal year 2015-16, the LTA Fund transferred \$28,794 to the LTA Debt Service Fund for debt service payments. Additionally, the LTA Debt Service Fund transferred \$6,513 in excess interest earnings to the LTA Fund.

**6. Capital Assets**

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2016 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	-	1,086	32
Less accumulated depreciation for:				
Right-of-way improvements	(443)	(30)	(473)	-
Machinery and equipment	(30)	(2)	-	(32)
Total accumulated depreciation	(473)	(32)	(473)	(32)
Total Measure M capital assets, being depreciated, net	645	(32)	613	-
Total Measure M capital assets, net	\$ 645	\$ (32)	\$ 613	\$ -

Depreciation expense charged to the Measure M program was \$32.

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2016  
(in thousands)

## 7. 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 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	\$ 293,540	\$ 65,053
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	\$ 31,945
Plus unamortized premium	-	2,409
Total	\$ 293,540	\$ 34,354

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2016, are as follows:

Year Ending June 30,	Principal	Interest
2017	\$ 7,475	\$ 21,317
2018	7,775	21,018
2019	8,165	20,629
2020	8,530	20,263
2021	8,915	19,879
2022-2026	49,960	91,104
2027-2031	61,800	72,890
2032-2036	76,975	49,539
2037-2041	95,890	20,454
Total	\$ 325,485	\$ 337,093

Orange County Local Transportation Authority  
Notes to The Financial Statements

Year Ended June 30, 2016  
(in thousands)

### Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Measure M program activities:					
Sales tax revenue bonds	\$ 332,695	\$ -	\$ 7,210	\$ 325,485	\$ 7,475
Unamortized premium	3,012	-	603	2,409	-
Total Measure M program activities long-term liabilities	\$ 335,707	\$ -	\$ 7,813	\$ 327,894	\$ 7,475

### 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 26. The purposes for which the proceeds of the debt issuances were utilized are disclosed in the debt description located on pages 26.

For the year ended June 30, 2016, 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	\$ 237,151	\$ 22,324*	10.62

\*OCLTA received \$6,469 in Build America Bonds subsidy to offset annual debt service payments for Measure M2 Sales Tax Revenue Bonds.

## 8. 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, 2016, were \$537,043, 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, 2016  
(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.

### **9. Excess of Expenditures over Appropriations**

In the LTA Debt Service Fund, expenditures exceeded appropriations for transfers out for \$6,513. During the year, an analysis was done on amounts required to be maintained in the custodian account. It was determined that there was an excess of funds in the account. That amount was transferred to the LTA Fund. An analysis will be scheduled annually during the budget development process and a corresponding budget transfer will be included as part of the budget, if necessary.

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

#### **GASB Statement No. 72**

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is considered to be the exit price. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for OCLTA's fiscal year ending June 30, 2016. See notes 1 and 3.

#### **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 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. This Statement is effective in two phases for periods beginning after

Year Ended June 30, 2016  
(in thousands)

June 15, 2015 and June 15, 2016. However, OCTA decided to early implement the provisions effective next fiscal year. This statement does not apply to OCLTA.

#### **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. Management has not determined the effect of this statement.

#### **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. Management has not determined the effect of this statement.

#### **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

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2016  
(in thousands)

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. OCLTA has determined that this Statement does not have a material impact on the financial statements.

**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, 2017. Management has not determined the effect of this statement.

**GASB Statement No. 78**

In December 2015, GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This statement is effective for OCLTA's fiscal year ending June 30, 2017. However, OCTA decided to early implement the provisions effective next fiscal year. This statement does not apply to OCLTA.

**GASB Statement No. 79**

In December 2015, GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. This statement is effective for OCLTA's fiscal year ending June 30, 2016. OCLTA has determined that this Statement does not have a material impact on the financial statements.

Orange County Local Transportation Authority  
Notes to The Financial Statements

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Year Ended June 30, 2016  
(in thousands)

**GASB Statement No. 80**

In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This Statement is effective for OCLTA's fiscal year ending June 30, 2017. Management has not determined the effect of this statement.

**GASB Statement No. 81**

In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for OCLTA's fiscal year ending June 30, 2018. Management has not determined the effect of this statement.

**GASB Statement No. 82**

In March 2016, GASB issued Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues related to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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 issues addressed by this Statement are related to the presentation of payroll-related measures in required supplementary information. In addition, this Statement addresses the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement is effective for the reporting period beginning after June 15, 2016. However, OCTA decided to early implement this Statement. This statement does not apply to OCLTA.

**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, 2016**  
(in thousands)

	Budgeted Amounts			
(amounts expressed in thousands)	Original	Final	Actual Amounts	Variance with Final Budget
Revenues:				
Sales taxes	\$ 310,127	\$ 310,127	\$ 300,937	\$ (9,190)
Contributions from other agencies	70,173	75,773	130,614	54,841
Interest	3,430	3,430	11,023	7,593
Miscellaneous	102	102	504	402
Total revenues	383,832	389,432	443,078	53,646
Expenditures:				
Current:				
General government	171,669	173,174	118,722	54,452
Transportation:				
Contributions to other local agencies	154,279	159,475	105,829	53,646
Capital outlay	170,749	170,749	106,494	64,255
Debt service:				
Interest on long-term debt and commercial paper	-	-	30	(30)
Total expenditures	496,697	503,398	331,075	172,323
Excess (deficiency) of revenues over (under) expenditures	(112,865)	(113,966)	112,003	225,969
Other financing sources (uses):				
Transfers in	-	-	6,513	6,513
Transfers from OCTA	13,153	13,153	-	(13,153)
Transfers out	(22,300)	(22,302)	(28,794)	(6,492)
Transfers to OCTA	(46,597)	(46,595)	(10,618)	35,977
Total other financing uses	(55,744)	(55,744)	(32,899)	22,845
Net change in fund balance	\$ (168,609)	\$ (169,710)	\$ 79,104	\$ 248,814
Reconciliation to GAAP:				
Net change in fund balance (budgetary basis)			\$ 79,104	
Less: Estimated revenues for encumbrances outstanding at June 30			37,298	
Add: Current year encumbrances outstanding at June 30			63,707	
Net change in fund balance (GAAP basis)			\$ 105,513	

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, 2016**

(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 2016 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 2015-16.

**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, 2016**

<i>(amounts expressed in thousands)</i>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Interest	\$ 6,494	\$ 6,494	\$ 6,501	\$ 7
<b>Total revenues</b>	<b>6,494</b>	<b>6,494</b>	<b>6,501</b>	<b>7</b>
<b>Expenditures:</b>				
Debt service:				
Principal payments on long-term debt	7,210	7,210	7,210	-
Interest on long-term debt	21,584	21,584	21,584	-
<b>Total expenditures</b>	<b>28,794</b>	<b>28,794</b>	<b>28,794</b>	<b>-</b>
<b>Deficiency of revenues under expenditures</b>	<b>(22,300)</b>	<b>(22,300)</b>	<b>(22,293)</b>	<b>7</b>
<b>Other financing sources:</b>				
Transfers in	22,300	22,300	28,794	6,494
Transfers out	-	-	(6,513)	(6,513)
<b>Total other financing sources</b>	<b>22,300</b>	<b>22,300</b>	<b>22,281</b>	<b>(19)</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (12)</b>	<b>\$ (12)</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, 2016, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements, and have issued our report thereon dated October 31, 2016. Our report included an emphasis of matter regarding OCLTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 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 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.

*Vavrinch, Train, Day & Co., LLP*

Laguna Hills, California

October 31, 2016

**ORANGE COUNTY  
TRANSPORTATION AUTHORITY**

**Local Transportation Fund  
Financial Statements**

**Year Ended June 30, 2016**

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**LOCAL TRANSPORTATION 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 Local Transportation Fund (LTF), 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.

### ***Auditor's 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 LTF, 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 LTF 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 LTF 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 9-10 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 Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise LTF's financial statements. The Schedule of Disbursements (Schedule) is presented for purposes of additional analysis and is not a required part of 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 information is fairly stated in all material respects in relation to the 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 31, 2016, on our consideration of OCTA's internal control over financial reporting, as it relates to the LTF, 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 LTF.



Laguna Hills, California

October 31, 2016

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

**BALANCE SHEET  
JUNE 30, 2016**

**ASSETS**

Cash and Investments	\$ 14,398,863
Interest Receivable	3,560
Due from Other Governments (Note 3)	<u>28,240,932</u>
Total Assets	<u><u>\$ 42,643,355</u></u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Due to Other Governments (Note 4)	\$ 650,261
Due to Other Funds (Note 5)	<u>14,162,835</u>
Total Liabilities	<u><u>14,813,096</u></u>

**FUND BALANCE**

Restricted:	
Transportation Programs	<u>27,830,259</u>
Total Liabilities and Fund Balance	<u><u>\$ 42,643,355</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, 2016**

**REVENUE**

Local Transportation Sales Tax Allocations	\$ 156,974,445
Investment Income	48,656
Miscellaneous	8,979
Total Revenues	<u>157,032,080</u>

**EXPENDITURES**

Current:

Supplies and Services	2,128,022
Contributions to Other Agencies	2,285,055
Total Expenditures	<u>4,413,077</u>

Excess of Revenues Over Expenditures	152,619,003
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**OTHER FINANCING USES:**

Transfers to Other OCTA Funds (Note 6)	<u>(152,834,891)</u>
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Net Change in Fund Balance	(215,888)
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Fund Balance, Beginning of Year	28,046,147
Fund Balance, End of Year	<u>\$ 27,830,259</u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

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

*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, 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 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 state sales and use tax. 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; Article 4, which are for general transit operations and services; and Article 4.5, which are claims for community transit services.

*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.

Fund Accounting

The LTF activities and transactions are recorded and accounted for in a special revenue fund of 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 ¼ cent state sales and use tax pursuant to the 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

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

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

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 LTF 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 LTF 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 LTF'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 LTF's investment in the OCIP at June 30, 2016 of \$14,398,863 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 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

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

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

Fund Balance

The LTF 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 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 – DUE FROM OTHER GOVERNMENTS*

Due from other governments of \$28,240,932 represents a TDA receivable due from the State of California.

*NOTE 4 – DUE TO OTHER GOVERNMENTS*

Due to other governments of \$650,261 represents amounts due to other agencies for use in transit projects.

*NOTE 5 - DUE TO OTHER FUNDS*

Due to other funds for the year ended June 30, 2016 consisted of the following:

OCTD for transit operations	\$ 13,249,196
OCTA for planning and administration	<u>913,639</u>
Total	<u><u>\$ 14,162,835</u></u>

*NOTE 6 – TRANSFERS*

Transfers to other OCTA funds during the fiscal year ended June 30, 2016 consisted of the following:

OCTD for transit operations	\$ 149,044,454
OCTA for planning and administration	<u>3,790,437</u>
Total	<u><u>\$ 152,834,891</u></u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND (BUDGETARY BASIS)**

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

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Local Transportation Sales Tax Allocations	\$ 165,253,448	\$ 156,538,943	\$ 156,974,445	\$ 435,502
Investment Income	24,866	24,866	48,656	23,790
Miscellaneous	-	-	8,979	8,979
<b>Total Revenues</b>	<b>165,278,314</b>	<b>156,563,809</b>	<b>157,032,080</b>	<b>468,271</b>
<b>Expenditures</b>				
Current:				
Supplies and Services	1,798,010	1,798,010	2,128,022	(330,012)
Contributions to Other Local Agencies	2,354,743	2,354,743	2,285,055	69,688
<b>Total Expenditures</b>	<b>4,152,753</b>	<b>4,152,753</b>	<b>4,413,077</b>	<b>(260,324)</b>
<b>Excess of Revenues over Expenditures</b>	<b>161,125,561</b>	<b>152,411,056</b>	<b>152,619,003</b>	<b>207,947</b>
<b>Other Financing Uses</b>				
Transfers to Other OCTA Funds (Note 6)	(161,125,561)	(161,125,561)	(152,834,891)	8,290,670
<b>Total Other Financing Uses</b>	<b>(161,125,561)</b>	<b>(161,125,561)</b>	<b>(152,834,891)</b>	<b>8,290,670</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>(8,714,505)</b>	<b>(215,888)</b>	<b>8,498,617</b>
<b>Fund Balance, Beginning of Year</b>	<b>28,046,147</b>	<b>28,046,147</b>	<b>28,046,147</b>	<b>-</b>
<b>Fund Balance, End of Year</b>	<b>\$ 28,046,147</b>	<b>\$ 19,331,642</b>	<b>\$ 27,830,259</b>	<b>\$ 8,498,617</b>

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

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

*NOTE 1 – 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, 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.



**ORANGE COUNTY TRANSPORTATION AUTHORITY  
LOCAL TRANSPORTATION FUND**

**SCHEDULE OF DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

Claimant	Article 3 Administration	Article 3 Planning	Article 4 Operating and Capital	Article 4.5 Paratransit Operating and Capital	Total
City of Laguna Beach	\$ -	\$ -	\$ 1,115,304	\$ -	\$ 1,115,304
County of Orange	6,439	-	-	-	6,439
Orange County Transit District	-	-	141,173,975	7,870,479	149,044,454
Orange County Transportation Authority	135,882	3,654,555	-	-	3,790,437
Southern California Association of Governments	-	1,163,312	-	-	1,163,312
Total disbursements	<u>\$ 142,321</u>	<u>\$ 4,817,867</u>	<u>\$ 142,289,279</u>	<u>\$ 7,870,479</u>	<u>\$ 155,119,946</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, 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 Local Transportation Fund (LTF), 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 LTF financial statements do not purport to, and do not, present fairly the financial position of OCTA, and the LTF 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 LTF, 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 consider 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 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 LTF'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 §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.

## 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

**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	<u>5,306</u>
Total Revenues	<u><u>7,929,242</u></u>

EXPENDITURES

Current:

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

Excess of Revenues over Expenditures	7,928,725
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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
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Fund Balance, Beginning of Year	<u>15,728</u>
Fund Balance, End of Year	<u><u>\$ 18,824</u></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>		
<b>Revenues</b>				
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
<b>Total Revenues</b>	<u>20,887,347</u>	<u>15,837,460</u>	<u>7,929,242</u>	<u>(7,908,218)</u>
<b>Expenditures</b>				
Supplies and Services	-	-	517	(517)
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>517</u>	<u>(517)</u>
<b>Excess of Revenues over Expenditures</b>	<u>20,887,347</u>	<u>15,837,460</u>	<u>7,928,725</u>	<u>(7,908,735)</u>
<b>Other Financing Uses</b>				
Transfers to Other OCTA Funds (Note 4)	(20,887,347)	(20,887,347)	(7,925,629)	12,961,718
<b>Total Other Financing Uses</b>	<u>(20,887,347)</u>	<u>(20,887,347)</u>	<u>(7,925,629)</u>	<u>12,961,718</u>
<b>Net Change in Fund Balance</b>	-	(5,049,887)	3,096	5,052,983
<b>Fund Balance, Beginning of Year</b>	15,728	15,728	15,728	-
<b>Fund Balance, End of Year</b>	<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.

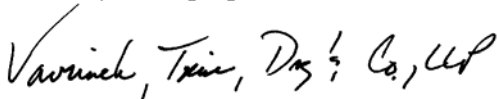
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



**ORANGE COUNTY  
TRANSPORTATION AUTHORITY  
  
INDEPENDENT AUDITORS' REPORT ON  
PROPOSITION 1B  
AND  
TRANSPORTATION DEVELOPMENT ACT  
  
Year Ended June 30, 2016**

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**PROPOSITION 1B  
AND  
TRANSPORTATION DEVELOPMENT ACT**

**JUNE 30, 2016**

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**INDEPENDENT AUDITORS' REPORT ON PROPOSITION 1B SCHEDULE OF  
UNSPENT FUNDS AND CASH DISBURSEMENTS**

Board of Directors  
Orange County Transportation Authority  
Orange, California

We have audited the financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2016, and have issued our report thereon dated October 31, 2016, which contained unmodified opinions on those financial statements. Our report included an emphasis-of-matter regarding OCTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, and GASB Statement No. 82 – *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise OCTA's basic financial statements. The Proposition 1B Schedule of Unspent Funds and Cash Disbursements (Schedule) is presented for purposes of additional analysis, to satisfy the requirements of Section 6667 of Title 21 of the California Code of Regulations, the California *Government Code* §8879.50 and the California State Senate Bill 88 (2007), et seq. 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 Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Laguna Hills, California  
October 31, 2016

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
PROPOSITION 1B**

**SCHEDULE OF UNSPENT FUNDS AND CASH DISBURSEMENTS  
YEAR ENDED JUNE 30, 2016**

	<u>PTMISEA (1)</u>	<u>TSSSDRA (2)</u>	<u>Total</u>
Unspent Prop 1B funds as of June 30, 2015	\$ 41,195,977	\$ 3,919,616	\$ 45,115,593
Prop 1B funds received during the fiscal year ended June 30, 2016	-	-	-
Interest revenue earned on unspent Prop 1B funds during fiscal year ended June 30, 2016	241,437	23,498	264,935
Prop 1B disbursements spent during the fiscal year ended June 30, 2016	<u>(16,230,171)</u>	<u>(352,307)</u>	<u>(16,582,478)</u>
Unspent Prop 1B funds as of June 30, 2016	<u>\$ 25,207,243</u>	<u>\$ 3,590,807</u>	<u>\$ 28,798,050</u>

(1) Public Transportation, Modernization, Improvement, and Service Enhancement Account

(2) Transit System Safety, Security & Disaster Recovery Account



**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, THE TRANSPORTATION DEVELOPMENT ACT, CALIFORNIA  
GOVERNMENT CODE §8879.50, AND STATE SENATE BILL 88 (2007)**

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information 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, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated October 31, 2016. Our report included an emphasis-of-matter regarding OCTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, and GASB Statement No. 82 – *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015.

**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) 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 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 OCTA'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 the applicable provisions of Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq., 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*, the Transportation Development Act Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and the California State Senate Bill 88 (2007), et seq.

## 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

October 31, 2016

**ORANGE COUNTY LOCAL  
TRANSPORTATION AUTHORITY**

**Report on Agreed-Upon Procedures  
Applied to Measure M2 Status Report**

Year Ended June 30, 2016

**ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

**Report on Agreed-Upon Procedures  
Applied to Measure M2 Status Report**

Year Ended June 30, 2016

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**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES TO THE  
MEASURE M2 STATUS REPORT**

Board of Directors  
Orange County Local Transportation Authority  
And the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee (Committee) of the Orange County Local Transportation Authority (OCLTA), solely to assist you with your review of the Measure M2 Status Report, and to ascertain that the amounts have been derived from the audited financial statements or other published documents, Board of Director approved documents or internal documents, for the year ended June 30, 2016. The Measure M2 Status Report consists of the following three schedules (Schedules): Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule 1); Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service) (Schedule 2); and Schedule of Revenues and Expenditures Summary (Schedule 3). Management of OCLTA is responsible for Measure M2 Status Report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

The following summary of procedures related to the Measure M2 Status Report is separated into three sections: Section A describes our procedures applied to Schedule 1; Section B describes our procedures applied to Schedule 2; and Section C describes our procedures applied to Schedule 3. All amounts are reported in thousands.

A. We obtained Schedule 1 and performed the following procedures:

1. Compared year to date June 30, 2016 amounts (Column A) to the audited trial balances of the OCLTA special revenue fund 17 and the OCLTA debt service fund 72 and additional detailed information from the underlying accounting records.
2. Compared period from inception through June 30, 2016 amounts (Column B) by adding the prior year's period from inception through June 30, 2015 amounts with year to date June 30, 2016 amounts (Column A).
3. Re-computed totals and subtotals.

B. We obtained Schedule 2 and performed the following procedures:

1. Compared year ended June 30, 2016 (Columns C.1 and C.2) to Schedule 1, Column A. For professional services, non-project related amounts, we compared the sum of this caption allocated to revenues and to bond revenues at June 30, 2016 (C.1 and C.2) to Schedule 1, Column A. For environmental cleanup, we agreed this amount to the project job ledger.
2. Compared period from inception through June 30, 2016 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For professional services, non-project related amounts, we compared the total of the amounts allocated to revenues and to bond revenues at June 30, 2016 (D.1 and D.2) to Schedule 1, Column B. For environmental cleanup, we agreed this amount to the project job ledger.
3. Compared forecast amounts (Column E.1 and E.2) to Measure M2 Forecast Model Schedule.
4. Re-computed totals and subtotals.

C. We obtained Schedule 3 and performed the following procedures:

1. Compared net revenues through June 30, 2016 (Column H) and total net revenues (Column I) amounts to Schedule 2, Column D.1 and Column F.1, net revenues (Totals), respectively.
2. Recalculated net revenues through June 30, 2016 (Column H) and total net revenues (Column I) amounts, by mode and project description, based on the Measure M2 Transportation Investment Plan (Investment Plan).
3. Reconciled expenditures through June 30, 2016 (Column J) to Schedule 1, Column B. Agreed environmental cleanup to Schedule 2, Column D.1. Agreed oversight and annual audits to the summary of Measure M2 administrative costs through June 30, 2016. Agreed Column J, by project description to the project job ledger by fiscal year.
4. Selected a sample of expenditures from Column J and compared them to invoices and supporting documentation to determine whether the sampled expenditures were properly accrued and classified.
5. Agreed reimbursements through June 30, 2016 (Column K) to Schedule 1, Column B. Agreed oversight and annual audits line item to summary of Measure M2 administrative costs through June 30, 2016.
6. Agreed Column K to the supporting revenue summary by project and fiscal year. Selected a sample of reimbursements from Column K and agreed them to supporting invoices and remittance advices to determine whether the sampled reimbursements were properly calculated.
7. Recalculated the net M2 cost (Column L) by subtracting Column K from Column J.
8. Recalculated revenues through June 30, 2016 (Column H.1) and the total revenues (Column I.1) for environmental cleanup (2% of revenues) and oversight and annual audits (1% of revenues) by multiplying sales taxes and operating interest per Schedule 2, Column D.1 and Column F.1 by 2% and 1%, respectively.
9. Recalculated revenues through June 30, 2016 (Column H.1) and total revenues (Column I.1) for collect sales taxes (1.5% of sales taxes) by multiplying sales taxes per Schedule 2, Column D.1 and Column F.1 by 1.5%.
10. Re-computed total and subtotals.

Results: All of the above procedures were performed without exception.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Measure M2 Status Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. The Notes to the Measure M2 Status Report (Notes) have been provided by the OCLTA to describe the purpose, format, and content of the schedules. We were not engaged to and did not perform any procedures on the Notes.

This report is intended solely for the information and use of OCTLA's management, the Board of Directors, and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Vavrinch Train, Dwyer & Co, LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California

December 19, 2016

**Measure M2**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**as of June 30, 2016**  
**(Unaudited)**

(\$ in thousands)	Year to Date June 30, 2016 (A)	Period from Inception to June 30, 2016 (B)
<b>Revenues:</b>		
Sales taxes	\$ 300,937	\$ 1,450,309
Other agencies' share of Measure M2 costs:		
Project related	93,242	476,195
Non-project related	74	439
Interest:		
Operating:		
Project related	-	2
Non-project related	9,039	17,082
Bond proceeds	6,443	35,997
Debt service	32	76
Commercial paper	-	393
Right-of-way leases	110	814
Miscellaneous:		
Project related	72	270
Non-project related	93	100
Total revenues	<u>410,042</u>	<u>1,981,677</u>
<b>Expenditures:</b>		
Supplies and services:		
State Board of Equalization (SBOE) fees	3,571	15,888
Professional services:		
Project related	50,216	272,849
Non-project related	2,115	15,043
Administration costs:		
Project related	8,527	44,540
Non-project related:		
Salaries and Benefits	2,365	17,440
Other	4,679	26,638
Other:		
Project related	275	1,678
Non-project related	118	3,800
Payments to local agencies:		
Project related	105,378	607,896
Capital outlay:		
Project related	89,240	546,493
Non-project related	-	31
Debt service:		
Principal payments on long-term debt	7,210	27,085
Interest on long-term debt and commercial paper	21,613	115,537
Total expenditures	<u>295,307</u>	<u>1,694,918</u>
Excess of revenues over expenditures	<u>114,735</u>	<u>286,759</u>
<b>Other financing sources (uses):</b>		
Transfers out:		
Project related	(10,618)	(22,659)
Transfers in:		
Project related	23,740	75,544
Non-project related	(23,740)	5,937
Bond proceeds	-	358,593
Total other financing sources (uses)	<u>(10,618)</u>	<u>417,415</u>
Excess of revenues over expenditures and other financing sources (uses)	<u>\$ 104,117</u>	<u>\$ 704,174</u>

See Notes to Measure M2 Status Report (Unaudited)

**Measure M2**  
**Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service)**  
**as of June 30, 2016**  
**(Unaudited)**

(\$ in thousands)	Year to Date June 30, 2016 (actual) (C.1)	Period from Inception through June 30, 2016 (actual) (D.1)	Period from July 1, 2016 through March 31, 2041 (forecast) (E.1)	Total (F.1)
<b>Revenues:</b>				
Sales taxes	\$ 300,937	\$ 1,450,309	\$ 13,359,584	\$ 14,809,893
Operating interest	9,039	17,082	224,117	241,199
Subtotal	<u>309,976</u>	<u>1,467,391</u>	<u>13,583,701</u>	<u>15,051,092</u>
Other agencies share of M2 costs	74	439	-	439
Miscellaneous	93	100	-	100
Total revenues	<u>310,143</u>	<u>1,467,930</u>	<u>13,583,701</u>	<u>15,051,631</u>
<b>Administrative expenditures:</b>				
SBOE fees	3,571	15,888	200,474	216,362
Professional services	2,115	11,267	91,546	102,813
Administration costs:				
Salaries and Benefits	2,365	17,440	133,574	151,014
Other	4,679	26,638	234,882	261,520
Other	118	3,800	23,036	26,836
Capital outlay	-	31	-	31
Environmental cleanup	9,588	18,150	267,192	285,342
Total expenditures	<u>22,436</u>	<u>93,214</u>	<u>950,704</u>	<u>1,043,918</u>
Net revenues	<u>\$ 287,707</u>	<u>\$ 1,374,716</u>	<u>\$ 12,632,997</u>	<u>\$ 14,007,713</u>
	(C.2)	(D.2)	(E.2)	(F.2)
<b>Bond revenues:</b>				
Proceeds from issuance of bonds	\$ -	\$ 358,593	\$ 2,000,000	\$ 2,358,593
Interest revenue from bond proceeds	6,443	35,997	25,760	61,757
Interest revenue from debt service funds	32	76	54	130
Interest revenue from commercial paper	-	393	-	393
Total bond revenues	<u>6,475</u>	<u>395,059</u>	<u>2,025,814</u>	<u>2,420,873</u>
<b>Financing expenditures and uses:</b>				
Professional services	-	3,776	17,020	20,796
Bond debt principal	7,210	27,085	2,242,636	2,269,721
Bond debt and other interest expense	21,613	115,537	1,507,609	1,623,146
Total financing expenditures and uses	<u>28,823</u>	<u>146,398</u>	<u>3,767,265</u>	<u>3,913,663</u>
Net bond revenues (debt service)	<u>\$ (22,348)</u>	<u>\$ 248,661</u>	<u>\$ (1,741,451)</u>	<u>\$ (1,492,790)</u>

See Notes to Measure M2 Status Report (Unaudited)

**Measure M2**  
**Schedule of Revenues and Expenditures Summary**  
**as of June 30, 2016**  
**(Unaudited)**

Project	Description	Net Revenues through June 30, 2016	Total Net Revenues	Expenditures through June 30, 2016	Reimbursements through June 30, 2016	Net M2 Cost
(G)	(H)	(I)	(J)	(K)	(L)	
	(\$ in thousands)					
<b>Freeways (43% of Net Revenues)</b>						
A	I-5 Santa Ana Freeway Interchange Improvements	\$ 54,183	\$ 552,116	\$ 4,434	\$ 937	\$ 3,497
B	I-5 Santa Ana/SR-55 to El Toro	34,609	352,649	4,537	2,191	2,346
C	I-5 San Diego/South of El Toro	72,285	736,546	84,771	30,751	54,020
D	I-5 Santa Ana/San Diego Interchange Upgrades	29,744	303,076	1,759	527	1,232
E	SR-22 Garden Grove Freeway Access Improvements	13,834	140,966	4	-	4
F	SR-55 Costa Mesa Freeway Improvements	42,195	429,945	7,591	23	7,568
G	SR-57 Orange Freeway Improvements	29,825	303,899	44,983	10,281	34,702
H	SR-91 Improvements from I-5 to SR-57	16,140	164,460	32,146	608	31,538
I	SR-91 Improvements from SR-57 to SR-55	48,017	489,269	16,629	1,620	15,009
J	SR-91 Improvements from SR-55 to County Line	40,604	413,734	6,928	5,294	1,634
K	I-405 Improvements between I-605 to SR-55	123,679	1,260,233	54,110	3,267	50,843
L	I-405 Improvements between SR-55 to I-5	36,857	375,556	5,508	3,234	2,274
M	I-605 Freeway Access Improvements	2,306	23,494	682	16	666
N	All Freeway Service Patrol	17,293	176,207	196	-	196
	Freeway Mitigation	29,556	301,166	45,968	1,688	44,280
	Subtotal Projects	591,127	6,023,316	310,246	60,437	249,809
	Net (Bond Revenue)/Debt Service	-	-	30,326	-	30,326
	<b>Total Freeways</b>	<b>\$ 591,127</b>	<b>\$ 6,023,316</b>	<b>\$ 340,572</b>	<b>\$ 60,437</b>	<b>\$ 280,135</b>
	<b>%</b>					<b>27.8%</b>
<b>Street and Roads Projects (32% of Net Revenues)</b>						
O	Regional Capacity Program	\$ 137,473	\$ 1,400,789	\$ 593,652	\$ 332,426	\$ 261,226
P	Regional Traffic Signal Synchronization Program	54,987	560,291	23,651	3,580	20,071
Q	Local Fair Share Program	247,449	2,521,388	237,070	77	236,993
	Subtotal Projects	439,909	4,482,468	854,373	336,083	518,290
	Net (Bond Revenue)/Debt Service	-	-	33,683	-	33,683
	<b>Total Street and Roads Projects</b>	<b>\$ 439,909</b>	<b>\$ 4,482,468</b>	<b>\$ 888,056</b>	<b>\$ 336,083</b>	<b>\$ 551,973</b>
	<b>%</b>					<b>54.7%</b>
<b>Transit Projects (25% of Net Revenues)</b>						
R	High Frequency Metrolink Service	\$ 124,519	\$ 1,397,062	\$ 161,432	\$ 92,749	\$ 68,683
S	Transit Extensions to Metrolink	121,356	1,236,557	11,559	2,074	9,485
T	Metrolink Gateways	25,382	71,597	98,211	60,956	37,255
U	Expand Mobility Choices for Seniors and Persons with Disabilities	41,902	485,719	40,010	88	39,922
V	Community Based Transit/Circulators	27,487	280,080	2,072	120	1,952
W	Safe Transit Stops	3,034	30,914	62	26	36
	Subtotal Projects	343,680	3,501,929	313,346	156,013	157,333
	Net (Bond Revenue)/Debt Service	-	-	18,838	-	18,838
	<b>Total Transit Projects</b>	<b>\$ 343,680</b>	<b>\$ 3,501,929</b>	<b>\$ 332,184</b>	<b>\$ 156,013</b>	<b>\$ 176,171</b>
	<b>%</b>					<b>17.5%</b>
<b>Measure M2 Program</b>		<b>\$ 1,374,716</b>	<b>\$ 14,007,713</b>	<b>\$ 1,560,812</b>	<b>\$ 552,533</b>	<b>\$ 1,008,279</b>

See Notes to Measure M2 Status Report (Unaudited)

**Measure M2**  
**Schedule of Revenues and Expenditures Summary**  
**as of June 30, 2016**  
**(Unaudited)**

Project	Description	Revenues through June 30, 2016	Total Revenues	Expenditures through June 30, 2016	Reimbursements through June 30, 2016	Net M2 Cost
(G)	(H.1)	(I.1)	(J)	(K)	(L)	
	(\$ in thousands)					
	<b>Environmental Cleanup (2% of Revenues)</b>					
X	Clean Up Highway and Street Runoff that Pollutes Beaches	\$ 29,348	\$ 301,022	\$ 18,150	\$ 292	\$ 17,858
	Net (Bond Revenue)/Debt Service	-	-	-	-	-
	<b>Total Environmental Cleanup</b>	<b>\$ 29,348</b>	<b>\$ 301,022</b>	<b>\$ 18,150</b>	<b>\$ 292</b>	<b>\$ 17,858</b>
	<b>%</b>					<b>1.2%</b>
	<b>Taxpayer Safeguards and Audits</b>					
	Collect Sales Taxes (1.5% of Sales Taxes)	\$ 21,755	\$ 222,148	\$ 15,888	\$ -	\$ 15,888
	<b>%</b>					<b>1.1%</b>
	Oversight and Annual Audits (1% of Revenues)	\$ 14,674	\$ 150,511	\$ 17,440	\$ 2,766	\$ 14,674
	<b>%</b>					<b>1.0%</b>

See Notes to Measure M2 Status Report (Unaudited)

## **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

### **Notes to Measure M2 Status Report (Unaudited)**

Year Ended June 30, 2016

#### **Measure M2 Summary**

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M (M1). This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. On November 7, 2006 (inception), Orange County voters approved the renewal of Measure M, known as Renewed Measure M (M2) for a period of 30 more years from April 1, 2011 to March 31, 2041. In August 2007, the Orange County Local Transportation Authority Board of Directors approved the M2 Early Action Plan to advance the completion of projects prior to the start of sales tax collection in April 2011. A Plan of Finance was adopted in November 2007 identifying a tax-exempt commercial paper program as the preferred method of funding Early Action Plan projects.

The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the M1 sales tax program, which commenced on April 1, 1991 for a period of 20 years, and the M2 sales tax program, which commenced on April 1, 2011 for a period of 30 years. This report includes only the activities of M2 and is not intended to present the activities of M1. Under M2, funds are required to be distributed to freeways, streets and roads projects, transit projects and environmental cleanup.

Demonstrating accountability for the receipt and expenditure of M2 funds is accomplished through the issuance of annual reports on M2 activities. The reports for M2 activities through June 30, 2016 are included as Schedules 1-3. The following is a summary of the purpose, format and content of each schedule. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### **Schedule 1—Schedule of Revenues, Expenditures and Changes in Fund Balance**

This schedule presents a summary of revenues, expenditures and changes in fund balance of the combined M2 special revenue and debt service funds. Such financial information is derived from the trial balance with additional detailed information from the underlying accounting records. The schedule is presented for the latest fiscal year and for the period from inception through the latest fiscal year.

##### Year to Date June 30, 2016 (Column A)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined M2 special revenue and debt service funds for the fiscal year ended June 30, 2016. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are derived from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object are obtained from the general ledger.

The net change in fund balance of \$104,117 agrees with the combined change in fund balances of \$104,129 in the M2 special revenue fund and \$(12) in the M2 debt service fund in the trial balance for the year ended June 30, 2016.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net revenues and net bond revenues (debt service) calculations in Schedule 2.



## ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

### Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2016

#### Period from Inception through June 30, 2016 (Column B)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined M2 special revenue and debt service funds for the period from inception through June 30, 2016. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are summarized from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object are obtained and summarized from the general ledger.

The net fund balance of \$704,174 agrees with the combined ending fund balances of \$692,180 in the M2 special revenue fund and \$11,994 in the M2 debt service fund, as presented in the trial balance for the year ended June 30, 2016.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net revenues and net bond revenues (debt service) calculations in Schedule 2. Project related revenues and other financing sources are presented as "Reimbursements" (Column K) in Schedule 3. Project related expenditures and other financing uses are included as "Expenditures" (Column J) in Schedule 3.

#### **Schedule 2—Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service)**

This schedule presents calculations of net revenues and of net bond revenues (debt service), which are allocated in Schedule 3 to transportation projects specified in the Orange County Transportation Investment Plan (Investment Plan). Actual revenues, expenditures, and other financing sources (uses) in this schedule were obtained from non-project related amounts on Schedule 1. Environmental cleanup expenditures were obtained from the project job ledger. Forecast amounts were obtained from the Orange County Transportation Authority Forecast Model. The schedule is presented for the latest fiscal year, for the period from inception through the latest fiscal year, for subsequent years going forward, and for the combined total of actual and forecast amounts for the period from inception going forward.

#### Calculation of Net Revenues

##### Year Ended June 30, 2016 (actual) (Column C.1)

This column presents net revenues, consisting of total revenues less total administrative expenditures, capital outlay, and environmental cleanup, for year ended June 30, 2016. Revenues, administrative expenditures, and capital outlay for the year ended June 30, 2016 were obtained from Column A in Schedule 1. Environmental cleanup expenditures were obtained from project amounts accumulated in the project job ledger. Revenues, administrative expenditures, and capital outlay utilized in the calculation of net revenues are non-project and non-financing related. Revenues consist of sales taxes, operating interest, and other agencies' share of M2 costs. Administrative expenditures include State Board of Equalization (SBOE) fees, professional services, administration costs, and other expenditures. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

## **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

### **Notes to Measure M2 Status Report (Unaudited)**

Year Ended June 30, 2016

#### Period from Inception through June 30, 2016 (actual) (Column D.1)

This column presents net revenues, consisting of total cumulative revenues less total cumulative administrative expenditures, capital outlay, and environmental cleanup, for the period from inception through June 30, 2016. Revenues, administrative expenditures, and capital outlay for the period from inception through June 30, 2016 were obtained from Column B in Schedule 1. Environmental cleanup expenditures were obtained from project amounts accumulated in the project job ledger. Total net revenues for the period from inception through June 30, 2016 are presented in Schedule 3 as "Net Revenues through June 30, 2016" (Column H). Revenues, administrative expenditures, and capital outlay utilized in the calculation of net revenues are non-project and non-financing related. Revenues consist of sales taxes, operating interest, other agencies' share of M2 costs, and miscellaneous revenue. Administrative expenditures include SBOE fees, professional services, administration costs, and other expenditures. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

#### Period from July 1, 2016 through March 31, 2041 (forecast) (Column E.1)

This column presents net revenues, consisting of total projected revenues less total projected administrative expenditures and environmental cleanup expenditures, for subsequent years from July 1, 2016 through March 31, 2041. Revenues and administrative expenditures for subsequent years from July 1, 2016 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model, which is updated quarterly. Revenues and administrative expenditures utilized in the calculation of net revenues for subsequent years from July 1, 2016 through March 31, 2041 are non-project and non-financing related. Revenues consist of projected sales taxes and operating interest. Administrative expenditures consist of projected SBOE fees, professional services, administration costs, and other expenditures.

#### Total (Column F.1)

This column presents total net revenues, calculated as the sum of columns D.1 and E.1. Total net revenues are presented in Schedule 3 as "Total Net Revenues" (Column I).

#### Calculation of Net Bond Revenues (Debt Service)

##### Year Ended June 30, 2016 (actual) (Column C.2)

This column presents net bond revenues (debt service), consisting of total bond revenues less total financing expenditures and uses, for year ended June 30, 2016. Bond revenues and financing expenditures and uses for the year ended June 30, 2016 were obtained from Column A in Schedule 1. Bond revenues and financing expenditures and uses utilized in the calculation of net bond revenues (debt service) are non-project and non-operating related. Bond revenues consist of interest revenue from bond proceeds and debt service funds. Financing expenditures and uses consist of professional services and bond debt and other interest expense. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

## **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

### **Notes to Measure M2 Status Report (Unaudited)**

Year Ended June 30, 2016

#### Period from Inception through June 30, 2016 (actual) (Column D.2)

This column presents net bond revenues (debt service), consisting of total cumulative bond revenues less total cumulative financing expenditures and uses, for the period from inception through June 30, 2016. Bond revenues and financing expenditures and uses for the period from inception through June 30, 2016 were obtained from Column B in Schedule 1. Bond revenues and financing expenditures and uses utilized in the calculation of net bond revenues (debt service) are non-project and non-operating related. Bond revenues consist of proceeds from issuance of bonds and interest revenue from bond proceeds, debt service funds, and commercial paper. Financing expenditures and uses consist of professional services and bond debt and other interest expense. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

#### Period from July 1, 2016 through March 31, 2041 (forecast) (Column E.2)

This column presents bond revenues (debt service), consisting of total projected bond revenues less total projected financing expenditures and uses, for subsequent years from July 1, 2016 through March 31, 2041. Bond revenues and financing expenditures and uses for subsequent years from July 1, 2016 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model. Bond revenues and financing expenditures and uses utilized in the calculation of net bond revenues (debt service) are non-project and non-operating related. Bond revenues consist of proceeds from issuance of bonds and interest revenue from bond proceeds and debt service funds. Financing expenditures and uses consist of bond debt principal and bond debt and other interest expense.

#### Total (Column F.2)

This column presents total net bond revenues (debt service), calculated as the sum of columns D.2 and E.2.

### **Schedule 3—Schedule of Revenues and Expenditures Summary**

This schedule presents a summary of actual and projected revenues and expenditures, by mode and project description, as specified in the Investment Plan. Total M2 program amounts agree with amounts on Schedules 1 and 2. Amounts by mode and project description are based on proportionate calculations or are obtained from other documents.

#### Project Description (Column G)

This column presents project descriptions by mode in accordance with the Investment Plan.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

## **Notes to Measure M2 Status Report (Unaudited)**

Year Ended June 30, 2016

### Net Revenues through June 30, 2016 (Column H)

This column presents total M2 program net revenues for the period from inception through June 30, 2016, which agrees with net revenues in Column D.1 in Schedule 2. Such net revenues are allocated to each of the three modes based on the allocation percentages specified in M2. The net revenues for each mode are allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Investment Plan.

### Total Net Revenues (Column I)

This column presents total actual and projected net revenues (total net revenues) during the life of M2, which agree with total net revenues in Column F.1 in Schedule 2. Such total net revenues are allocated to each of the three modes based on the allocations specified in M2. The net revenues for each mode are allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Investment Plan.

### Expenditures through June 30, 2016 (Column J)

This column presents total expenditures plus net (bond revenue)/debt service. Total expenditures, excluding oversight and annual audit expenditures, agree with the sum of project related expenditures, SBOE fees and transfers out from Column B in Schedule 1. Oversight and annual audit expenditures agree with the administrative costs for salaries and benefits derived from the annual cost allocation plan. Total net (bond revenue)/debt service expenditures through June 30, 2016 agrees with the interest revenue, professional services expenditures, bond debt and other interest expense from Column D.2 in Schedule 2. Project related expenditures are comprised of professional services, administration costs, other expenditures, payments to local agencies, capital outlay and transfers out. Such expenditures are distributed to the projects based on project amounts accumulated in the project job ledger.

### Reimbursements through June 30, 2016 (Column K)

This column presents total reimbursements for the period from inception through June 30, 2016, which agrees with the sum of project related revenues from Column B in Schedule 1. Project related revenues consist of other agencies' share of Measure M2 costs, right-of-way leases, transfers in and miscellaneous revenue. Such revenues are distributed to the related projects based on project amounts accumulated in the project job ledger. Reimbursements for oversight and annual audits agree with the principal balance of the amount advanced from the Orange County Unified Transportation Trust (OCUTT) to cover administrative costs for salaries and benefits exceeding more than one percent of revenues.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

## **Notes to Measure M2 Status Report (Unaudited)**

Year Ended June 30, 2016

### Net M2 Cost (Column N)

Net M2 cost is a calculation of Column J minus Column K. For each mode, a percentage is calculated as the net project cost per mode divided by the total M2 Program net project cost. Such percentage can be compared to the required percentage included in M2 as an indication of the progress to date for each mode.

### Revenues through June 30, 2016 (Column H.1)

The total environmental cleanup revenue for the period from inception through June 30, 2016, represents two percent (2%) of revenues (sales taxes and operating interest) in Column D.1 in Schedule 2. The total oversight and annual audits revenues for the period from inception through June 30, 2016, represent one percent (1%) of the revenues (sales taxes and operating interest) in Column D.1 in Schedule 2. The total collect sales taxes revenue for the period from inception through June 30, 2016, represents one and one-half percent (1.5%) of the sales tax revenues in Column D.1 in Schedule 2.

### Total Revenues (Column I.1)

The total environmental cleanup actual and projected revenues during the life of M2 represent 2% of revenues (sales taxes and operating interest) found in Column F.1 in Schedule 2. The total collect sales taxes actual and projected revenues during the 30-year life of M2 represent 1.5% of sales tax revenues found in Column F.1 in Schedule 2. The total oversight and annual audits actual and projected revenues during the 30-year life of M2 represent 1% of revenues (sales taxes and operating interest) found in Column F.1 in Schedule 2.

**ORANGE COUNTY  
TRANSPORTATION AUTHORITY**

**Independent Accountants' Report on  
Agreed-Upon Procedures Performed  
with Respect to the Treasury Department**

**Year Ended June 30, 2016**



**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES PERFORMED  
WITH RESPECT TO THE TREASURY DEPARTMENT**

Board of Directors  
Orange County Transportation Authority  
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Transportation Authority (OCTA) solely to assist you with respect to your evaluation of selected internal controls within the Treasury Department for the year ended June 30, 2016. OCTA's management is responsible for the internal controls within the Treasury Department. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of OCTA. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. Conduct inquiries of personnel involved in the Treasury Department operations, obtain the Debt and Investment Management Manual and observe the procedures performed to determine whether the procedures provide for:
  - a. Transactions that are clearly documented and readily available for examination;
  - b. Transactions that are promptly recorded and properly classified;
  - c. Transactions that are authorized and executed only by persons acting within the scope of their authority;
  - d. Segregation of key duties and responsibilities in authorizing, processing, recording and reviewing;
  - e. Supervision to ensure that internal control objectives are achieved;
  - f. Limiting access to resources and records to authorized individuals and ensuring accountability for custody of resources; and
  - g. Periodic reconciliation of investments between the custodian statements and the general ledger.

Result: We conducted inquiries of Finance and Administration Division personnel, reviewed the Debt and Investment Manual, and observed the procedures performed. No exceptions were noted.

2. Review the Investment Policy to determine that it is in compliance with California Government Code Section 53601.

Result: No exceptions were noted.

3. Observe system related controls to determine they are in place to appropriately limit access to cash and investment information.

Result: No exceptions were noted.

4. Determine that the Investment Policy was provided to external investment managers on an annual basis. In addition, determine whether each investment manager certified receipt of the Investment Policy with a statement agreeing to abide by its terms.

Result: No exceptions were noted.

5. Sample three monthly OCTA Investment and Debt Programs Reports presented to the Finance and Administration Committee to determine they are provided in accordance with the Debt and Investment Management Manual (Section 2, Part C, Treasury/Public Finance Department, and Investment Reporting).

Result: No exceptions were noted.

6. Select a sample of four authorization letters to investment managers, brokers, banks and custodians to determine that they were jointly authorized in writing by the Treasurer and another individual authorized by the Debt and Investment Management Manual. In addition, review the letters for existence of the following attributes:

- a. OCTA staff authorized to make investments;
- b. Custody instructions; and
- c. Instructions for money and security transfers.

Result: No exceptions were noted.

7. Select a sample of sixty investment purchases during the fiscal year ended June 30, 2016 to determine that:
  - a. The investments were in compliance with the Investment Policy;
  - b. The Treasury Department's policies and procedures with respect to investment purchases were followed;
  - c. The investments were properly recorded; and
  - d. Any investment earnings on matured investments were calculated and recorded correctly.

Result: No exceptions were noted.

8. Sample ten weekly holdings reports for each external investment manager during the fiscal year ended June 30, 2016 and determine that they were monitored by Treasury Department personnel and were in compliance with the Investment Policy. Specifically:
  - a. Obtain the holdings report for each external manager for each week selected;
  - b. Verify that the Treasury Department's review was documented on the holdings report;
  - c. Review the holdings report to determine whether the external investment manager complied with Investment Policy limits and diversification guidelines; and
  - d. Determine that any instances of noncompliance are identified and corrected by the Treasury Department and that probationary and reporting procedures were followed.

Result: No exceptions were noted for the ten weekly holdings reports tested for each external investment manager during the fiscal year ended June 30, 2016.



9. Select a sample of three monthly bank reconciliations during the fiscal year ended June 30, 2016 and perform the following:
  - a. Trace general ledger balances and bank balances to supporting documentation;
  - b. Determine whether the reconciliations were completed within thirty days of month end;
  - c. Determine that any discrepancies were reported and resolved;
  - d. Determine that reconciliations and resolution of discrepancies were reviewed and approved by an official who was not responsible for recording receipts and disbursements; and
  - e. Determine that bank statements were mailed directly to the Accounting Department.

Result: No exceptions were noted.

10. Select a sample of three monthly investment account reconciliations and review the supporting documentation to determine that:
  - a. Reconciliations were completed in a timely and thorough manner by someone who was not responsible for recording receipts and disbursements;
  - b. Discrepancies were identified and resolved;
  - c. Reconciliations and the resolution of discrepancies were reviewed by an official who was not responsible for recording investment transactions; and
  - d. Investment statements were mailed directly to the Accounting Department.

Result: No exceptions were noted.

11. Review and inspect the Treasury Department's cash forecasting documentation to determine the Department performed or prepared the following:
  - a. A day-to-day cash forecast for the current week;
  - b. Reviewed forecasts with the Funds Management Team;
  - c. Monitored actual cash flow activity versus forecast;
  - d. Maintained regular communication with external investment managers regarding OCTA cash forecast and operational needs.

Result: No exceptions were noted.

12. Review and inspect the policies and procedures for reviewing corporate security ratings to determine that the procedures are adequate and provide timely identification and reporting of downgrades and credit watch placements.

Result: We noted per inquiry with the Deputy Treasurer that corporate security ratings are reviewed on a weekly basis for downgrades and credit watch placements. Furthermore, the results of the review are communicated to the Finance and Administration Committee on a monthly basis through the Treasury/Public Finance Department's Report on OCTA Investment and Debt Programs. No exceptions were noted.

13. Review minutes of both the Board of Directors and the Finance and Administration Committee, inquire with Treasury Department personnel, and review other supporting documentation to determine that the following required oversight activities took place:
- a. The Finance and Administration Committee reviewed investments on a monthly basis;
  - b. The Board of Directors reviewed investments on a quarterly basis;
  - c. The Board of Directors reviewed and approved the Investment Policy and amendments made during the fiscal year ended June 30, 2016;
  - d. The Internal Audit Department performs semi-annual reviews to determine if OCTA was in compliance with its debt, investment, and accounting policies and procedures and
  - e. The funds management team met on a weekly basis.

Result: We reviewed the Finance and Administration Committee meeting minutes, Board of Directors meeting minutes, semi-annual reviews performed by the Internal Audit Department, and informational packet for the funds management team meeting noting that the above noted oversight activities took place.

14. Inquire whether there have been any changes in Treasury policies and procedures, organization or function, as a result of any prior year audit findings as a result of the Treasury Department Agreed Upon Procedures.

Result: Based upon our inquiry no changes in Treasury policies and procedures, organization or function, were noted as a result of prior year findings as a result of the Treasury Department Agreed Upon Procedures. It was noted that as a result of the Internal Audit Department's semi-annual review over OCTA's investment compliance, controls, and reporting for July 1, 2015 through December 31, 2015, the Debt and Investment Management Manual was revised to incorporate Internal Audit's recommendation. The revised Debt and Investment Management Manual had an effective date of June 1, 2016.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on OCTA's Treasury Department or investments, related internal control, compliance with government code, or elements, accounts or items specified above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the Board of Directors and management of OCTA and is not intended to be, and should not be, used by anyone other than those specified parties.



Laguna Hills, California  
October 31, 2016

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

Independent Accountants' Report on  
Applying Agreed-Upon Procedures Related To  
The Article XIII-B Appropriations Limit Calculation

For the Fiscal Year Ended June 30, 2016



**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES RELATED TO  
THE ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION**

Board of Directors  
Orange County Transportation Authority  
Orange, California

We have performed the procedures enumerated below to the Appropriations Limit calculation of the Orange County Transportation Authority (OCTA) for the fiscal year ended June 30, 2016. These procedures, which were agreed to by OCTA, were performed solely to assist OCTA in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. OCTA's management is responsible for the Appropriations Limit calculation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCTA's appropriations limit and compared the 2015-16 limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of OCTA's Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of OCTA's Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

2. We added last year's limit to the annual adjustment amount, and compared the resulting amount to the 2015-16 appropriations limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information to the worksheets described in No. 1 above and to information provided by the California State Department of Finance.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by OCTA's Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on the Appropriations Limit calculation. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of OCTA's Board of Directors and management of OCTA and is not intended to be and should not be used by anyone other than those specified parties.



Laguna Hills, California  
October 31, 2016

**ORANGE COUNTY LOCAL TRANSPORTATION  
AUTHORITY**

Independent Accountants' Report on  
Applying Agreed-Upon Procedures Related To  
The Article XIII-B Appropriations Limit Calculation

For the Fiscal Year Ended June 30, 2016



**INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES RELATED TO  
THE ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have performed the procedures enumerated below to the Appropriations Limit calculation of the Orange County Local Transportation Authority (OCLTA) for the fiscal year ended June 30, 2016. These procedures, which were agreed to by OCLTA, were performed solely to assist OCLTA in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. OCLTA's management is responsible for the Appropriations Limit calculation. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCLTA's appropriations limit and compared the 2015-16 limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of OCLTA's Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of OCLTA's Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

2. We added last year's limit to the annual adjustment amount, and compared the resulting amount to the 2015-16 appropriations limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information to the worksheets described in No. 1 above and to information provided by the California State Department of Finance.

Finding: No exceptions were noted as a result of our procedures.

4. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by OCLTA's Board of Directors.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on the Appropriations Limit calculation. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of OCLTA's Board of Directors and management of OCLTA and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, reading "Vavrinch, Train, Day & Co, LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California

October 31, 2016



**ORANGE COUNTY TRANSPORTATION AUTHORITY**

Agreed-Upon Procedures Performed  
With Respect to the National Transit Database Report

For the Period  
July 1, 2015 through June 30, 2016



## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors  
Orange County Transportation Authority  
Orange, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics Form FFA-10 (FFA-10) for the Orange County Transportation Authority (OCTA) annual National Transit Database (NTD) report:

1. A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
2. A system is in place to record data on a continuing basis and the data gathering is an ongoing effort.
3. Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
4. A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
5. The data collection methods are those suggested by FTA or meet FTA requirements.
6. The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles data, appear to be accurate.
7. Data are consistent with prior reporting periods and other facts known about OCTA's operations.

We have applied the procedures described in Attachment 1 of this report, which were agreed to by OCTA and the FTA and specified in the declarations section of the *2016 Policy Manual*, solely to assist you in evaluating whether OCTA complied with the standards described above and that the information included in the NTD report FFA-10 form for the year ended June 30, 2016, is presented in conformity with the requirements of the *Uniform System of Accounts and Records and Reporting System; Final Rule*, as specified in 49 CFR part 630, *Federal Register*, January 15, 1993 and as presented in the *2016 Policy Manual*. OCTA's management is responsible for OCTA's compliance with those standards and the accuracy of the FFA-10 form.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings described in Attachment 1 of this report, which are referenced in order to correspond to the *2016 Policy Manual* procedures, were applied separately to each of the information systems used to develop the reported vehicle revenue miles (VRM), passenger miles (PM), fixed guideway directional route miles (FG DRM), High Intensity Bus Lanes directional route miles (HIB DRM), and operating expenses of OCTA for the year ended June 30, 2016, and for each of the following modes: (1) Motor Bus - directly operated (MBDO), (2) Commuter Bus – directly operated (CBDO), (3) Motor Bus - purchased transportation (MBPT), (4) Commuter Bus – purchased transportation (CBPT), (5) Demand Response - purchased transportation (DRPT), (6) Demand Response – Taxi – purchased transportation (DTPT) and (7) Vanpool Service - purchased transportation (VPPT).

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on compliance with the procedures noted in Exhibit 65 of the NTD *2016 Policy Manual* or on the FFA-10. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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



Laguna Hills, California

October 31, 2016

Excerpt from the FTA 2016 Policy Manual Exhibit 65 - Federal Funding Allocation Data Review Suggested Procedures:

FTA has specified and agreed to a set of procedures for the independent auditor to perform to satisfy the requirements of the Federal Funding Allocation data review. Several of the procedures below require the auditor to select a random sample of documents or data. The procedures do not specify the selected number (i.e., the percentage of the total documents/data). The auditor should use professional judgment to determine the percentage that will enable the auditor to make the required assurances.

The source documents and other records (such as data summaries) may be in the form of digital data files. The auditor should ensure that these files are securely stored and that a contingency plan is in place to ensure that the transit agency retains source documents for a minimum of three years.

- a. The procedures to be applied to each applicable mode and type of service (TOS) (directly-operated (DO) and purchased transportation (PT)) are: Obtain and read a copy of written system procedures for reporting and maintaining data in accordance with NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993, and as presented in the 2016 Policy Manual. If there are no procedures available, discuss the procedures with the personnel assigned responsibility for supervising the NTD data preparation and maintenance.

*Results - We obtained and read a copy of OCTA's Passenger Counting and Reporting (PCR) procedures. Based on our inquiry, we noted that OCTA maintains procedures that satisfy the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the 2016 Policy Manual.*

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility for supervising the preparation and maintenance of NTD data to determine:

- The extent to which the transit agency followed the procedures on a continuous basis, and
- Whether these transit personnel believe such procedures result in accumulation and reporting of data consistent with NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993, and as presented in the 2016 Policy Manual.

*Results - We inquired regarding OCTA's procedures for the MBDO, MBPT, VPPT, DRPT, DTPT, CBDO and CBPT services noting that the asserted procedures were consistently applied. In addition, based on our inquiry with the Business Unit Analyst – Transit Division and the Section Manager – Vanpool Program, management asserted that the procedures resulted in the accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the 2016 Policy Manual.*

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form.

*Results - We inquired with the Business Unit Analyst – Transit Division and the Section Manager – Vanpool Program, regarding OCTA's retention policy for source documents supporting NTD data reported on the Federal Funding Allocation Statistics form. Per inquiry, the current practice is to retain electronic data for seven years.*

- d. Based on a description of the transit agency's procedures from items (A) and (B) above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

*Results - We inspected the following source documents for each type of service, selected three months out of the year and determined that the documents existed for each of these periods:*

<i>Type of Service</i>	<i>Source Document</i>	<i>Months Tested</i>
<i>MBDO</i>	<ul style="list-style-type: none"> <li>• <i>MBDO Statistics Reports (queried from Data Warehouse)</i></li> <li>• <i>Random Sampling Database</i></li> <li>• <i>Trip Sheets</i></li> <li>• <i>NTD Data Worksheets</i></li> <li>• <i>HASTUS Summaries by Route</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>
<i>CBDO</i>	<ul style="list-style-type: none"> <li>• <i>CBDO Statistics Reports (queried from Data Warehouse)</i></li> <li>• <i>Random Sampling Database</i></li> <li>• <i>Trip Sheets</i></li> <li>• <i>NTD Data Worksheets</i></li> <li>• <i>HASTUS Summaries by Route</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>
<i>MBPT</i>	<ul style="list-style-type: none"> <li>• <i>MBPT Statistics Reports (queried from Data Warehouse)</i></li> <li>• <i>Random Sampling Database</i></li> <li>• <i>Trip Sheets</i></li> <li>• <i>NTD Data Worksheets</i></li> <li>• <i>HASTUS Summaries by Route</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>
<i>CBPT</i>	<ul style="list-style-type: none"> <li>• <i>CBPT Statistics Reports (queried from Data Warehouse)</i></li> <li>• <i>Random Sampling Database</i></li> <li>• <i>Trip Sheets</i></li> <li>• <i>NTD Data Worksheets</i></li> <li>• <i>HASTUS Summaries by Route</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>
<i>DRPT</i>	<ul style="list-style-type: none"> <li>• <i>Contractor Provided NTD Program Data reports</i></li> <li>• <i>Driver Manifests</i></li> <li>• <i>Passenger and Mileage Summaries from Trapeze database</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>
<i>DTPT</i>	<ul style="list-style-type: none"> <li>• <i>Contractor Provided NTD Program Data reports</i></li> <li>• <i>Passenger and Mileage Summaries from Trapeze database</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>
<i>VPPT</i>	<ul style="list-style-type: none"> <li>• <i>Detail and Summary Reports from Data Warehouse</i></li> <li>• <i>Rider Log-in Website</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>August 2015, December 2015 and March 2016.</i></li> <li>• <i>Three years of data were noted to be archived on OCTA's network.</i></li> </ul>

- e. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

*Results - We inquired regarding the system of internal controls noting that each respective mode/type of service is being reviewed by personnel independent of the preparation process. The review is performed monthly for all modes with a second review performed quarterly for the MBDO, MBPT, CBDO, CBPT, DRPT and DTPT modes and monthly for the VPPT mode.*

- f. Select a random sample of the source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' reviews.

*Results - We selected a random sample of 40 Random Check Trip Sheets for the MBDO and MBPT services, 10 Random Check Trip Sheets for the CBDO and CBPT services, and 40 random sample Drivers Manifests for the DRPT service and noted supervisory signatures documenting reviews of the data presented without exception. For DTPT and VPPT, we noted supervisory signatures on the source documents which were in electronic format without exception.*

- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

*Results - We obtained the worksheets utilized by OCTA to transcribe statistics to the Federal Funding Allocation Statistics form and compared the data to summaries without exception. We tested the arithmetical accuracy of the summaries without exception.*

- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2016 Policy Manual.

*Results – Sampling was conducted for the MBDO, MBPT, CBDO and CBPT modes. We reviewed the sampling methodologies and noted that the sampling methodology used met the requirements of the 2016 Policy Manual.*

*The remaining 3 modes of services do not involve sampling. These modes use a 100% count of actual PM and compilations of actual Revenue Miles which is in accordance with the 2016 Policy Manual.*

- i. Discuss with transit agency staff (the auditor may wish to list the titles of the persons interviewed) the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:

- According to the 2010 Census, the public transit agency serves an UZA with a population less than 500,000.
- The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
- Service purchased from a seller is included in the transit agency's NTD report.
- For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2014) and determine that statistical sampling was conducted and meets the 95 percent confidence and  $\pm 10$  percent precision requirements.
- Determine how the transit agency estimated annual PMT for the current report year.

*Results – OCTA did not meet the criteria above. Therefore the procedure identified above is not applicable.*

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

*Results – For the MBDO, MBPT, CBDO and CBPT modes we obtained a copy of OCTA's methodology used in the statistical sampling to estimate Average Passenger Miles (PM) and determined that the methodology used by OCTA resulted in a random selection of runs and that the stated sampling procedure was followed in accordance with the National Transit Database Sampling Manual.*

- k. Select a random sample of the source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulation periods that were tested. Test the arithmetical accuracy of the summary.

*Results - For MBDO we randomly selected 40 surveyed routes from August 2015, December 2015 and March 2016. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the Average PM calculation. No exceptions were noted.*

*For MBPT we randomly selected 40 surveyed routes from August 2015, December 2015 and March 2016. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the Average PM calculation. No exceptions were noted.*

*For CBDO we randomly selected 10 surveyed routes from August 2015, December 2015 and March 2016. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the Average PM calculation. No exceptions were noted.*

*For CBPT we randomly selected 10 surveyed routes from August 2015, December 2015 and March 2016. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the Average PM calculation. No exceptions were noted.*

*For DRPT and DTPT modes, we tested contractors providing more than 90% of the services. For these contractors we selected 40 routes performed during August 2015, December 2015 and March 2016 and compared the PM reported against the signed driver manifests without exception.*

*For VPPT, we compared ridership being entered on the Vanpool internet database for August 2015, December 2015 and March 2016 against amounts uploaded to the Data Warehouse without exception. We also tested the revenue miles reported for 40 Vanpool trips and verified the accuracy of calculations used to determine PM without exception.*

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and determine that they follow the stated procedures. Select a random sample of the source documents used to record charter and school bus mileage and test the arithmetical accuracy of the computations.

*Results - The procedure identified above is not applicable. Per inquiry with OCTA's management, OCTA did not provide charter or school bus services.*

- m. For actual vehicle revenue mile (VRM) data, document the collection and recording methodology and determine that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
  - If actual VRMs are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of the days that service is operated, and re-compute the daily total of missed trips and missed VRMs. Test the arithmetical accuracy of the summary.

*Results – For the MBDO, CBDO, MBPT and CBPT modes, OCTA calculated missed hours of service rather than missed trips. This resulted in a Total Actual Revenue Vehicle Hours (RVH) by mode as a percentage of Monthly Total Scheduled VRM calculation, which is computed by dividing the number of service hours actually operated by the number of service hours scheduled. This percentage is applied to scheduled VRMs to determine the number of VRMs actually operated and the number of missed VRMs. We selected a sample of four routes, recalculated the VRMs and compared them to amounts used in the total VRM without exception. We recalculated the percentage of actual revenue hours over the scheduled revenue hours used to determine the missed VRM, without exception.*

- If actual VRMs are calculated from hubodometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of the hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summary of intermediate accumulations.

*Results - This procedure is not applicable.*

- If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

*Results - For the DRPT mode, Revenue Miles are calculated based on the odometer readings from the first pickup to the last drop off. Deadhead miles are excluded from the Revenue Miles calculations. We randomly selected 30 trips to test and noted without exception that the deadhead miles are not included in the Revenue Miles calculations.*



*For the DTPT mode, the Revenue Miles are calculated by the contractors based on pick up and drop off data entered into the scheduling software. The Revenue Miles data is uploaded to the OCTA database and compared to the scheduling data for quality assurance. There are no deadhead miles since these are non-dedicated taxi trips and accordingly Revenue Miles for each trip are recorded.*

*For the VPPT mode deadhead miles are automatically excluded because only commute miles are entered into the calculation of Revenue Miles and the results are reviewed by the Section Manager – Vanpool Program.*

- n. For rail modes, review the recording and accumulation sheets for actual VRMs and determine that locomotive miles are not included in the computation.

*Results - The procedure identified above is not applicable as OCTA does not provide rail service.*

- o. If fixed guideway or High Intensity Busway directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting NTD data whether the operations meet FTA definition of fixed guideway (FG) or High Intensity Busway (HIB) in that the service is:
  - Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR); or
  - Bus (MB, CB, or RB) service operating over exclusive or controlled access rights-of-way (ROW); and
    - i. Access is restricted;
    - ii. Legitimate need for restricted access is demonstrated by peak period level of service or worse on a parallel adjacent highway;
    - iii. Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation; and
    - iv. High Occupancy/Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues. The transit agency has provided the NTD a copy of the State's certification to the U.S. Secretary of Transportation stating that it has established a program for monitoring, assessing, and reporting on the operation of the HOV facility with HO/T lanes.

*Results – We interviewed the Business Unit Analyst – Transit Division and determined that OCTA's Motor Bus services operate over HIB lanes that appear consistent with the FTA's definition of High Intensity Bus lanes.*

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that the he or she computed mileage in accordance with FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

*Results – We determined that the mileage was computed in accordance with the FTA definitions of FG/HIB DRM. Per inquiry we determined that there was an increase in DRMs for the CBPT mode. We recomputed the average monthly DRM for all reported segments and reconciled the total to the HIB DRM without exception.*

- q. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:

- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12. The transit agency should document the interruption.
- If the improvements cause a service interruption on the FG/HIB DRMs lasting more than 12 months, the transit agency should contact its NTD validation analyst to discuss. FTA will make a determination on how to report the DRMs.

*Results – Per inquiry with the Business Unit Analyst – Transit Division there were no temporary interruptions in transit service during the report year.*

- r. Measure FG/HIB DRM from maps or by retracing route.

*Results - We recalculated the length of all High Intensity Bus directional routes for both MBDO, MBPT, CBDO and CBPT modes of service using publicly available maps without exception.*

- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

*Results - We interviewed the Business Unit Analyst – Transit Division and noted that OCTA does share some High Intensity Lanes. However, the shared High Intensity Lanes were noted as claimed by the proper agency per the NTD annual reporting manual, and not by OCTA.*

- t. Review the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2016 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2016 report year, the Agency Revenue Service Date must occur within the transit agency's 2016 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Busway segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, FTA will only consider segments continuously reported to the NTD.

*Results - We obtained the HIB segments form noting the High Intensity segments and dates. It was noted that OCTA added new segments to the CBPT mode during the year. Per inquiry with the Business Unit Analyst – Transit Division, the segments added to the form during the year were based on the inception of revenue service. No exceptions noted.*

- u. Compare operating expenses with audited financial data after reconciling items are removed.

*Results - Operating expenses were compared to the trial balances subject to audit without exception.*

- v. If the transit agency purchases transportation services, interview the personnel reporting the NTD data on the amount of PT-generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form.

*Results - We identified the PT fare revenues reported on the Contractual Relationship form and reconciled the amounts to the general ledger without exception.*

- w. If the transit agency's report contains data for PT services and assurances of the data for those services are not included, obtain a copy of the IAS-FFA regarding data for the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

*Results – The data for purchased transportation and all assurances of the data for those services are included in the reporting by OCTA and therefore no IAS for the purchased transportation services is required.*

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

*Results - We inspected the MBPT, CBPT, DRPT, DTPT and VPPT service contracts and determined that they contained the items noted above without exception. We inquired with the Business Unit Analyst – Transit Division and the Section Manager – Vanpool Program, regarding OCTA's retention policy for executed contracts for purchased transportation programs. Per inquiry, the current practice is to retain contracts for seven years.*

- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non- UZAs. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

*Results - OCTA provides services in more than one UZA but does not provide services to non urbanized areas. Allocations to urbanized areas are based on trip pattern analysis. The number of yearly trips per pattern is multiplied by the number of miles determined for each UZA. Eight allocations were tested for the MBDO, MBPT, CBDO and CBPT services without exception.*

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10 percent, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

*Results – The following fluctuations were noted on the FFA-10 Form:*

- A 16.7% decrease in Passenger Miles for MBDO
- A 19.0% increase in Revenue Miles for MBPT
- A 16.0% increase in Passenger Miles for MBPT
- A 24.4% increase in Operating Expenses for MBPT
- A 26.4% decrease in Operating Expenses for CBDO
- A 20.0% decrease in Operating Expenses for CBPT
- A 10.0% increase in Operating Expenses for DRPT
- A 13.1% increase in Revenue Miles for DTPT
- A 12.8% increase in Passenger Miles for DTPT

- A 27.2% increase in Operating Expenses for DTPT
- A 12.5% increase in Operating Expenses for VPPT

*A 16.7% decrease in the Passenger Miles for MBDO was noted. Per inquiry with the Section Manager – Transit Program Controls, this is the result of the governing board's decision to transition bus services to a contractor.*

*A 19.0% increase in Revenue Miles, a 16.0% increase in Passenger Miles and a 24.4% increase in Operating Expenses for MBPT were noted. These are also the result of the governing board's decision to move bus services from being directly operated by OCTA to a contractor.*

*A 26.4% decrease in Operating Expenses for CBDO was noted. Per inquiry with the Section Manager – Transit Program Controls, this is the result of the governing board's decision to transition commuter bus services to a contractor.*

*A 20.0% decrease in Operating Expenses for CBPT was noted. Per inquiry with the Section Manager – Transit Program Controls, this is the result from both a change in service provider reducing variable costs and the exclusion of OCTA's subsidy for the operation of the Riverside Transit Agency from the CBPT operating expenses.*

*A 10.0% increase in Operating Expenses for DRPT was noted. Per inquiry with the Section Manager – Transit Program Controls, this is the result of a change in the cost allocation method and an increase in liability insurance costs.*

*A 13.1% increase in Revenue Miles, a 12.8% increase in Passenger Miles and a 27.2% increase in Operating Expenses for DTPT were noted. Per inquiry with the Section Manager – Transit Program Controls, this is the result of an increase in ridership due to the popularity of the service.*

*A 12.5% increase in Operating Expenses for VPPT was noted. Per inquiry with the Section Manager – Vanpool Program, this is the result of an increase in participation in the Vanpool program.*

- aa. The auditor should document the specific procedures followed, documents reviewed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The auditor may perform additional procedures, which are agreed to by the auditor and the transit agency, if desired. The auditor should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the auditor but not by FTA.

*Results – We have documented the procedures followed based on the FTA 2016 Policy Manual Exhibit 65 - Federal Funding Allocation Data Review - Suggested Procedures, and noted the documents reviewed and tests performed in our workpapers. Additional procedures were not performed.*



**January 11, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer  
Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2015-16 Management Letter

### **Overview**

In connection with the annual audit of the Orange County Transportation Authority's financial statements, schedules, and agreements for fiscal year 2015-16, Vavrinek, Trine, Day & Company, LLP, has issued a management letter with four recommendations for improvement to internal controls.

### **Recommendations**

- A. Receive and file the Orange County Transportation Authority Management Letter June 30, 2016.
- B. Direct staff to implement auditor recommendations related to the information technology environment.

### **Background**

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting OCTA's results of operations and financial position at fiscal year-end. OCTA is required to obtain an independent auditor's opinion on the Comprehensive Annual Financial Report (CAFR), as well as various fund financial statements, schedules, and agreements. The audit was performed by Vavrinek, Trine, Day and Company, LLP (VTD), an independent accounting firm. In connection with the audit, VTD has issued a management letter, as required by the American Institute of Certified Public Accountants (AICPA), *Statement on Auditing Standards Number 115*.

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**Discussion**

VTD has completed annual audits of OCTA's CAFR and various fund financial statements, schedules, and agreements and has issued an independent auditor's opinion thereon for the fiscal year (FY) ended June 30, 2016. In connection with the audit, VTD has issued a management letter identifying four control deficiencies as defined by the AICPA, *Statement on Auditing Standards Number 115*.

The auditors recommended that management establish a more sustainable patch management framework for the Information Technology environment. Specifically, a formal implementation plan, including an assessment of required resources and a timeline was recommended. Management agreed and indicated that staff is in discussions with Microsoft to possibly engage their services to streamline the software update management cycle and create a documented process to keep systems up to date with security patches. Additionally, management has increased resources to its cyber security team by adding a full-time position.

With regard to third party external penetration tests and internal vulnerability reports, the auditors recommended more frequent and extensive testing and timely corrective action. Also, the auditors recommended social engineering tests to strengthen the current employee education program. Management responded that the recommendations will be evaluated and procedures updated as appropriate.

While OCTA maintains documentation of business resumption and disaster recovery procedures, the auditors noted that "disaster recovery laptops" have not been established. The auditors recommended management consider establishing designated laptops as disaster recovery machines to aid in business resumption. In response, management expressed concern with using laptops for this purpose because of the potential that the machines could be stored away and not function properly when needed. Management indicated that processes would be put in place to set up and regularly test equipment for disaster recovery after an evaluation and identification of the best media to be used for this purpose.

Finally, the auditors recommended that management provide an email encryption portal or path for stakeholders and external partners to send emails to OCTA. Management indicated that this recommendation would be reviewed with relevant consultants for further guidance.

The management letter for FY 2015-16 is included herewith as Attachment A.

***Summary***

In connection with the annual audit of OCTA's financial statements for FY 2015-16, VTD has issued a management letter, which identified four recommendations for improvement to internal controls. Management has responded that these items will be addressed.

***Attachment***

- A. Orange County Transportation Authority Management Letter for the Year Ended June 30, 2016

**Prepared by:**

A handwritten signature in dark ink, appearing to read "Janet Sutter", with a long horizontal flourish extending to the right.

Janet Sutter  
Executive Director, Internal Audit  
714-560-5591

**ORANGE COUNTY TRANSPORTATION AUTHORITY**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED JUNE 30, 2016**





Board of Directors  
Orange County Transportation Authority  
Orange, California

In planning and performing our audit of the basic financial statements of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered OCTA's internal control over financial reporting (internal control) as a basis for designing auditing 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 OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

We have previously reported on OCTA's internal control in our report dated October 31, 2016, in accordance with *Government Auditing Standards*. This letter does not affect our report dated October 31, 2016, on the financial statements of OCTA.

During our audit we noted certain matters involving internal control or operations that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the accompanying pages.

## **CURRENT YEAR MANAGEMENT LETTER OBSERVATIONS**

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### **1. SERVER AND DESKTOP PATCHES TO PREVENT THE EXPLOITATION OF INFORMATION SYSTEMS (IS) VULNERABILITIES**

#### **OBSERVATION:**

OCTA is in the process of applying patches to its IS environment but needs to establish a more sustainable patch management framework.

#### **RECOMMENDATION:**

Generally, patch management is a critical risk area of the IS environment. Per inquiry, management has considered different approaches but this is an area that continues to require attention. A formal implementation plan, assessment of required resources and timeline should be established so that patches are prioritized and brought current. In addition, OCTA should consider expanding its utilization of tools it has available to sort and prioritize patches that require remediation in a timely manner.

#### **MANAGEMENT'S RESPONSE:**

Information Systems agrees to continually improve the processes and procedures for patch management. After the recent cyber incident, staff has substantially increased the frequency of patching our systems. The goal is to have all of our Microsoft Windows based servers and desktops patched monthly.

In addition to conversations with Microsoft to possibly engage their Software Update Management service, staff has permanently increased resources to its cyber security team by adding an additional full time position to it. The purpose of these engagements will be to streamline our software update management cycle and create a documented, disciplined process that will help us keep our systems up to date, especially with the latest security patches. If Microsoft is not engaged, staff will seek other vendors to perform this service. The added staff resource will implement and maintain the processes and procedures recommended by the engaged vendor to keep software patches up to date.

## **2. EXTERNAL AND INTERNAL TESTING FREQUENCY AND REPORTING:**

#### **OBSERVATION:**

Based on our inspection of third party external penetration testing and internal vulnerability reports, it was noted that only a sample of external and internal assets were tested. Further, these third party assessments were performed on an annual basis.

#### **RECOMMENDATION:**

Given the size and complexity of OCTA's IS environment, OCTA should evaluate more frequent external penetration and internal vulnerability assessments. With respect to internal vulnerability assessments, OCTA performs monthly scans from Qualys but the scans should be configured to generate more frequent internal vulnerability reports. Qualys maintains the capability of providing assessments daily. Vulnerabilities and risks should be prioritized with timely corrective action and leveraged for third party exams.

Annual vendor testing should consider including all assets on the external facing and internal facing networks. The purpose of this third party testing is to validate OCTA's procedures, security posture and reduce the risk with IS assets. Further, following a breach or incident, a more aggressive testing schedule should be performed.

In addition, while OCTA has rolled out an employee education program on IS risks, OCTA should consider performing social engineering testing as an additional tool for strengthening OCTA's IS security.

#### **MANAGEMENT'S RESPONSE**

Information Systems agrees with the recommendation and will evaluate the request to increase the frequency of both the external penetration testing and the internal vulnerability assessments in order to improve our overall security posture. We will also consider adding social engineering techniques into the external penetration testing.

Information Systems will work with Dell SecureWorks, our Managed Security provider to optimize usage of the Qualys network security and vulnerability management toolset. We will also engage with Dell Secure Works to determine the changes in scope for our penetration testing to include all assets both on our external facing and internal facing networks.

Information Systems is already in the process of procuring consulting services for an Industrial Control System (ICS) Cyber Assessment. By doing so we will be able to better gauge the risk associated with our ICS components and put in the proper monitoring procedures to better protect those assets.

In response to more aggressive testing after the security incident, Information Systems did engage with Microsoft's advanced security team to determine the impact of the event. IS decided not to perform additional penetration testing due to the incident but will review and update our procedures if we deem that the additional testing will add value.

### **3. BUSINESS RESUMPTION AND DISASTER RECOVERY STRATEGY:**

#### **OBSERVATION:**

It was noted that OCTA maintains documentation for business resumption and disaster recovery procedures. However, we noted that OCTA has not established "disaster recovery laptops".

#### **RECOMMENDATION:**

As OCTA evaluates its continuity of operations and disaster recovery plans, we recommend that OCTA consider establishing disaster recovery (DR) laptops or designating current laptop computers as DR personal computers (PC) to aid in business resumption. The DR laptops, tablets or DR virtual PCs should have all required scripts, usernames, passwords, software dependencies, vendor contacts, recovery and backup paths, master images, group policy objects, active directory configuration settings, connectivity paths and any other supporting information that may be required to restore the IS environment. The data on these laptops should utilize password vaults, software and script libraries, and be encrypted. Documentation of each designated PC, tablet or laptop should be recorded within the current recovery procedures so that if a disaster is declared, the disaster recovery team is aware of the assets. These assets should also be incorporated in the annual DR testing plan.

#### **MANAGEMENT'S RESPONSE:**

Information Systems agrees that having key information listed above readily available during the event of a disaster would be beneficial to the success of the recovery. Our concern with using laptops is that they may get stored away and not function properly when needed. Information Systems will go forward with the recommendation but evaluate what would be the best media available to store the information. No matter the media determined to be used, processes will need to be put in place to regularly test the equipment to ensure that it is fully functional during the event of a disaster.

### **4. ENCRYPTED EMAIL COMMUNICATIONS:**

#### **OBSERVATION:**

OCTA has asserted that outbound email is encrypted. However, OCTA does not provide an email encryption portal or path for stakeholders.

#### **RECOMMENDATION:**

OCTA should consider providing stakeholders and external contacts an encrypted path for sending emails to OCTA.

## MANAGEMENT'S RESPONSE

Information Systems will engage with both Microsoft (our primary email provider) and Gartner (our IS Advisory Service) in guiding us how to properly meet the recommendation of allowing our external partners a way to securely send email to OCTA. Microsoft has stated that the majority of third party email service providers encrypt their messages in transit via Transport Layer Security (TLS). Staff will confirm this as part of our research.

\*\*\*\*\*

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Orange County Transportation Authority gained during our work to make observations and suggestions that we hope will be useful to you.

We would be pleased to discuss these observations and recommendations with you at any time. This report is intended solely for the information and use of OCTA, management, and others within OCTA and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California  
October 31, 2016



**January 11, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer  
Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2015-16 Auditor's Communication to Those Charged with Governance

### **Overview**

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on its Comprehensive Annual Financial Report, various fund financial statements, schedules, and agreements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, conducted the annual audit of the Orange County Transportation Authority's financial statements, schedules, and agreements for fiscal year 2015-16, and has issued reports thereon. Vavrinek, Trine, Day & Company, LLP, as required by United States Generally Accepted Auditing Standards and Office of Management and Budget Circular A-133, has herewith issued its Auditor's Communication to Those Charged with Governance.

### **Recommendation**

Receive and file as an information item.

### **Background**

Pursuant to United States Generally Accepted Auditing Standards and Office of Management and Budget Circular A-133, Vavrinek, Trine, Day & Company, LLP (VTD) is required to communicate significant matters related to its audits of the Comprehensive Annual Financial Report (CAFR), fund financial statements, schedules, and agreements of the Orange County Transportation Authority (OCTA) that are relevant to the responsibilities of those charged with overseeing the financial reporting process.

***Discussion***

VTD completed its annual audit of OCTA's CAFR, fund financial statements, schedules, and agreements and has issued independent auditor opinions for the fiscal year (FY) ended June 30, 2016. As part of its responsibilities, VTD has also issued documented communication to those charged with governance. The purpose of this communication is to outline the scope and responsibilities of the auditor in relation to the audit, significant findings resulting from the audit, and any difficulties or disagreements with management encountered during the audit.

VTD has indicated they encountered no significant difficulties or disagreements when dealing with management during the course of the audit. VTD's communication to those charged with governance for FY 2015-16 is included herewith as Attachment A.

***Summary***

In connection with its annual audit of OCTA's CAFR, fund financial statements, schedules, and agreements for FY 2015-16, VTD has issued a letter which provides required communication as to the scope, responsibilities, and observations of the auditor arising during the audit.

***Attachment***

- A. Letter to the Board of Directors, Orange County Transportation Authority, from Vavrinek, Trine, Day & Company, LLP, signed October 31, 2016

**Prepared by:**



Janet Sutter  
Executive Director, Internal Audit  
714-560-5591



Board of Directors  
Orange County Transportation Authority  
Orange, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA) for the year ended June 30, 2016, and have issued our reports thereon dated as indicated below:

<u>Report</u>	<u>Audit Report Date</u>
Comprehensive Annual Financial Report (CAFR)	October 31, 2016
91 Express Lanes Fund	October 31, 2016
Local Transportation Fund (LTF)	October 31, 2016
State Transit Assistance Fund (STAF)	October 31, 2016
Orange County Local Transportation Authority (OCLTA)	October 31, 2016

We are currently performing the compliance audit of OCTA's federal award programs (the Single Audit) and plan to issue our reports thereon prior to December 31, 2016.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 31, 2016. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by OCTA are described in Note 1 to the financial statements. As described in Note 18 to the financial statements, OCTA adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015. We noted no transactions entered into by OCTA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting OCTA's financial statements were:

Management's estimates used in: establishing allowances and recognizing toll road violations, risk management claims, fair value of investments, depreciation expense and the value of capital assets, amortization of intangible assets, other postemployment benefit liabilities and the net pension liability and related deferred inflows/outflows of resources and pension expense. We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of OCTA's defined benefit pension plans, net pension liabilities and related deferred inflows of resources and deferred outflows of resources in Note 11 to the financial statements. The valuation of the net pension liability and related deferred outflows (inflows) of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate, and the proportionate share of the Plan's collective net pension liability. As disclosed in Note 11, a 1% increase or decrease in the discount rate has a significant effect on OCTA's net pension liabilities.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letters, dated as follows:

Comprehensive Annual Financial Report (CAFR)	October 31, 2016
91 Express Lanes Fund	October 31, 2016
Local Transportation Fund (LTF)	October 31, 2016
State Transit Assistance Fund (STAF)	October 31, 2016
Orange County Local Transportation Authority (OCLTA)	October 31, 2016

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to OCTA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as OCTA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



### Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison information, supplemental pension plan trend data and other post employment benefit schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### *Other Information in Documents Containing Audited Financial Statements*

OCTA plans to include the audited financial statements in the annual report for the 91 Express Lanes Fund. Our responsibility for other information in such documents does not extend beyond the financial information identified in our report. We do not have any obligation to perform any procedures to corroborate other information contained in these documents. Our procedures are limited to reading the information and comparing such information to the audited financial statements.

### Restriction on Use

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



Laguna Hills, California  
October 31, 2016



**January 11, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer  
Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Laguna Beach Municipal Transit Lines, Annual Transportation Development Act Program Audit for Fiscal Year 2015-16

### **Overview**

Pursuant to Part 21, Section 6667 of the California Code of Regulations, an audit of Transportation Development Act Article 4 Funds disbursed to the City of Laguna Beach has been conducted for the fiscal year ended June 30, 2016, by Vavrinek, Trine, Day & Company, LLP.

### **Recommendation**

Receive and file the Laguna Beach Municipal Transit Lines, Transportation Development Act Program audit for fiscal year 2015-16, as an information item.

### **Background**

The Transportation Development Act (TDA) provides, as a source of funding for public transportation, the Local Transportation Fund (LTF). LTF revenues are derived from a quarter-cent of retail sales taxes. The quarter-cent is returned by the State Board of Equalization to each county according to the amount of tax collected in that county.

The Orange County Transportation Authority (OCTA) is responsible for administering the TDA's various components under the LTF, which include Article 4 Funds for Transit Operating and Capital Programs.

### **Discussion**

The California Code of Regulations, Part 21, Section 6664 requires cities (claimants) that expend TDA funds to obtain an independent fiscal and

compliance audit and submit the results of that audit to the State Controller's Office within 180 days of fiscal year end. On behalf of its claimants, OCTA contracts with Vavrinek, Trine, Day & Company, LLP (VTD) to perform these audits and ensures submission of the audits as required.

For the fiscal year (FY) ended June 30, 2016, VTD completed an audit of TDA Article 4 Funds disbursed to the City of Laguna Beach (City).

The audit found that the City used LTF funds allocated and dispersed to them in accordance with applicable TDA rules and regulations, and OCTA policies and procedures.

***Summary***

The required audit of TDA Article 4 funds expended under the Transit Operating and Capital Program has been conducted for the FY ended June 30, 2016, by VTD.

***Attachment***

- A. Laguna Beach Municipal Transit Lines Transportation Development Act Funds Financial Statements and Supplemental Data Year Ended June 30, 2016

**Prepared by:**



Janet Sutter  
Executive Director, Internal Audit  
714-560-5591

**LAGUNA BEACH MUNICIPAL TRANSIT LINES**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**  
**Financial Statements and Supplemental Data**  
**Year Ended June 30, 2016**

**LAGUNA BEACH MUNICIPAL TRANSIT LINES**  
**TRANSPORTATION DEVELOPMENT ACT FUNDS**

**Financial Statements and Supplemental Data**

**Year Ended June 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Orange County Transportation Authority  
Orange, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), 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 auditors' 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 LBMTL, an enterprise fund of the City, as of June 30, 2016, and the changes in its financial position and cash flows 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 LBMTL of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, and the changes in its financial position and cash flows thereof for the year then ended in accordance 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, the LBMTL of the City adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, 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 the schedule of the LBMTL's proportionate share of the net pension liability and schedule of contributions for the retirement plan (required supplementary information), on pages 20 and 21 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 an opinion on the financial statements that collectively comprise the LBMTL's basic financial statements. The accompanying schedule of allocations received and expended, by project year, (supplementary information) 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Management has omitted management's discussion and analysis for the LBMTL 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 the 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.

### *Prior-Year Comparative Information*

We have previously audited the 2015 financial statements of the LBMTL, and enterprise fund of the City, and we expressed an unmodified opinion on the financial statements in our report dated December 18, 2015. The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LBMTL's financial statements for the year ended June 30, 2015, from which such summarized information was derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the City's internal control over financial reporting for the LBMTL 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 the City's internal control over financial reporting for the LBMTL and compliance.



Laguna Hills, California  
December 19, 2016



**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF NET POSITION  
JUNE 30, 2016  
(with Comparative Totals for June 30, 2015)**

	Article 4	
	2016	2015
<b>ASSETS</b>		
Current Assets:		
Cash and investments	\$ 580,304	\$ 646,602
Receivables:		
Accrued revenues	1,874	4,617
Intergovernmental	970,016	1,340,816
Prepaid expenses	24,623	55,600
Total Current Assets	1,576,817	2,047,635
Capital Assets, Net (Note 3)	3,626,526	3,933,380
Total Assets	5,203,343	5,981,015
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred amount related to pensions	75,558	58,880
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	115,536	733,904
Compensated absences	1,581	3,305
Total Current Liabilities	117,117	737,209
Non-current Liabilities:		
Compensated absences	6,328	13,220
Net pension liability	385,609	358,477
Total Non-current Liabilities	391,937	371,697
Total Liabilities	509,054	1,108,906
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred amount related to pensions	34,634	85,663
<b>NET POSITION</b>		
Investment in capital assets	3,626,526	3,933,380
Unrestricted	1,108,687	911,946
Total Net Position	\$ 4,735,213	\$ 4,845,326

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
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**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2016  
(with Comparative Totals for June 30, 2015)**

	Article 4	
	2016	2015
Operating Revenues:		
Passenger revenues	\$ 313,458	\$ 319,135
Operating Expenses:		
Transit administration	305,936	324,759
Transit maintenance	395,025	434,835
Transit operations	1,968,862	1,404,718
Depreciation	306,854	269,860
Total Operating Expenses	2,976,677	2,434,172
Operating income (loss)	(2,663,219)	(2,115,037)
Non-Operating Revenues:		
TDA allocation	1,115,108	1,067,376
Other	97	4,650
Investment income	1,034	134
Intergovernmental revenues (Note 4)	781,683	983,024
Total Non-Operating Revenues	1,897,922	2,055,184
Income (loss) before transfers	(765,297)	(59,853)
Transfers from the City of Laguna Beach (Note 5)	655,184	1,116,734
Change in Net Position	(110,113)	1,056,881
Net position at beginning of year	4,845,326	3,788,445
Net position at end of year	\$ 4,735,213	\$ 4,845,326

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2016  
(with Comparative Totals for June 30, 2015)**

	Article 4	
	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 316,298	\$ 324,512
Cash payment to suppliers for goods and services	(1,570,885)	(143,720)
Cash payment to employees for services	(1,735,520)	(1,415,174)
Net cash used for operating activities	(2,990,107)	(1,234,382)
Cash flows from noncapital financing activities:		
Operating grant proceeds received	1,152,483	297,827
Cash received from operating grants (TDA Allocation)	1,115,108	1,039,511
Cash received from the City of Laguna Beach	655,184	1,093,000
Net cash provided by noncapital financing activities	2,922,775	2,430,338
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	-	4,110
Purchase of capital assets	-	(604,163)
Net cash used for capital and related financing activities	-	(600,053)
Cash flows from investing activities:		
Interest received	1,034	134
Net increase (decrease) in cash and cash equivalents	(66,298)	596,037
Cash and cash equivalents at beginning of year	646,602	50,565
Cash and cash equivalents at end of year	\$ 580,304	\$ 646,602

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

**STATEMENT OF CASH FLOWS, CONTINUED  
YEAR ENDED JUNE 30, 2016  
(with Comparative Totals for June 30, 2015)**

	Article 4	
	2016	2015
Reconciliation of operating loss to net cash used for operating activities:		
Operating income (loss)	\$ (2,663,219)	\$ (2,115,037)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	306,854	269,860
Pension expense	34,171	26,963
Other income	97	540
Decrease in receivables	2,743	4,837
(Increase) in prepaids	30,977	(6,000)
Payments related to deferred outflows for contributions subsequent to measurement date	(74,746)	(58,880)
Increase (decrease) in accounts payable and accrued liabilities	(618,368)	638,741
Increase (decrease) in compensated absences	(8,616)	4,594
Net cash provided by (used for) operating activities	<u>\$ (2,990,107)</u>	<u>\$ (1,234,382)</u>

See accompanying notes to financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 1 – GENERAL INFORMATION***

The financial statements are intended to reflect the financial position and results of operations for the Laguna Beach Municipal Transit Lines' (LBMTL's) Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) only.

Pursuant to Section 99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

The City of Laguna Beach, California (City), acting on behalf of LBMTL, submits a claim to the Orange County Transportation Authority (OCTA) for disbursement of Article 4 funds. The City may submit the claim either prior or subsequent to incurring allowable expenses. After review and approval of the claim, OCTA issues the allocation disbursement instructions to the County of Orange Auditor-Controller. Following instructions from OCTA, funds are disbursed from the County of Orange, Local Transportation Fund to the City.

***NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES***

**Fund Accounting**

The accounts of the City are organized on the basis of funds and account groups. 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 assets, deferred outflows/inflows of resources, related liabilities, obligations, and net position segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City accounts for the activity of LBMTL in its Municipal Transit Fund, which is an Enterprise Fund.

Enterprise Funds are used to account for operations that are financed primarily through user charges, or where the governing body has decided that determination of net income is appropriate. Fund operating revenues are those revenues that are generated from the primary operations of the fund, passenger fares. All other revenues are non-operating.

**Measurement Focus and Basis of Accounting**

Enterprise funds of the City are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Cash and Investments**

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the LBMTL based upon the average cash balance. The investment policies and the risks related to Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the LBMTL, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained at City Hall. For the purpose of the cash flow statement, amounts maintained in the City Pool are considered cash and cash equivalents.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)***

The LBMTL's cash and investments are reported at fair value. The fair value measurements are based on the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. The LBMTL's deposits and withdrawals in the City Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the LBMTL's investment in the City Investment Pool is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

Capital Assets

Capital assets are recorded at cost where historical records are available and at estimated historical cost where no historical records exist. Contributed capital assets are valued at their acquisition value at the date of the contribution. Generally, capital asset purchases in excess of \$1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. Depreciation is charged as an expense against operations and accumulated depreciation is reported in the respective statement of net position. The range of lives used for depreciation purposes for each fixed asset class is as follows:

<u>Capital Asset Class</u>	<u>Useful Life (in Years)</u>
Buildings and improvements	30
Office equipment and machinery	5
Furniture and fixtures	3 to 8
Equipment, machinery and tools	3 to 8
Automotive equipment	2 to 20

Deferred Outflows and Inflows of Resources

LBMTL reported deferred outflows and inflows or resources related to pensions. A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources represents an acquisition of net position by the government that is applicable to a future period. Pension related deferred outflows of resources include contributions made subsequent to the measurement date, which will be reflected as reduction of net pension liability in a future period. Pension related deferred inflows of resources include the net differences between projected and actual earnings on plan investments, and will be recognized as part of pension expense in future reporting periods. Refer to Note 6 for items identified as deferred inflows and outflows as of June 30, 2016.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)***

Pensions

LBMTL participates in the City's miscellaneous agent multiple-employer pension plan. All amounts and disclosures are presented on a cost-sharing perspective where the LBMTL is a participant in the City's plan. For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the LBMTL's California Public Employees Retirement System (CalPERS) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

Accumulated unpaid vacation and sick leave amounts are currently funded and recorded as expenditures in the fund. These amounts are recorded as employee benefit charges and are accrued when incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State requires management to make estimates and assumptions that could affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. Also, the preparation of the financial statements inherently requires rounding of amounts and estimates. Management believes that any differences due to rounding are not material.

Prior Year Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in the LBMTL's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the LBMTL's financial statements for the year ended June 30, 2015, from which this selected financial data was derived. The presentation of certain prior year balances have been reclassified to conform to the current year presentation.

New Accounting Pronouncements - Effective in Current Fiscal Year

**GASB Statement No. 72** – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to define fair value and describe how fair value should be measured, define what assets and liabilities should be measured at fair value, and determine what information about fair value should be disclosed in the notes to the financial statements. This pronouncement was implemented effective July 1, 2015.

**GASB Statement No. 76** – In June 2015, GASB released Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to reduce the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. This pronouncement was implemented effective July 1, 2015.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)***

New Accounting Pronouncements - Effective in Current Fiscal Years (Continued)

**GASB Statement No. 82** – In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of the Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, the Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement is effective for the reporting periods beginning after June 15, 2016, or the 2016-2017 fiscal year. This pronouncement was implemented effective July 1, 2015.

New Accounting Pronouncements - Effective in Future Fiscal Years

**GASB Statement No. 73** - In June, 2015, GASB released 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 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. For the provisions effective June 30, 2016, there was no material impact to the LBMTL. The requirements of the Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, or the 2016-17 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

**GASB Statement No. 74** - In June, 2015, GASB released Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of the Statement is to address the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated. The Statement is effective for periods beginning after June 15, 2016, or the 2016-17 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

**GASB Statement No. 75** - In June, 2015, GASB released Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for fiscal years beginning after June 15, 2017, or the 2017-18 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

**GASB Statement No. 77** – In August 2015, GASB released Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for fiscal years beginning after December 15, 2015, or the 2016-17 fiscal year. The LBMTL has not yet determined the effect on the financial statements.



**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)***

New Accounting Pronouncements - Effective in Future Fiscal Years (Continued)

**GASB Statement No. 78** – In December 2015, GASB released Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple employer plans. The Statement is effective for periods beginning after December 15, 2015, or the 2016-2017 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

**GASB Statement No. 79** - In the December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Both the qualifying external investment pools and their participants are required to disclose information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. For the provisions effective June 30, 2016, there was no material impact to the LBMTL. For the provisions effective subsequent to fiscal year 2015-16, the LBMTL has not yet determined the effect on the financial statements.

**GASB Statement No. 80** - In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016, or the 2016-2017 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

**GASB Statement No. 81** - In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-2018 fiscal year. The LBMTL has not yet determined the effect on the financial statements.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 3 – CAPITAL ASSETS***

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets not being depreciated:				
Land	\$ 196,106	\$ -	\$ -	\$ 196,106
Total capital assets not being depreciated	196,106	-	-	196,106
Capital assets being depreciated:				
Buildings and improvements	1,948,393	-		1,948,393
Office equipment and machinery	59,145	-	-	59,145
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery and tools	27,963	-	-	27,963
Automotive equipment	5,169,805	-	-	5,169,805
Total capital assets being depreciated	7,206,806	-	-	7,206,806
Accumulated depreciation	(3,469,532)	(306,854)	-	(3,776,386)
Total capital assets being Depreciated, net	3,737,274	(306,854)	-	3,430,420
Capital assets, net	\$ 3,933,380	\$ (306,854)	\$ -	\$ 3,626,526

***NOTE 4 – INTERGOVERNMENTAL REVENUES***

Intergovernmental revenues represent grants earned during fiscal year 2015-16 from other governments as follows:

	Year Ended June 30, 2016
OCTA Operating Assistance	\$ 190,027
State Transit Funding	72,414
Project V Grant	519,242
Total	<u>\$ 781,683</u>

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 5 – TRANSFERS FROM THE CITY OF LAGUNA BEACH***

Transfers from the City represent the amount of operating funds transferred to the Municipal Transit Fund as follows:

	Year Ended June 30, 2016
Transfers from the City of Laguna Beach Parking Fund	\$ 634,600
Transfers from the City of Laguna Beach General Fund	20,584
Total	\$ 655,184

LBMTL is eligible to receive TDA Article 4 funding up to 50 percent of its operating expenses. The City transfers from its Parking Fund and General Fund the additional funds necessary to cover operational expenditures above the 50 percent TDA limit.

***NOTE 6 – PENSION PLAN***

Plan Description

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Pension Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. The employees of the LBMTL are participants in the Miscellaneous Plan of the City. Accordingly, all amounts and disclosures are presented on a cost-sharing perspective where the LBMTL is a participant in the City's plan. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 – PENSION PLAN, (CONTINUED)**

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Formula	2.5% @55	2.0% @62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55	62
Monthly benefits, as a % of annual salary	2.5%	2.0%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	18.632%	6.25%

Contributions

Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The LBMTL is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. The expense associated with contributions for the LBMTL employees is charged to payroll at the required employer and employer rates previously noted.

Contributions recognized by the pension plan, and contributed by the LBMTL, from the employer for the year ended June 30, 2016 were \$74,746.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the net pension liability reported by the LBMTL for its proportionate share of the net pension liability of the Plan, as allocated by the City, was \$385,609.

The LBMTL's net pension liability was measured as the proportionate share of the City's net pension liability for the Miscellaneous Plan. The net pension liability of the Plan was measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The LBMTL's proportion of the net pension liability was based on contributions paid by the LBMTL in relation to the total City's contribution paid for the Miscellaneous Plan, as determined by the City. The LBMTL's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 were as follows:

	Miscellaneous
Proportion - June 30, 2014	1.70288%
Proportion - June 30, 2015	1.72075%
Change - Increase (Decrease)	0.01787%

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

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

***NOTE 6 – PENSION PLAN, (CONTINUED)***

For the year ended June 30, 2016, the LBMTL recognized pension expense of \$34,171. At June 30, 2016, the LBMTL reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
LBMTL's contributions subsequent to the measurement date	\$ 74,746	\$ -
Changes of assumptions	-	21,443
Difference between expected and actual experience	812	-
Net difference between projected and actual earnings on pension plan investments	-	13,191
Total	<u>\$ 75,558</u>	<u>\$ 34,634</u>

The amount of \$74,746 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	
2017	\$ (20,445)
2018	(19,359)
2019	(9,586)
2020	15,568
	<u>\$ (33,822)</u>

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 6 – PENSION PLAN, (CONTINUED)***

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuation for the City's Miscellaneous Plan was determined using the following actuarial assumptions applied to all periods included in the measurement:

Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% (1)
Mortality	(2)

(1) Net of pension plan investment and administrative expenses; including inflation.

(2) Derived using CalPERS' Membership Data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. The mortality table includes 20 years of mortality improvements using Society of Actuaries Scale BB. Further details of the Experience Study can found on the CalPERS website.

Changes of Assumptions

GASB 68, paragraph 68, states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation was not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

***NOTE 6 – PENSION PLAN, (CONTINUED)***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	New Strategic Allocation	Long-term Expected Real Return Years 1-10 (a)	Long-term Expected Real Return Years 11+(b)
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the LBMTL's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the LBMTL's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
LBMTL's proportionate share of the net pension liability	\$ 599,349	\$ 385,609	\$ 207,751

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

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

***NOTE 6 – PENSION PLAN, (CONTINUED)***

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the City's CAFR, as well as the separately issued CalPERS financial reports.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

**SCHEDULE OF THE ARTICLE 4 FUNDS' PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
LAST TEN YEARS\*  
FISCAL YEAR ENDED JUNE 30, 2016**

	<b>2016</b>	<b>2015</b>
Proportion of the net pension liability	1.72075%	1.70288%
Proportionate share of the net pension liability	\$ 385,609	\$ 358,477
Covered payroll	\$ 194,570	\$ 193,261
Proportionate Share of the net pension liability as a percentage of covered payroll	198.19%	185.49%
Plan fiduciary net position as a percentage of the total pension liability	76.91%	77.60%
Measurement Date	June 30, 2015	June 30, 2014

\* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

\*\* The LBMTL adopted GASB Statement No. 82. As a result, amounts have been restated to show covered payroll based on pensionable earnings.

Changes in Assumptions: The discount rate was revised from 7.5% to 7.65% during the measurement period ending June 30, 2015.

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

**SCHEDULE OF CONTRIBUTIONS  
LAST TEN YEARS\*  
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions, allocated to the LBMTL	\$ 50,655	\$ 58,880
Contributions in relation to the actuarially determined contribution	<u>(74,746)</u>	<u>(58,880)</u>
Contribution deficiency (excess)	<u>\$ (24,091)</u>	<u>\$ -</u>
Covered payroll**	\$ 210,476	\$ 194,570
Contributions as a percentage of covered payroll	35.51%	30.26%

\* Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.

\*\* The LBMTL adopted GASB Statement No. 82. As a result, amounts have been restated to show covered payroll based on pensionable earnings.

## **SUPPLEMENTARY INFORMATION**

**LAGUNA BEACH MUNICIPAL TRANSIT LINES  
TRANSPORTATION DEVELOPMENT ACT  
ARTICLE 4 FUNDS  
OPERATING AND CAPITAL PROGRAM**

**SCHEDULE OF ALLOCATIONS RECEIVED AND EXPENDED, BY PROJECT YEAR  
YEAR ENDED JUNE 30, 2016**

<u>Project Description</u>	<u>Project Type</u>	<u>Year Allocated</u>	<u>Allocation Amount</u>	<u>Unspent Allocations at 06/30/2015</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Unspent Allocations at 06/30/2016</u>	<u>Project Status</u>
Transit Program	Local	2015-16	\$ 1,115,108	\$ -	\$ 1,115,108	\$ 1,115,108	\$ -	Closed
Totals			<u>\$ 1,115,108</u>	<u>\$ -</u>	<u>\$ 1,115,108</u>	<u>\$ 1,115,108</u>	<u>\$ -</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, 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 Transportation Development Act (TDA) Article 4 Funds of the Operating and Capital Program (Funds) of the Laguna Beach Municipal Transit Lines (LBMTL), an enterprise fund of the City of Laguna Beach, California (City), 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 December 19, 2016. Our report included an emphasis of matter stating that the financial statements of the LBMTL do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016. Our report also included an emphasis of matter regarding the LBMTL's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) of the LBMTL 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City's financial statements of the LBMTL are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority, 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 the requirements of Section 6667 of part 21 of the California Code of Regulations and the allocation instructions of the Orange County Transportation Authority.

## 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 19, 2016



**January 11, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer  
Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Payment Card Industry Data Security Standard Compliance,  
Internal Audit Report No. 17-502

### **Overview**

The Internal Audit Department has completed an audit of Payment Card Industry Data Security Standard compliance. Based on the audit, the Orange County Transportation Authority is not fully compliant with standards and reporting requirements of the Payment Card Industry Data Security Standard or related payment card issuer standards.

### **Recommendation**

Direct staff to implement two recommendations provided in Payment Card Industry Data Security Standard Compliance, Internal Audit Report No. 17-502.

### **Background**

The Payment Card Industry (PCI) Data Security Standard (DSS) was created to help organizations that accept and process credit card payments to prevent fraud by specifying the framework for a secure payment environment. Any organization that collects, processes, stores, or transmits credit card information is required to be in compliance with the PCI DSS. In addition to the PCI DSS, American Express maintains an individual Data Security Operating Policy (DSOP), detailing requirements for merchants processing transactions at specified volume levels.

The Orange County Transportation Authority (OCTA) accepts credit cards for payment of bus passes and identification cards through the OCTA store, the OCTA website, and by phone, and for driver and vehicle permit fees to the Orange County Taxi Administration Program. Cofiroute USA (Cofiroute),



OCTA's third party vendor responsible for operation of the 91 Express Lanes, accepts credit cards for payment of toll and transponder fees. Based on the total volume of transactions processed, OCTA is classified as a Level 2 merchant. This classification requires OCTA to conduct an annual self-assessment questionnaire (SAQ) and attestation of compliance (AOC), as well as quarterly network vulnerability scans. For any areas of non-compliance, OCTA must prepare and implement a remediation plan. The American Express DSOP requires OCTA to submit the SAQ and AOC, as well as quarterly network scans and any related remediation plans.

### ***Discussion***

As identified in a prior audit, OCTA has not fully complied with PCI DSS and American Express DSOP requirements for timely completion of the annual SAQ and implementation of remediation plans. Cofiroute staff also completes a SAQ for the purpose of providing input to OCTA; however, OCTA staff does not obtain, evaluate, and/or periodically validate the information compiled by Cofiroute. Internal Audit recommended management evaluate the necessary resources and controls to ensure full compliance with PCI DSS and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management agreed and outlined actions for undertaking an assessment and evaluation of steps necessary to become fully compliant.

In addition, OCTA does not complete and submit quarterly scans as required by PCI DSS and the American Express DSOP. Non-certified PCI DSS scans are generally performed on a monthly basis; however, remediation efforts to address identified weaknesses are not documented and implemented, as required. In addition, OCTA does not obtain, evaluate, or periodically validate Cofiroute's activities related to network scans, and results of the scans performed by Cofiroute are not included in submissions to American Express. Internal Audit recommended management implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management agreed to perform quarterly scans and implement remediation actions based on risk and cost.

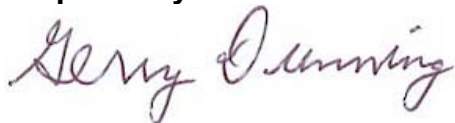
### ***Summary***

The Internal Audit Department has completed an audit of PCI DSS compliance.

***Attachment***

- A.      Payment Card Industry Data Security Standard Compliance, Internal  
          Audit Report No. 17-502

**Prepared by:**



Gerry Dunning  
Senior Internal Auditor, Internal Audit  
714-560-5875

**Approved by:**



Janet Sutter  
Executive Director, Internal Audit  
714-560-5591

# Orange County Transportation Authority Internal Audit Department



## Payment Card Industry Data Security Standard Compliance

### Internal Audit Report No. 17-502

January 4, 2017



**Internal Audit Team:** Gerry Dunning, Senior Internal Auditor, CIA, CISA, CFE  
Janet Sutter, Executive Director, CIA

*JD*

**Distributed to:** Andrew Oftelie, Executive Director, Finance and Administration  
Bill Mao, Chief Information Officer  
Michael Bosche, Senior Information Services Security Analyst

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Payment Card Industry (PCI)  
Data Security Standard (DSS) Compliance  
January 4, 2017**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Payment Card Industry  
Data Security Standard Compliance  
January 4, 2017**

## **Conclusion**

The Internal Audit Department (Internal Audit) has completed an audit of Payment Card Industry (PCI) Data Security Standard (DSS) compliance. The purpose of the audit was to assess the adequacy of controls, policies, and procedures to ensure compliance with PCI DSS and related payment card issuer standards.

Based on the audit, the Orange County Transportation Authority (OCTA) is not in compliance with standards and reporting requirements of the PCI DSS or related payment card issuer standards.

## **Background**

The PCI DSS is an information security standard defined by the PCI DSS Council, an independent counsel formed by American Express, Discover Financial Services, Japan Credit Bureau International, MasterCard Worldwide, and Visa Inc. The PCI DSS was created to help organizations that accept and process credit card payments to prevent fraud by specifying the framework for a secure payments environment. Any organization that collects, processes, stores, or transmits credit card information is required to be in compliance with the PCI DSS. Merchants and service providers not fully compliant with PCI DSS must document detailed action plans to remediate weaknesses and become compliant. In addition to the PCI DSS, American Express maintains an individual Data Security Operating Policy (DSOP), detailing requirements for merchants processing transactions at specified volume levels, and may request merchants to submit evidence of their compliance. Currently, only American Express requests OCTA to submit evidence of compliance with the PCI DSS and the American Express DSOP.

OCTA accepts credit cards for payment of bus passes and identification cards through the OCTA store, the OCTA website, and by phone, and for driver and vehicle permit fees to the Orange County Taxi Administration Program (OCTAP). Cofiroute, OCTA's third party vendor responsible for operation of the 91 Express Lanes, accepts credit cards for payment of toll and transponder fees. Based on the total volume of transactions processed, OCTA is classified as a level 2 merchant. This classification requires OCTA to conduct an annual self-assessment questionnaire (SAQ) and attestation of compliance (AOC), as well as quarterly network vulnerability scans. For any areas of non-compliance, OCTA must prepare and implement a remediation plan. The American Express DSOP requires OCTA to submit the SAQ and AOC, as well as quarterly network scans and any related remediation plans.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
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The DSS is divided into six sections and 12 subject areas, as follows:

- Build and Maintain a Secure Network and Systems
  1. Install and maintain a firewall configuration to protect cardholder data
  2. Do not use vendor-supplied defaults for system passwords and other security parameters
- Protect Cardholder Data
  3. Protect stored cardholder data
  4. Encrypt transmission of cardholder data across open, public networks
- Maintain a Vulnerability Management Program
  5. Protect all systems against malware and regularly update anti-virus software or programs
  6. Develop and maintain secure systems and applications
- Implement Strong Access Control Measures
  7. Restrict access to cardholder data by business need-to-know
  8. Identify and authenticate access to system components
  9. Restrict physical access to cardholder data
- Regularly Monitor and Test Networks
  10. Track and monitor all access to network resources and cardholder data
  11. Regularly test security systems and processes
- Maintain an Information Security Policy
  12. Maintain a policy that addresses information security for all personnel

**Prior Audit Results**

An audit of PCI DSS compliance issued July 6, 2011, found OCTA had not fully complied with PCI DSS requirements for attestation and submission of annual SAQ's and related action plans. Also, OCTA lacked evidence that network scans were performed as required.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Payment Card Industry  
Data Security Standard Compliance  
January 4, 2017**

## **Objectives, Scope, and Methodology**

The objective was to assess the adequacy of controls, policies, and procedures in place to ensure compliance with PCI DSS and payment card issuer standards. The scope included the period from January 2014 through September 2016. The methodology included review of SAQ's and related documentation for evidence of compliance and timely submission; review of quarterly network scans for compliance and timely submission; testing of selected assertions in the latest SAQ for accuracy; and interview and review of evidence of monitoring of Cofiroute USA's (Cofiroute) activities related to PCI DSS.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
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January 4, 2017**

## **Audit Comments, Recommendations, and Management Responses**

### Conduct of Annual Self-Assessment Questionnaire and Attestation of Compliance

As identified in a prior audit, OCTA has not fully complied with PCI DSS requirements for timely completion of the annual SAQ and implementation of remediation plans.

OCTA continues to reflect non-compliant status with all 12 areas outlined by the PCI DSS. While remediation plans and dates are identified as required, comparison of the SAQ's year-over-year identified no progress toward achieving compliance and staff acknowledged that resources dedicated to implementing these plans are insufficient. Internal Audit noted that some remediation dates exceeded the 12 month limitation set by the American Express DSOP and that remediation dates listed in the prior years' SAQ were not achieved. In addition, the SAQ's have not been completed and submitted timely upon request of the payment card issuer, American Express.

Cofiroute staff also completes a SAQ for the purpose of providing input to OCTA for inclusion in the combined SAQ; however, OCTA staff does not obtain, evaluate, and/or periodically validate Cofiroute's information.

#### **Recommendation 1:**

Internal Audit recommends that management evaluate the necessary resources and controls to ensure full compliance with PCI DSS and develop a proposal to obtain compliance and/or provide a reasonable approach moving forward. In addition, management should implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute's PCI DSS compliance information.

#### **Management Response:**

Management agrees with the recommendation to implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute's PCI DSS information. Since Cofiroute processes over 780,000 credit card transactions yearly, it has assigned two full-time staff members for PCI compliance activities. OCTA management requires and expects Cofiroute to keep its customer credit card information secure and will implement yearly reviews to assess the accuracy, timeliness, and sufficiency of Cofiroute's PCI DSS information.

OCTA processes credit card information at a much smaller scale than Cofiroute. The total quantity of credit card transactions processed by OCTA is approximately 10,000 on a yearly basis. OCTA's Information Systems (IS) staff manages cybersecurity based on risk potential to our technology environment and the customers that are affected by its systems. Staff acknowledges the importance of PCI compliance and has placed priority



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and resources on cybersecurity. A full-time position has been reallocated within the IS Department to augment the staff focused exclusively on cybersecurity. The current goal of OCTA's cyber security activities is focused on securing the environment and OCTA's customer's information. These cybersecurity activities improve the overall PCI compliance level at OCTA.

Previously, staff had informally determined that the cost of becoming fully PCI compliant outweighed the incremental security benefits it would provide given the relatively few credit card transactions, the high PCI standards, and the cybersecurity efforts already in place at OCTA. However, management agrees to undertake a formal assessment to determine if it is advisable to become fully PCI compliant given the projected number of transactions, the cost to implement the recommendations, and the overall cyber security environment already employed at OCTA.

In addition, any new OCTA commerce functions requiring credit card information are being outsourced to third party channels. The implementation of OCTA's mobile ticketing application is an example in which customers buying OCTA mobile tickets do not have their credit card information pass through OCTA's networks.

In response to Internal Audit's recommendations, management will do the following:

1. Management will engage with a third party PCI Security Assessor to perform SAQs going forward. This will provide objective third party expertise on OCTA's compliance efforts.
2. Management will assess the remediation items identified in the SAQ and address items that fall into existing security improvement efforts.
3. Management will perform a yearly assessment of Cofiroute's PCI DSS compliance information.
4. Management will undergo a review to determine if OCTA should take the steps necessary to become fully PCI compliant.
5. Management will continue to allocate and prioritize resources to cybersecurity risks while addressing PCI compliance concerns

#### Quarterly Network Scans

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As identified in the prior audit, OCTA does not complete and submit quarterly scans as required by PCI DSS and the American Express DSOP. Non-certified PCI DSS scans are generally performed on a monthly basis, and identify vulnerabilities in OCTA systems. Remediation efforts to address the identified weaknesses are not documented and implemented, as required. In addition, OCTA does not obtain, evaluate, or periodically validate Cofiroute's activities related to network scans and results of the scans performed by Cofiroute are not included in submissions to American Express.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
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**Recommendation 2:**

Internal Audit recommends that management implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management should also implement procedures for oversight and monitoring of Cofiroute's activities and incorporate their system scan results into submissions to American Express.

**Management Response:**

Management agrees with Internal Audit's recommendation and will implement procedures to ensure quarterly network scans are performed. Management will also identify items to be remediated and implement them based on risk and cost. Management will allocate resources to perform periodic assessments of Cofiroute's PCI DSS compliance information.



**January 11, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

**Subject:** Fiscal Year 2016-17 First Quarter Grant Reimbursement Status Report

**Overview**

The Quarterly Grant Reimbursement Status Report summarizes grant activities for information purposes for the Orange County Transportation Authority Board of Directors. This report focuses on activity for the period of July through September 2016.

**Recommendation**

Receive and file as an information item.

**Discussion**

The Orange County Transportation Authority (OCTA) has secured grant funding from federal, state, and local grant agencies to deliver programs, projects, and services to improve mobility in Orange County. The use of these funds is consistent with OCTA's Board of Directors (Board) approved capital programming policies. The Quarterly Grant Reimbursement Status Report summarizes awarded/executed, current, and closed grant agreements.

**Awarded/Executed Grant Agreements:**

During the first quarter, OCTA was awarded and executed 11 new formula and discretionary grants which are summarized below.

Federal Fiscal Year (FFY) 2015 Federal Transit Administration (FTA)  
Section 5307 Formula Grant Program:

- OCTA executed a grant agreement with FTA to secure the OCTA's FTA Section 5307 formula fund allocations for FFY 2015. The grant agreement secures \$55.4 million in federal capital and operating assistance to support

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preventative maintenance, capital cost of contracting, paratransit operating assistance, bus stop signage, and Positive Train Control.

**FFY 2016 FTA Section 5307 Formula Grant Program:**

- OCTA executed a grant agreement with FTA to secure the OCTA's FTA Section 5307 formula fund allocations for FFY 2016. The grant agreement secures \$56.3 million in federal capital and operating assistance to support preventative maintenance, capital cost of contracting, and paratransit operating assistance.

**FFY 2015 and 2016 FTA Section 5310 Enhanced Mobility for Seniors and Disabled:**

- OCTA executed an FTA grant agreement to secure \$4 million in FTA Section 5310 funds allocated to OCTA for FFY 2015 and 2016. The funds will be used to support the capital costs of contracting for ACCESS services.

**FFY 2015 and 2016 FTA Section 5337 State of Good Repair:**

- OCTA executed an FTA grant agreement to secure \$5.3 million in FTA Section 5337 funds allocated to OCTA for FFY 2015 and 2016. The funds will be used to cover preventative maintenance expenses.

**FFY 2015 and 2016 FTA Section 5339 Bus and Bus Facilities Grant Program:**

- OCTA executed a grant agreement with FTA to secure \$10.6 million in FTA Section 5339 funds. The funds will be used to support midlife overhauls and engine replacements for approximately 147 40-foot compressed natural gas (CNG) fixed-route buses serving in the OCTA fleet. The buses will be repowered with new CNG engines that are nine times cleaner than the engines they replace and will extend the useful life of OCTA buses, while increasing their mileage between potential breakdowns.

**FY 2016 Major Event Transportation Grant: Mobile Source Air Pollution Reduction Review Committee (MSRC):**

- OCTA secured \$0.7 million in grant funds awarded by the MSRC to support the operating costs of the Orange County Fair Express for the 2016 season. The express service will again serve one of the most popular fairs in the nation,

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attracting well over 1.3 million visitors, and made available for boarding at nine transit facilities throughout Orange County.

- OCTA executed a grant agreement with the MSRC to secure \$0.1 million awarded to support the direct operating cost of piloting the Angels Express Bus Service, Route 656, for the 2016 baseball season. The proposed special bus service supplemented the Angels Express rail service, and offered a convenient and attractive alternative to automobile travel to and from Angel home games for communities that do not have access to rail.

**FY 2015 Transportation Control Measure Partnership Program: MSRC**

- OCTA executed a grant agreement with the MSRC to secure \$1.6 million to purchase 463 of the 610 mobile ticketing readers for installation on OCTA fixed-route bus fleet. As directed by the OCTA Board on September 26, 2016, the grant agreement will be amended so the MSRC funds can also support other elements of the project, including the installation of the routers and software development. The amendment will provide staff with the flexibility needed to accommodate cap-and-trade funds recently awarded to the mobile ticketing project by the California State Transportation Agency through the 2016 Transit and Intercity Rail Capital Program.

**Current Grant Agreements:**

OCTA's FTA formula grant agreements total 20, and FTA discretionary grant agreements total four. The total FTA formula and discretionary grant agreements amount to \$470.4 million. The total amount reimbursed through the first quarter under these grant agreements is \$291.6 million, leaving a balance of \$178.8 million (Attachment A).

The balance (\$170.7 million) of the 20 FTA formula grant agreements will primarily fund fixed-route bus procurements, engine repowers, rideshare and vanpool programs, design and engineering for the Laguna Niguel/San Juan Capistrano passing siding project, preliminary engineering for the OC Streetcar Project, and rail rehabilitation projects.

The balance (\$8.1 million) of the four FTA discretionary grant agreements will primarily fund a new control point at 4<sup>th</sup> Street on the OCTA-owned railroad right-of-way (ROW), as well as slope stabilization improvements on the railroad ROW from the City of Laguna Niguel to the City of Lake Forest. The balance will also fund security camera surveillance systems for commuter rail stations located in the cities of Anaheim, Laguna Niguel/Mission Viejo, Orange, and Placentia.

OCTA also has a combined 42 other formula grant agreements (Attachment B) and ten other discretionary grant agreements (Attachment C).

The 42 other formula grant agreements total \$424.1 million. The total amount reimbursed through the first quarter under these other grant agreements is \$259.3 million, leaving a balance of \$164.8 million.

The ten other discretionary grant agreements total \$10 million. A total of \$0.5 million of these discretionary grant agreements has been reimbursed, leaving a balance of \$9.5 million. These other discretionary grant agreements have a defined grant expiration date. Project expenses must be fully paid and reimbursed prior to the grant agreement expiration date. Staff anticipates each of the remaining balances to be fully reimbursed prior to the grant agreement expiration date.

Combined, the formula and discretionary grants total \$904.5 million. The total amount reimbursed across all these grant agreements equals \$551.4 million, leaving a remaining balance of \$353.1 million.

**Closed Grant Agreements:**

There were two grant agreements totaling \$45.4 million that were closed out in the first quarter of fiscal year 2016-17. The remaining balance of \$1.8 million on FTA Grant CA-95-X262 has been de-obligated per FTA instruction and will be re-programmed in the FFY 2017 FTA grant for the Orange Parking Structure project. These grant agreements are summarized in Attachment D.

***Summary***

This report provides an update of the grant agreement funded activities for the first quarter of FY 2016-17, July through September 2016. Staff recommends this report be received and filed as an information item.

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***Attachments***

- A. First Quarter Grant Reimbursement Status Report, July through September 2016, Federal Transit Administration Formula and Discretionary Grant Agreements
- B. First Quarter Grant Reimbursement Status Report, July through September 2016, Other Formula Grant Agreements
- C. First Quarter Grant Reimbursement Status Report, July through September 2016, Other Discretionary Grant Agreements
- D. First Quarter Grant Reimbursement Status Report, July through September 2016, Closed Grant Agreements

**Prepared by:**



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**Approved by:**



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**First Quarter Grant Reimbursement Status Report**  
**July through September 2016**  
**Federal Transit Administration Formula and Discretionary Grant Agreements**

Federal Transit Administration (FTA) Section 5307, 5310, 5316, 5317, 5337, 5339, 5309							
	Grant Year/Project	FEDERAL GRANT AMOUNT	LOCAL MATCH AMOUNT	TOTAL GRANT AMOUNT	FEDERAL GRANT AMOUNT REIMBURSED	REMAINING BALANCE	ANTICIPATED CLOSE OUT DATE
	FTA Section 5307 - Urbanized Area Capital Formula Grant Program:						
1	Federal Fiscal Year (FFY) 2011 CA-90-Y860	\$ 58,821,054	\$ 23,654,886	\$ 82,475,940	\$ 48,273,733	\$ 10,547,321	March 2018
2	FFY 2012 CA-90-Y942	57,746,965	26,365,936	84,112,901	25,439,762	32,307,203	December 2017
3	FFY 2013 CA-90-Z027	53,878,508	23,835,557	77,714,065	41,277,742	12,600,766	December 2017
4	FFY 2014 CA-90-Z174	55,129,189	60,687,809	115,816,998	54,578,137	551,052	September 2017
5	FFY 2015 CA-2016-032	55,400,721	57,746,581	113,147,302	52,537,940	2,862,781	December 2017
6	FFY 2016 CA-2016-116	56,269,958	58,602,920	114,872,878	-	56,269,958	June 2018
	Formula Grants Sub-Total	\$ 337,246,395	\$ 250,893,689	\$ 588,140,084	\$ 222,107,314	\$ 115,139,081	
	FTA Section 5307 - Federal Funds flexed from the Federal Highway Administration (FHWA) Capital Grant Program:						
7	FFY 2010 CA-95-X131 Central Harbor Boulevard and the Fullerton Transit Center Studies	\$ 2,102,650	\$ 272,350	\$ 2,375,000	\$ 1,147,773	\$ 954,877	April 2018
8	FFY 2011 CA-95-X180 Anaheim Canyon Station	4,260,000	-	4,260,000	3,385,275	874,725	June 2017
9	FFY 2012 CA-95-X188 Purchase 58 replacement 40-foot alternative fuel buses	29,198,000	3,782,910	32,980,910	15,317,170	13,880,830	December 2017
10	FFY 2012 CA-95-X195 Rideshare/Vanpool Administration	2,244,000	-	2,244,000	2,084,310	159,690	June 2017
11	FFY 2012 CA-95-X210 Rideshare/Vanpool Administration and Anaheim Canyon Station	12,669,000	-	12,669,000	6,152,765	6,516,235	October 2018
12	FFY 2012 CA-95-X213 Transit System Study 3-Years of Operation	6,000,000	-	6,000,000	4,106,152	1,893,848	June 2019
13	FFY 2012 CA-95-X242 Replacement of 6 Articulated Buses	5,250,000	-	5,250,000	1,717,861	3,532,139	March 2017
14	FFY 2012 CA-95-X254 Rideshare/Vanpool Administration	5,657,000	151,456	5,808,456	2,382,454	3,274,546	June 2018
15	FFY 2014 CA-95-X286 Design and Engineering for Laguna Niguel/San Juan Capistrano Passing Siding Project, Laguna Niguel-Mission Viejo Commuter Rail Station Improvements	6,621,000	-	6,621,000	2,277,156	4,343,844	August 2017
	Formula Grants Sub-Total	\$ 74,001,650	\$ 4,206,716	\$ 78,208,366	\$ 38,570,916	\$ 35,430,734	
	FTA Section 5310 Enhanced Mobility of Seniors & Individuals with Disabilities:						
16	FFY 2015 & FFY 2016 CA-2016-151 ACCESS	\$ 4,011,574	\$ -	\$ 4,011,574	\$ -	\$ 4,011,574	June 2018
	Formula Grant Sub-Total	\$ 4,011,574	\$ -	\$ 4,011,574	\$ -	\$ 4,011,574	
	FTA Section 5316 Jobs Access Reverse Commute Program (JARC):						
17	FFY 2009 CA-37-X113 Section 5316 JARC	\$ 13,962,492	\$ 9,179,853	\$ 23,142,345	\$ 7,957,053	\$ 6,005,439	September 2019
	Formula Grant Sub-Total	\$ 13,962,492	\$ 9,179,853	\$ 23,142,345	\$ 7,957,053	\$ 6,005,439	



**First Quarter Grant Reimbursement Status Report**  
**July through September 2016**  
**Federal Transit Administration Formula and Discretionary Grant Agreements**

Federal Transit Administration (FTA) Section 5307, 5310, 5316, 5317, 5337, 5339, 5309						
Grant Year/Project	FEDERAL GRANT AMOUNT	LOCAL MATCH AMOUNT	TOTAL GRANT AMOUNT	FEDERAL GRANT AMOUNT REIMBURSED	REMAINING BALANCE	ANTICIPATED CLOSE OUT DATE
FTA Section 5317 New Freedoms Initiative: Formula grants funded by the Transportation Equity Act for the 21st Century.						
18 FFY 2009 CA-57-X038 Section 5317 New Freedoms	\$ 6,387,803	\$ 4,297,327	\$ 10,685,130	\$ 6,147,501	\$ 240,302	September 2017
Formula Grant Sub-Total	\$ 6,387,803	\$ 4,297,327	\$ 10,685,130	\$ 6,147,501	\$ 240,302	
FTA Section 5337 State of Good Repair:						
19 FFY 2015 & FFY 2016 CA-2016-096 Preventative Maintenance	\$ 5,261,812	\$ -	\$ 5,261,812	\$ -	\$ 5,261,812	December 2018
Formula Grant Sub-Total	\$ 5,261,812	\$ -	\$ 5,261,812	\$ -	\$ 5,261,812	
FTA Section 5339 Buses and Bus Facilities:						
20 FFY 2015 & FFY 2016 CA-2016-031 Bus Overhaul & Repower	\$ 10,591,955	\$ -	\$ 10,591,955	\$ 5,965,487	\$ 4,626,468	April 2018
Formula Grant Sub-Total	\$ 10,591,955	\$ -	\$ 10,591,955	\$ 5,965,487	\$ 4,626,468	
Formula Grants Total	\$ 451,463,681	\$ 268,577,585	\$ 720,041,266	\$ 280,748,271	\$ 170,715,410	
FTA Section 5309 - Discretionary Capital Grant Program:						
1 FFY 2008 CA-04-0078 Transit Center Video Surveillance System	\$ 7,021,300	\$ 1,686,933	\$ 8,708,233	\$ 5,380,761	\$ 1,640,539	December 2018
2 FFY 2013 CA-04-0122 Transit Center Video Surveillance System	4,845,999	1,201,302	6,047,301	3,934,803	911,196	December 2020
3 FFY 2012 CA-05-0269 Control Point 4th Street and Slope Stabilization Design and Construction	6,000,000	-	6,000,000	550,936	5,449,064	March 2020
4 FFY 2012 CA-55-0003 General Development and Planning for Orange County Council of Governments	1,079,786	269,947	1,349,733	1,020,973	58,813	June 2017
Discretionary Grants Sub-Total	\$ 18,947,085	\$ 3,158,182	\$ 22,105,267	\$ 10,887,473	\$ 8,059,612	
Discretionary Grants Total	\$ 18,947,085	\$ 3,158,182	\$ 22,105,267	\$ 10,887,473	\$ 8,059,612	
Formula and Discretionary Grants Total	\$ 470,410,766	\$ 271,735,767	\$ 742,146,533	\$ 291,635,744	\$ 178,775,022	

**Note:**

FTA Section 5307 - Urbanized Area Formula Capital Grant Program: Funds are used to fund preventative maintenance, capital cost of contracting, and to purchase revenue vehicles, facility modifications, and bus related equipment.

FTA Section 5310 - Enhanced Mobility of Seniors & Individuals with Disabilities: Formula funding to states for the purposes of assisting private nonprofit groups in meeting transportation needs of the elderly and persons with disabilities.

FTA Section 5316 - Jobs Access Reverse Commute Program: Grants provide funds to support new transit services and establish mobility management programs to assist low-income individuals.

FTA Section 5317 - New Freedoms Initiative: Grants provide funds to support new transit services and establish mobility management programs to enhance access for persons with disabilities.

FTA Section 5337 - State of Good Repair: A formula-based State of Good Repair program dedicated to repairing and upgrading the nations rail transit systems along with high-intensity motor bus systems that use high-occupancy lanes.

FTA Section 5309 - Discretionary Capital Grant Program: Grants provide for projects that improve efficiency and coordination of transportation systems.

**First Quarter Grant Reimbursement Status Report**  
**July through September 2016**  
**Other Formula Grant Agreements**

FORMULA GRANT ALLOCATIONS							
	GRANT YEAR / PROJECT	GRANT AMOUNT	MATCH AMOUNT	TOTAL GRANT AMOUNT	GRANT AMOUNT REIMBURSED	REMAINING BALANCE	ANTICIPATED CLOSE OUT/DUE DATE
Active Transportation Program: This grant will be used to increase the use of active modes of transportation throughout the County of Orange							
1	FY 2014 Orange County Sidewalk Inventory Project	\$ 163,000	\$ -	\$ 163,000	\$ 94,390	\$ 68,610	June 2019
	Total - Active Transportation Program	\$ 163,000	\$ -	\$ 163,000	\$ 94,390	\$ 68,610	
State Transportation Improvement Plan (STIP): Programming, Planning, Monitoring (PPM)							
2	FY 2015 PPM Program	\$ 1,445,000	\$ -	\$ 1,445,000	\$ -	\$ 1,445,000	December 2017
3	FY 2016 PPM Program	831,000	-	831,000	-	831,000	December 2018
	Total - STIP PPM	\$ 2,276,000	\$ -	\$ 2,276,000	\$ -	\$ 2,276,000	
State Highway Account - Sustainable Communities: Funds to provide a safe, sustainable, integrated and efficient transportation system							
4	FY 2017 Orange County Active Transportation Count Program	\$ 177,000	\$ 23,000	\$ 200,000	\$ -	\$ 177,000	April 2019
	Total - Active Transportation Program	\$ 177,000	\$ 23,000	\$ 200,000	\$ -	\$ 177,000	
State Proposition 1B: Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA)							
5	FY 2012 Raymond Avenue Grade Separation Project Right-of-Way (ROW)	\$ 25,172,000	\$ -	\$ 25,172,000	\$ 24,666,217	\$ 505,783	August 2020
6	FY 2015 Raymond Avenue Grade Separation Project (Construction)	43,008,102	-	43,008,102	17,279,860	25,728,242	August 2020
7	FY 2015 Fullerton Transportation Center Elevator Project (Construction)	500,000	-	500,000	-	500,000	August 2017
	Subtotal - Proposition 1B (PTMISEA)	\$ 68,680,102	\$ -	\$ 68,680,102	\$ 41,946,077	\$ 26,734,025	
State Proposition 1B California Transit Security Grant Program (CTSGP): Transit System Safety, Security, and Disaster Response Account (TSSSDRA)							
8	FY 2012 Video Surveillance System Upgrades	\$ 100,000	\$ -	\$ 100,000	\$ 48,408	\$ 51,592	March 2017
9	FY 2013 Raymond Avenue Grade Separation Project (Construction)	1,680,495	-	1,680,495	147,495	1,533,000	March 2017
10	FY 2014 State College Boulevard Grade Separation Project (Construction)	1,506,069	-	1,506,069	-	1,506,069	March 2017
	Subtotal - Proposition 1B (TSSSDRA)	\$ 3,286,564	\$ -	\$ 3,286,564	\$ 195,903	\$ 3,090,661	
State Proposition 1B: Trade Corridors Improvement Fund Program (TCIF)							
11	FY 2011 Placentia Avenue Grade Separation Project (Construction)	\$ 9,550,000	\$ -	\$ 9,550,000	\$ 9,299,039	\$ 250,961	June 2017
12	FY 2011 Kraemer Boulevard Grade Separation Project (Construction)	15,513,000	-	15,513,000	14,632,720	880,280	June 2017
13	FY 2012 Orangefhorpe Boulevard Grade Separation Project (Construction)	41,632,000	-	41,632,000	24,080,769	17,551,231	June 2019
14	FY 2012 Tustin Avenue / Rose Drive Grade Separation Project (Construction)	30,862,000	-	30,862,000	18,245,597	12,616,403	June 2019
15	FY 2013 Lakeview Boulevard Grade Separation Project (Construction)	27,628,157	-	27,628,157	11,721,158	15,906,999	June 2019
	Subtotal - Proposition 1B (TCIF)	\$ 125,185,157	\$ -	\$ 125,185,157	\$ 77,979,282	\$ 47,205,875	
State Proposition 1B: Highway Railroad Crossing Safety Account (HRCSEA)							
16	FY 2010 Sand Canyon Avenue Grade Separation Project (Construction)	\$ 6,618,000	\$ -	\$ 6,618,000	\$ 6,427,845	\$ 190,155	June 2017
	Subtotal - Proposition 1B (HRCSEA)	\$ 6,618,000	\$ -	\$ 6,618,000	\$ 6,427,845	\$ 190,155	

**First Quarter Grant Reimbursement Status Report**  
**July through September 2016**  
**Other Formula Grant Agreements**

FORMULA GRANT ALLOCATIONS						
GRANT YEAR / PROJECT	GRANT AMOUNT	MATCH AMOUNT	TOTAL GRANT AMOUNT	GRANT AMOUNT REIMBURSED	REMAINING BALANCE	ANTICIPATED CLOSE OUT/DUE DATE
State Proposition 1B: State-Local Partnership Program (SLPP)						
17 FFY 2012 Bristol Street Widening - Third Street to Civic Center	\$ 3,120,000	\$ 3,120,000	\$ 6,240,000	\$ -	\$ 3,120,000	June 2017
18 FFY 2013 Brookhurst Street Improvements, Ball Road to Katella Avenue	3,393,000	3,393,000	6,786,000	-	3,393,000	June 2018
19 FFY 2013 Cow Camp Road - Segment 1	4,160,000	4,160,000	8,320,000	-	4,160,000	June 2018
20 FFY 2013 Harbor Boulevard and Adams Street Improvements	1,482,000	1,482,000	2,964,000	-	1,482,000	June 2018
21 FFY 2013 Oso Parkway Widening	1,204,000	1,204,000	2,408,000	-	1,204,000	June 2018
Subtotal - Proposition 1B (SLPP)	\$ 13,359,000	\$ 13,359,000	\$ 26,718,000	\$ -	\$ 13,359,000	
Total - Proposition 1B	\$ 217,128,823	\$ 13,359,000	\$ 230,487,823	\$ 126,549,107	\$ 90,579,716	
State Proposition 116: Clean Air and Transportation Improvement Act Bond Funds						
22 FFY 2010 Sand Canyon Avenue Grade Separation Project (Construction)	\$ 22,004,000	\$ -	\$ 22,004,000	\$ 21,446,359	\$ 557,641	June 2017
Total - Proposition 116	\$ 22,004,000	\$ -	\$ 22,004,000	\$ 21,446,359	\$ 557,641	
Federal Highway Administration Grant Program - Congestion Mitigation Air Quality (CMAQ)						
23 FFY 2010 Orangefhorpe Avenue Grade Separation Project (ROW)	\$ 27,504,000	\$ -	\$ 27,504,000	\$ 23,588,900	\$ 3,915,100	June 2019
24 FFY 2011 Lakeview Avenue Grade Separation Project (ROW Utility Relocation)	3,135,862	-	3,135,862	60,901	3,074,961	June 2019
25 FFY 2015 I-5, State Route (SR) 55 to SR 57 (PS&E)	2,800,000	1,492,000	4,292,000	1,432,893	1,367,107	June 2020
Sub-Total - CMAQ (Grade Separation)	\$ 33,439,862	\$ 1,492,000	\$ 34,931,862	\$ 25,082,694	\$ 8,357,168	
Federal Highway Administration Grant Program - CMAQ: I-5 HOV Project (3 Segments)						
26 FFY 2012 I-5 HOV, Segment 1 Ave Pico to Vista Hermosa (Preliminary Engineering)	\$ 4,246,000	\$ 1,819,996	\$ 6,065,996	\$ 3,048,505	\$ 1,197,495	June 2019
27 FFY 2012 I-5 HOV, Segment 1 Ave Pico to Vista Hermosa (ROW)	8,000,000	1,057,788	9,057,788	3,877,047	4,122,953	June 2019
28 FFY 2012 I-5 HOV, Segment 2 Vista Hermosa to Pacific Coast Highway (PS&E)	3,687,000	1,438,939	5,125,939	1,890,557	1,796,443	June 2019
29 FFY 2012 I-5 HOV, Segment 3 Pacific Coast Highway to San Juan Creek Road	2,067,000	2,731,249	4,798,249	1,488,979	578,021	June 2019
Sub-Total - CMAQ (I-5 HOV)	\$ 18,000,000	\$ 7,047,972	\$ 25,047,972	\$ 10,305,088	\$ 7,694,912	
Total - CMAQ	\$ 51,439,862	\$ 8,539,972	\$ 59,979,834	\$ 35,387,782	\$ 16,052,080	
Regional Surface Transportation Program (RSTP)						
30 FFY 2010 Tustin Avenue / Rose Drive Grade Separation Project (ROW)	\$ 23,748,000	\$ -	\$ 23,748,000	\$ 19,594,689	\$ 4,153,311	July 2019
31 FFY 2010 Sand Canyon Avenue Grade Separation Project (Construction)	8,665,741	-	8,665,741	8,422,209	243,532	June 2017
32 FFY 2012 Tustin Avenue / Rose Drive Grade Separation Project (Construction)	8,700,440	-	8,700,440	7,263,025	1,437,415	June 2019
33 FFY 2012 I-5 Segment 1 Slate Route 73 to Oso Parkway (PS&E)	9,101,000	1,199,000	10,300,000	3,626,598	5,474,402	June 2020
34 FFY 2012 I-5 Segment 2 Oso Creek to Alicia Parkway (PS&E)	10,000,000	1,501,000	11,501,000	4,348,462	5,651,538	June 2019
35 FFY 2012 I-5 Segment 3 Alicia Parkway to El Toro Road (PS&E)	8,044,000	1,056,000	9,100,000	2,161,671	5,882,329	June 2020
36 FFY 2013 I-5, North of Interstate 405 to State Route 55 (PA&ED)	8,000,000	-	8,000,000	2,154,457	5,845,543	June 2018
37 FFY 2015 SR 91, SR-57 to SR-55 (PA&ED)	7,000,000	2,000,000	9,000,000	910,280	6,089,720	June 2020
38 FFY 2015 I-405 from I-5 to SR-55 in Irvine (PA&ED)	8,000,000	-	8,000,000	2,661,756	5,338,244	June 2020
39 FFY 2016 SR 57, Orangewood to Katella Avenue (PS&E)	2,500,000	-	2,500,000	-	2,500,000	June 2021
Total - RSTP	\$ 93,759,181	\$ 5,756,000	\$ 99,515,181	\$ 51,143,149	\$ 42,616,032	

First Quarter Grant Reimbursement Status Report  
July through September 2016  
Other Formula Grant Agreements

FORMULA GRANT ALLOCATIONS							
	GRANT YEAR / PROJECT	GRANT AMOUNT	MATCH AMOUNT	TOTAL GRANT AMOUNT	GRANT AMOUNT REIMBURSED	REMAINING BALANCE	ANTICIPATED CLOSE OUT/DUE DATE
	<b>Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Demonstration Funds</b>						
40	FFY 2008 Add Mixed-flow Lane on Interstate 405 at Interstate 605 to the State Route 73	\$ 8,860,764	-	\$ 8,860,764	\$ 5,376,508	\$ 3,484,256	December 2017
41	FFY 2012 Orangeforthorpe Boulevard Grade Separation Project (Construction)	18,600,000	-	18,600,000	14,696,659	3,903,341	June 2019
42	FFY 2013 Lakeview Boulevard Grade Separation Project (Construction)	9,709,030	-	9,709,030	4,612,469	5,096,561	June 2019
	<b>Total - SAFETEA-LU</b>	<b>\$ 37,169,794</b>	<b>-</b>	<b>\$ 37,169,794</b>	<b>\$ 24,685,636</b>	<b>\$ 12,484,158</b>	
	<b>Total Other Formula</b>	<b>\$ 424,117,660</b>	<b>\$ 27,677,972</b>	<b>\$ 451,795,632</b>	<b>\$ 259,306,423</b>	<b>\$ 164,811,237</b>	

First Quarter Grant Reimbursement Status Report  
July through September 2016  
Other Discretionary Grant Agreements

DISCRETIONARY GRANT ALLOCATIONS									
	GRANT YEAR / PROJECT	GRANT AMOUNT	MATCH AMOUNT	TOTAL GRANT AMOUNT	GRANT AMOUNT REIMBURSED	REMAINING BALANCE	PROJECT COMPLETION DATE	GRANT EXPIRATION DATE	
	<b>Air Quality Management District (AQMD) Grant Program and Mobile Source Air Pollution Reduction Review Committee (MSRC) / Transportation Control Measure Partnership Program:</b>								
1	FY 2014 Signal Synchronization	\$ 1,250,000	\$ 4,202,200	\$ 5,452,200	\$ -	\$ 1,250,000	April 2017	April 2017	
2	FY 2015 Bikeway Projects	943,643	-	943,643	-	943,643	June 2018	June 2018	
3	FY 2015 Mobile Ticketing	1,553,657	3,011,752	4,565,409	-	1,553,657	January 2018	January 2018	
4	FY 2016 OC Fair Express	684,645		684,645	-	684,645	August 2016	March 2017	
5	FY 2016 Angels Express Bus Service from Goldenwest Terminal	128,500	13,000	141,500	-	128,500	September 2016	February 2017	
	<b>Total - AQMD / MSRC</b>	<b>\$ 4,560,445</b>	<b>\$ 7,226,952</b>	<b>\$ 11,787,397</b>	<b>\$ -</b>	<b>\$ 4,560,445</b>			
	<b>Transit Security Grant Program (TSGP) - State Office of Homeland Security: These grants are to be used for the protection of the Orange County's transportation system</b>								
6	FY 2015 Vulnerability Assessments of OCTA's Industrial Control and Communications	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ 300,000	July 2017	August 2018	
7	FY 2015 VIPR and Counter Terrorism Team Operations	115,000	-	115,000	-	115,000	July 2017	August 2018	
8	FY 2015 Update OCTA's Security and Emergency Plans	100,000	-	100,000	-	100,000	July 2017	August 2018	
	<b>Total - TSGP</b>	<b>\$ 515,000</b>	<b>\$ -</b>	<b>\$ 515,000</b>	<b>\$ -</b>	<b>\$ 515,000</b>			
	<b>Low Carbon Transit Operations Program (LCTOP) - California Department of Transportation (Caltrans):</b>								
9	FY 2015 Fare Discount	\$ 1,346,536	\$ -	\$ 1,346,536	\$ 513,780	\$ 832,756	June 2018	June 2019	
10	FY 2016 Fare Discount	3,588,424	-	3,588,424	-	3,588,424	June 2019	June 2019	
	<b>Total - LCTOP</b>	<b>\$ 4,934,960</b>	<b>\$ -</b>	<b>\$ 4,934,960</b>	<b>\$ 513,780</b>	<b>\$ 4,421,180</b>			
	<b>Total Other Discretionary</b>	<b>\$ 10,010,405</b>	<b>\$ 7,226,952</b>	<b>\$ 17,237,357</b>	<b>\$ 513,780</b>	<b>\$ 9,496,625</b>			
	<b>Formula and Discretionary Grants Total</b>	<b>\$ 434,128,065</b>	<b>\$ 34,904,924</b>	<b>\$ 469,032,989</b>	<b>\$ 259,820,203</b>	<b>\$ 174,307,862</b>			

**ATTACHMENT C**

First Quarter Grant Reimbursement Status Report  
July through September 2016  
Closed Grant Agreements

	CLOSED GRANTS	GRANT AMOUNT	MATCH AMOUNT	TOTAL GRANT AMOUNT	AMOUNT REIMBURSED	Remaining Balance
1	FTA FFY 2014 CA-95-X262 Anaheim Regional Transportation Intermodal Center Construction (To be transferred to Orange Parking Structure)	\$ 23,950,000	\$ -	\$ 23,950,000	\$ 22,199,503	\$ 1,750,497
2	CMAQ FFY 2011 Kraemer Blvd Grade Separation Project (Construction)	21,412,901	-	21,412,901	21,412,901	-
	Total - Closed Grants	\$ 45,362,901	\$ -	\$ 45,362,901	\$ 43,612,404	\$ 1,750,497

Note:  
Federal Transit Administration (FTA)  
Congestion Mitigation Air Quality (CMAQ)



*January 11, 2017*

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

**Subject:** Orange County Treasurer's Management Report - October 2016

**Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the Orange County Investment Pool. Each month the Orange County Treasurer publishes a comprehensive report detailing the composition of the pool and the prevailing economic and market conditions. The attached Treasurer's Management Report for the Orange County Investment Pool is for the month ending October 31, 2016. The report has been reviewed and is consistent with the investment practices of the Orange County Treasurer.

**Recommendation**

Receive and file as an information item.

**Discussion**

As of October 31, 2016, the book value of the Orange County Investment Pool (OCIP) Money Market Fund was \$1,262,265,272 with a monthly gross yield of 0.37 percent and a month-end average days to maturity of 49 days. The OCIP Extended Fund book value was \$5,491,175,887 with a monthly yield of 0.95 percent and a month-end average days to maturity of 504 days. The Orange County Transportation Authority's month-end balance in the OCIP was \$22,668; the combined pool had a monthly yield of 0.80 percent and month-end average days to maturity of 365 days.

There were no changes to the Treasurer's Approved Issuer List. Both the Money Market Fund and the Extended Fund were in compliance at month-end. Pages 27 through 86 containing investment inventory are not included in the attachment. Copies of OCIP's investment inventory reports are available upon request.

***Summary***

The Orange County Transportation Authority is submitting a copy of the Orange County Treasurer's Management Report to the Finance and Administration Committee. The report is for the month ending October 31, 2016.

***Attachment***

A. Treasurer's Monthly Investment Report – October 31, 2016

**Prepared by:**



---

Rodney Johnson  
Deputy Treasurer  
Treasury/Toll Roads  
(714) 560-5675

**Approved by:**



---

Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649



# *Treasurer's Monthly* **INVESTMENT** OCTOBER 2016 **REPORT**

From the Office of  
SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM  
Orange County Treasurer



COUNTY OF ORANGE

**TREASURER'S INVESTMENT REPORT**  
**For October 31, 2016**

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**OFFICE OF THE TREASURER-TAX COLLECTOR**  
**SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM**



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**INTERDEPARTMENTAL COMMUNICATION**

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**Date:** November 15, 2016

**To:** Supervisor Lisa Bartlett, Chairwoman  
Supervisor Michelle Steel, Vice-Chair  
Supervisor Andrew Do  
Supervisor Todd Spitzer  
Supervisor Shawn Nelson

**From:** Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM *SLF*

**Subject:** Treasurer's Investment Report for the Month Ended October 31, 2016

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Attached, please find the Treasurer's Investment Report for the County of Orange for the month ended October 31, 2016. The County Treasurer provides this report in compliance with California Government Code Sections 53607, 53646, and 27134 and the County's Investment Policy Statement (IPS). We have included some charts and other data for your information including charts on fund composition and the top ten pool participants. This report is also publicly available on our website at [ocgov.com/ocinvestments](http://ocgov.com/ocinvestments).

**INVESTMENT POOL COMPOSITION**

The investments contained within this report are as of October 31, 2016. The Investment Pool Statistics summary shows the total investment responsibility of the County Treasurer as delegated by the Board of Supervisors: the Orange County Investment Pool (OCIP) that includes the Voluntary Participants' funds, the Orange County Educational Investment Pool (OCEIP), the John Wayne Airport Investment Fund and various other non-Pooled investment funds. The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The County Treasurer established three Money Market Funds, the Orange County Money Market Fund, the Orange County Educational Money Market Fund, and the John Wayne Airport Investment Fund, which all are invested in cash-equivalent securities and provide liquidity for immediate cash needs. Standard & Poor's, on June 16, 2016, reaffirmed their highest rating of AAAM on the Orange County and the Educational Money Market Funds. The County Treasurer also established the Extended Fund that is invested to meet cash needs between one and five years out. The Orange County Investment Pool is comprised of the Orange County Money Market Fund and portions of the Extended Fund. The Orange County Educational Investment Pool is comprised of the Orange County Educational Money Market Fund and portions of the Extended Fund.

The maximum maturity of investments for the Orange County and Educational Money Market Funds is 13 months, with a maximum weighted average maturity (WAM) of 60 days, and they have a current WAM of 49 and 56 respectively. The maximum maturity of investments for the John Wayne Investment Fund is 15 months, with a maximum WAM of 90 days, and a current WAM of 66. The maximum maturity of the Extended Fund is five years, with duration not to exceed the Merrill Lynch 1-3 Year index +25% (2.35). The duration is currently at 1.31. The investments in all of the funds are marked to market daily to determine the value of the funds. To further maintain safety, adherence to an investment strategy of only purchasing top-rated securities and diversification of instrument types and maturities is required.

## **ECONOMIC UPDATE**

In October, the job market added 161,000 new jobs, and September's job numbers were revised upwards by 35,000 to 191,000. The U.S. unemployment rate for October dropped to 4.5% from 5.0%. U.S. gross domestic product (GDP) rose at a 2.9% annualized rate in the third quarter of 2016, an increase from the revised quarter's rate of 1.4%. The Empire State Manufacturing Index decreased to -6.8, while the Philadelphia Fed Index decreased to 9.7. The Federal Reserve uses these indexes as regional economic gauges, and a reading above zero signals economic expansion. With respect to housing, the S&P/CaseShiller Index reported that housing prices continue to show positive momentum as year-over-year prices increased for the fifty-second consecutive month in August, up 5.3% from a year ago. The index for pending home sales increased 2.0% on a year-over-year basis in September. The 10-year Treasury rate increased twenty four basis points in October to 1.84%.

The short-term 90-day T-bill ended the month at 0.34%, up from 0.29% in September, and the rate on the 2-year Treasury note was 0.86% at the end of October, up from 0.77% in September.

## **INVESTMENT INTEREST YIELDS AND FORECAST**

The current gross interest yield year-to-date for fiscal year 2016/2017 is 0.80% for the Orange County Investment Pool and 0.75% for the Orange County Educational Investment Pool. The current net yield for fiscal year 2016/2017 is 0.74% and 0.69% respectively. The forecasted net yield for fiscal year 2016/2017 for both OCIP and OCEIP is expected to be 0.77%.

## **APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS**

Each month, the County Treasurer apportions the accrued interest earnings to each pool participant. As of the first business day of the following month accrued, but unpaid, interest earnings are added to pool participants' average balances in determining a participant's relative share of the pool's monthly earnings. The actual cash distribution will generally be paid in the months following. The October 2016 interest apportionment is expected to be paid by November 30, 2016. The investment administrative fee for fiscal year 2016/2017 is estimated at 6.5 basis points.

## **TEMPORARY TRANSFERS**

The County Treasurer, as required by Constitution Article XVI, Section 6, and per the Board of Supervisor's Resolution 15-016, is authorized to make temporary transfers to school districts to address their short-term cash flow needs. The loans are secured by tax receipts to be received by the County Treasurer, as the banker for the school districts. Temporary transfers from the OCEIP totaled \$75 million and will be repaid by January 31, 2017.

## **PORTFOLIO HOLDINGS OF DEBT ISSUED BY POOL PARTICIPANTS**

Under guidelines outlined in the current IPS, the County Treasurer may invest in A or above rated securities issued by municipalities. Municipal debt issued by the County of Orange is exempt from this credit rating requirement. The Investment Pools may invest no more- than 5% of pool assets in any one issuer, with the exception of the County of Orange which has a 10% limit. The Investment Pools have a total market value of \$148.1 million in AA rated County of Orange debt, which represents approximately 1.87% of assets. Prior to purchasing any pool participant debt, a standardized credit analysis is performed.

## **COMPLIANCE SUMMARY**

The investment portfolios had no compliance exceptions for the month of October 2016. The Auditor-Controller Internal Audit Division (ACIA) issued their Office of the Orange County Treasurer Compliance Audit for the year ended December 31, 2015. In ACIA's opinion, the Treasurer complied, in all material respects, with the noted California Government Code and Investment Policy Statement requirements.

## **CREDIT UPDATE**

During October, there were no changes to the Treasurer's Approved Issuer List. An ongoing credit analysis of all issuers owned in the Investment Pools is reviewed on a daily, monthly, quarterly, and annual basis.

I certify that this report includes all pool and non-pooled investments as of October 31, 2016 and is in conformity with all State laws and the IPS approved by the Board of Supervisors on December 15, 2015. The investments herein shown provide adequate liquidity to meet the next six months of projected cash flow requirements. I am available if you have any questions on this Investment Report at (714) 834-7625.

Enclosures

cc: Distribution List

ORANGE COUNTY TREASURER-TAX COLLECTOR

SUMMARY OF INVESTMENT DATA

INVESTMENT TRENDS

	OCTOBER 2016	SEPTEMBER 2016	INCREASE (DECREASE)	NET CHANGE %	OCTOBER 2015	INCREASE (DECREASE)	NET CHANGE %
<b>Orange County Investment Pool (OCIP)</b>							
End Of Month Market Value <sup>1,2</sup>	\$ 4,129,118,364	\$ 3,614,805,346	\$ 514,313,018	14.23%	\$ 3,662,323,410	\$ 466,794,954	12.75%
End Of Month Book Value <sup>2</sup>	\$ 4,125,753,976	\$ 3,609,366,041	\$ 516,387,935	14.31%	\$ 3,658,212,609	\$ 467,541,367	12.78%
Monthly Average Balance <sup>2</sup>	\$ 3,887,875,905	\$ 3,617,672,358	\$ 270,203,547	7.47%	\$ 3,492,683,929	\$ 395,191,976	11.31%
Year-To-Date Average Balance	\$ 3,632,214,921	\$ 3,546,994,593	\$ 85,220,328	2.40%	\$ 3,346,646,734	\$ 285,568,187	8.53%
Monthly Accrued Earnings <sup>3</sup>	\$ 2,594,847	\$ 2,460,768	\$ 134,080	5.45%	\$ 1,773,229	\$ 821,618	46.33%
Monthly Net Yield <sup>3</sup>	0.72%	0.76%	-0.05%	-6.16%	0.53%	0.19%	35.09%
Year-To-Date Net Yield <sup>3</sup>	0.74%	0.74%	-0.01%	-0.94%	0.64%	0.10%	15.00%
Annual Estimated Gross Yield <sup>4</sup>	0.84%	0.84%	0.00%	0.00%	0.64%	0.20%	31.25%
Weighted Average Maturity (WAM) <sup>5</sup>	365	409	(44)	-10.76%	371	(6)	-1.62%
<b>Orange County Educational Investment Pool (OCEIP)</b>							
End Of Month Market Value <sup>1,2</sup>	\$ 3,608,927,721	\$ 3,851,986,165	\$ (243,058,444)	-6.31%	\$ 3,216,914,185	\$ 392,013,536	12.19%
End Of Month Book Value <sup>2</sup>	\$ 3,605,787,286	\$ 3,846,913,962	\$ (241,126,676)	-6.27%	\$ 3,212,686,394	\$ 393,100,892	12.24%
Monthly Average Balance <sup>2</sup>	\$ 3,718,332,896	\$ 3,834,201,403	\$ (115,868,707)	-3.02%	\$ 3,336,923,368	\$ 381,409,328	11.43%
Year-To-Date Average Balance <sup>2</sup>	\$ 3,915,621,954	\$ 3,981,385,040	\$ (65,763,086)	-1.65%	\$ 3,527,746,804	\$ 387,875,150	10.99%
Monthly Accrued Earnings <sup>3</sup>	\$ 2,524,622	\$ 2,507,509	\$ 17,113	0.68%	\$ 1,755,730	\$ 768,892	43.79%
Monthly Net Yield <sup>3</sup>	0.72%	0.72%	0.00%	0.42%	0.55%	0.17%	30.55%
Year-To-Date Net Yield <sup>3</sup>	0.69%	0.68%	0.01%	1.47%	0.49%	0.20%	40.41%
Annual Estimated Gross Yield <sup>4</sup>	0.84%	0.84%	0.00%	0.00%	0.65%	0.19%	29.23%
Weighted Average Maturity (WAM) <sup>5</sup>	383	360	23	6.39%	424	(41)	-9.67%

<sup>1</sup> Market values provided by Bloomberg and Northern Trust.

<sup>2</sup> In October 2016, OCIP End of Month Market and Book Values and Monthly Average Balance increased from October 2015 and September 2016 primarily due to a transfer from the General Fund - Non AMT Restricted Account to the County General Fund as directed by the Chief Financial Officer related to Board Resolution 05-179 and to higher incoming secured property tax receipts due to tax bills being mailed earlier than the prior year. Over 66% of the secured property tax receipts will be paid out to County Agencies and School and Community College Districts in early November. In October 2016, OCEIP End of Month Market and Book Values and Monthly and Year-To-Date Average Balances increased from October 2015 primarily due to higher State Local Educational Agency (LEA) funding and higher ERAF receipts.

<sup>3</sup> In October 2016, OCIP and OCEIP Monthly Accrued Earnings and Monthly and Year-To-Date Net Yield were higher than October 2015 primarily due to slightly higher short-term interest rates and higher average pool balances.

<sup>4</sup> The OCIP and OCEIP Annual Estimated Gross Yield for October 2015 is reported at the actual annual gross yield for FY15/16, and their Annual Estimated Gross Yield for October 2016 is reported at the latest forecasted gross yields of 0.84%. Their Annual Estimated Gross Yield for FY 16/17 is higher than FY 15/16 due to reductions in excess liquidity and improved cash management while maintaining the same high credit quality of securities.

<sup>5</sup> In October 2016, OCIP WAM decreased as incoming secured property tax receipts were invested in short-term maturities. In addition, OCEIP WAM was lower than in October 2015 primarily due to higher liquidity needs than in 2015.

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT POOL STATISTICS**  
**FOR THE MONTH ENDED: OCTOBER 31, 2016**

**INVESTMENT STATISTICS - By Investment Pool\***

DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Daily Yield as of 10/31/16	MONTHLY Gross Yield	Current NAV
<b><u>COMBINED POOL BALANCES</u></b> <b><u>(includes the Extended Fund)</u></b>					
Orange County Investment Pool (OCIP)	MARKET Value \$ 4,129,118,364 COST (Capital) \$ 4,137,242,005 MONTHLY AVG Balance \$ 3,887,875,905 BOOK Value \$ 4,125,753,976	365	0.80%	0.79%	1.00
Orange County Educational Investment Pool (OCEIP)	MARKET Value \$ 3,608,927,721 COST (Capital) \$ 3,616,741,199 MONTHLY AVG Balance \$ 3,718,332,696 BOOK Value \$ 3,605,787,286	383	0.81%	0.80%	1.00

**INVESTMENT STATISTICS - Non Pooled Investments \*\***

DESCRIPTION	CURRENT BALANCE	INVESTMENT BALANCES AT COST
Specific Investment Funds: 100, 283, 505, 650 FVSD	MARKET Value \$ 153,726,852 COST (Capital) \$ 153,636,521 MONTHLY AVG Balance \$ 153,617,149 BOOK Value \$ 153,470,840	General Fund - Non AMT Restricted \$ 67,361,904 John Wayne Airport Investment Fund 50,283,751 Repurchase Agreement 1,081,500 Fountain Valley School District Fund 40 34,909,367 \$ 153,636,522

**MONTH END TOTALS**

INVESTMENTS & CASH		FUND ACCOUNTING, SPECIFIC INVESTMENTS & NON POOLED CASH	
<b><u>COUNTY MONEY MARKET FUND (OCMMF)</u></b>			
County Money Market Fund	\$ 1,262,515,038	County Funds	\$ 4,160,026,859
County Cash	22,784,854	Educational Funds	3,620,798,393
<b><u>EXTENDED FUND</u></b>	5,512,726,967	Specific Investment Funds	153,636,521
<b><u>EDUCATIONAL MONEY MARKET FUND (OCEMMF)</u></b>		Non Pooled Cash	17,089,435
Educational Money Market Fund	978,741,199		
Educational Cash	4,057,194		
<b><u>NON POOLED INVESTMENTS &amp; CASH</u></b>			
Non Pooled Investments	153,636,521		
Non Pooled Cash	17,089,435		
	\$ 7,951,551,208		\$ 7,951,551,208

**KEY POOL STATISTICS**

INTEREST RATE YIELD		WEIGHTED AVERAGE MATURITY (WAM)	
OCMMF - MONTHLY GROSS YIELD	0.41%	OCMMF	49
OCEMMF - MONTHLY GROSS YIELD	0.51%	OCEMMF	56
JOHN WAYNE AIRPORT - MONTHLY GROSS YIELD	0.42%	JOHN WAYNE AIRPORT WAM	66
OCIP - YTD NET YIELD***	0.74%	LGIP WAM (Standard & Poors)	45
OCEIP - YTD NET YIELD***	0.69%		
90-DAY T-BILL YIELD - MONTHLY AVERAGE	0.32%		

# **ORANGE COUNTY TREASURER-TAX COLLECTOR**

## **INVESTMENT POOL STATISTICS FOR THE MONTH ENDED: OCTOBER 31, 2016**

### **INVESTMENT STATISTICS - By Investment Fund\*\*\*\***

DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Daily Yield as of 10/31/16	MONTHLY Gross Yield	Current NAV
<u>County Money Market Fund (OCMMF)</u>	MARKET Value \$ 1,262,431,238 COST (Capital) \$ 1,262,515,038 MONTHLY AVG Balance \$ 1,007,809,161 BOOK Value \$ 1,262,265,272	49	0.37%	0.41%	1.00
<u>Educational Money Market Fund (OCEMMF)</u>	MARKET Value \$ 978,305,500 COST (Capital) \$ 978,741,199 MONTHLY AVG Balance \$ 1,080,332,696 BOOK Value \$ 978,100,104	56	0.45%	0.51%	1.00
<u>Extended Fund</u>	MARKET Value \$ 5,497,309,348 COST (Capital) \$ 5,512,726,967 MONTHLY AVG Balance \$ 5,518,066,744 BOOK Value \$ 5,491,175,887	504	0.95%	0.92%	1.00
<b>ALLOCATION OF EXTENDED FUND</b>					
<u>Extended Fund</u> <u>OCIP Share</u>	MARKET Value \$ 2,866,687,126 COST (Capital) \$ 2,874,726,967 MONTHLY AVG Balance \$ 2,880,066,744 BOOK Value \$ 2,863,488,704	504	0.95%	0.92%	1.00
<u>OCEIP Share</u>	MARKET Value \$ 2,630,622,221 COST (Capital) \$ 2,638,000,000 MONTHLY AVG Balance \$ 2,638,000,000 BOOK Value \$ 2,627,687,182	504	0.95%	0.92%	1.00
<u>Effective Duration</u>	1.31				

\* The Combined Pool Balances include the County and Educational Money Market Funds and their respective portions of the Extended Fund.

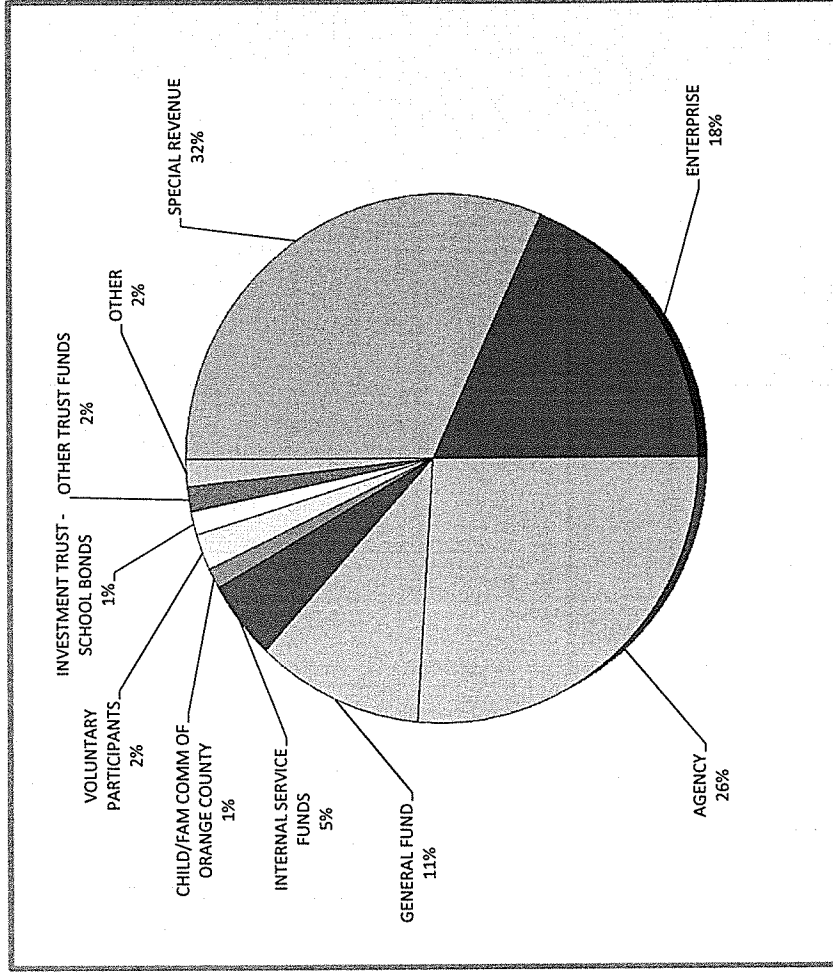
\*\* Specific non pooled investments are reported in compliance with Government Code Section 53646 (b)(1). Detailed descriptions are included in the inventory listing in Section VII of this report.

\*\*\* The Net Yield differs from the monthly average yield as it includes the Treasury administrative fees.

\*\*\*\* Book Value is computed as Cost reduced by amortization of premium and increased by the accretion of discount of the Investment Portfolio. Net Asset Value (NAV) is equal to Market Value divided by Book Value.

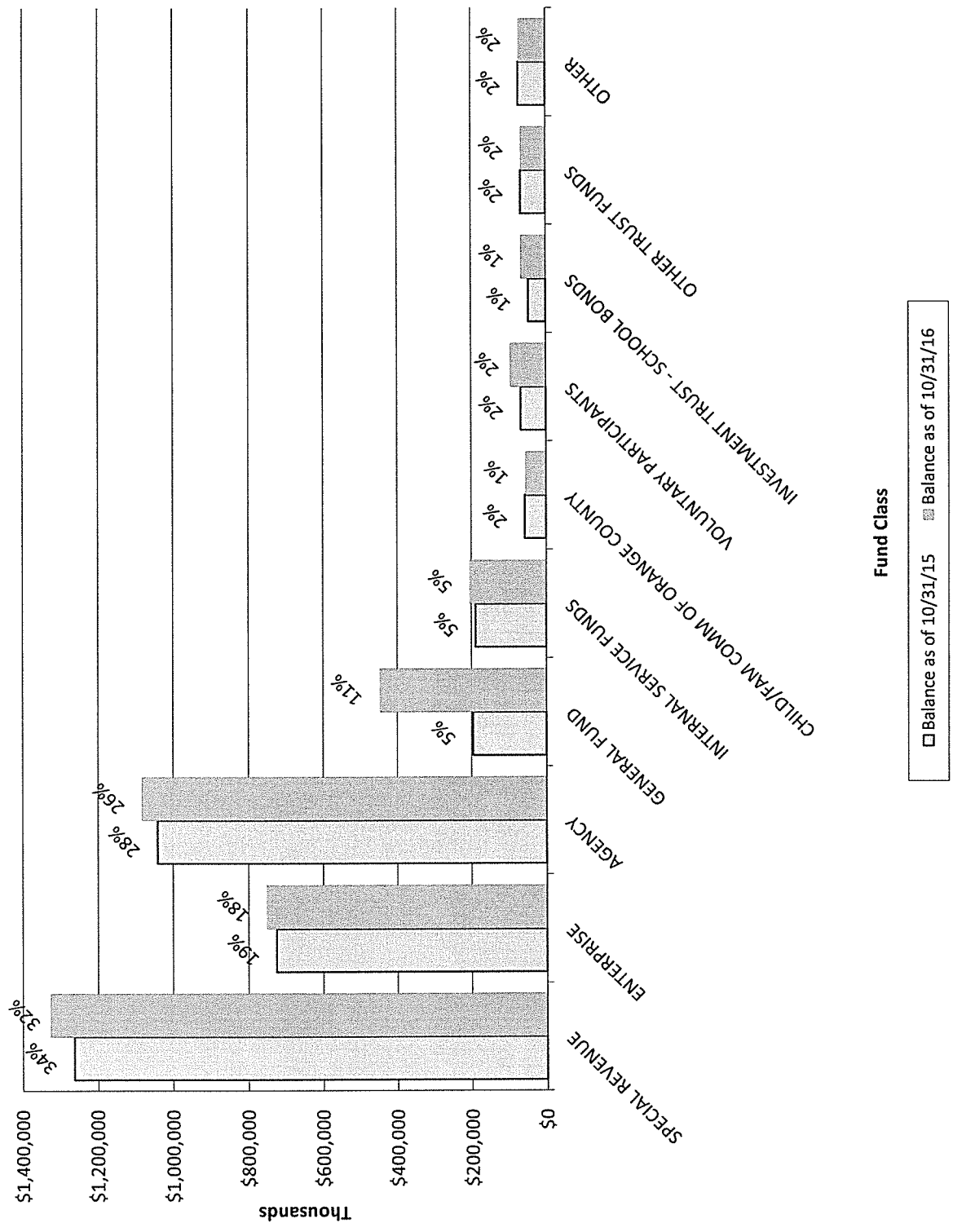
ORANGE COUNTY INVESTMENT POOL  
COMPOSITION BY FUND  
AS OF OCTOBER 31, 2016

FUNDS	BALANCE
SPECIAL REVENUE	\$ 1,326,166,502
ENTERPRISE	752,237,033
AGENCY	1,081,947,817
GENERAL FUND	446,985,951
INVESTMENT TRUST - SCHOOL BONDS	65,249,844
INTERNAL SERVICE FUNDS	204,503,338
CHILD/FAM COMM OF ORANGE COUNTY	53,863,826
VOLUNTARY PARTICIPANTS	94,283,990
OTHER TRUST FUNDS	65,485,406
OTHER	70,536,694
<b>TOTAL</b>	<b>\$ 4,161,260,401</b>



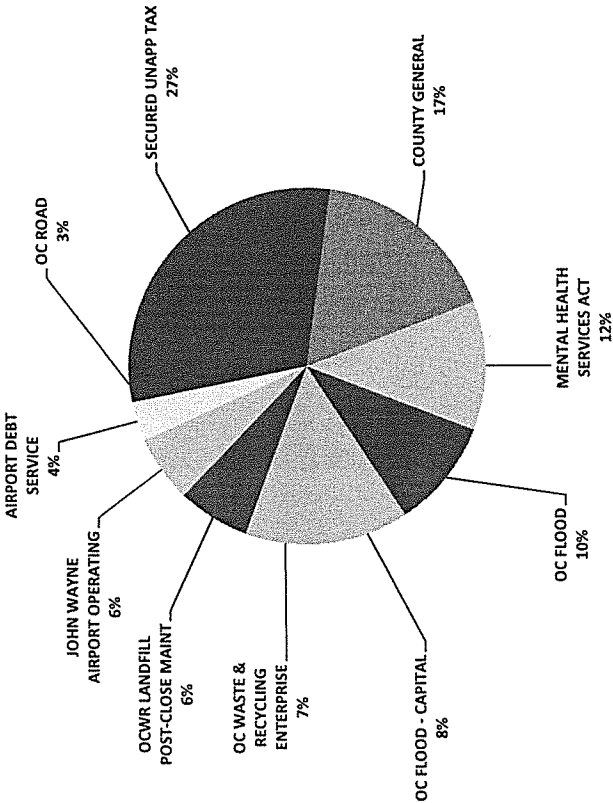


# ORANGE COUNTY INVESTMENT POOL COMPOSITION BY FUND AS OF OCTOBER 31



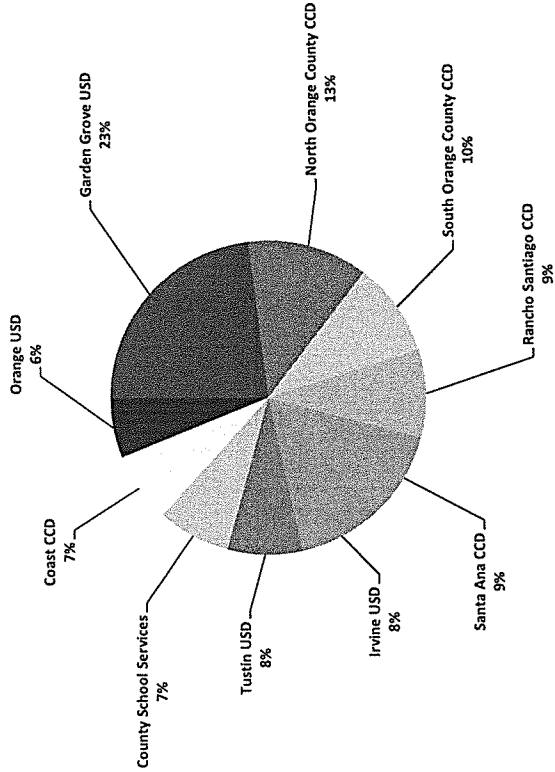
# ORANGE COUNTY INVESTMENT POOL TOP TEN POOL PARTICIPANTS AS OF OCTOBER 31, 2016

FUND #	FUND NAME	BALANCE
673	SECURED UNAPP TAX	\$ 655,969,248
100	COUNTY GENERAL	411,708,334
13Y	MENTAL HEALTH SERVICES ACT	281,872,809
400	OC FLOOD	238,837,456
404	OC FLOOD - CAPITAL	182,364,627
299	OC WASTE & RECYCLING ENTERPRISE	178,098,599
279	OCWR LANDFILL POST-CLOSE MAINT	157,868,103
280	JOHN WAYNE AIRPORT OPERATING	146,338,092
283	AIRPORT DEBT SERVICE	86,386,281
115	OC ROAD	76,243,207
	<b>TOTAL</b>	<b>\$ 2,415,686,756</b>



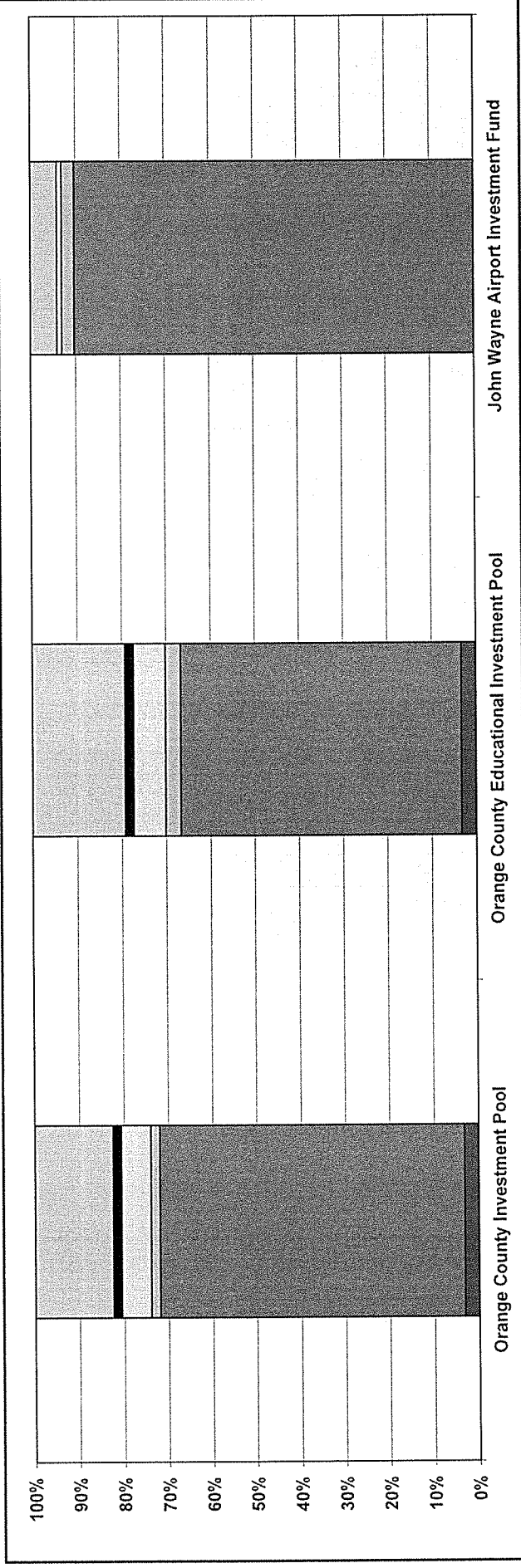
ORANGE COUNTY EDUCATIONAL INVESTMENT POOL  
 TOP TEN POOL PARTICIPANTS  
 AS OF OCTOBER 31, 2016

DISTRICT #	SCHOOL DISTRICT	BALANCE
72	Garden Grove USD	\$ 583,094,045
88	North Orange County CCD	313,501,638
96	South Orange County CCD	246,419,570
92	Rancho Santiago CCD	230,429,896
84	Santa Ana USD	224,893,672
75	Irvine USD	212,593,196
87	Tustin USD	195,233,496
94	County School Services	189,187,200
90	Coast CCD	180,639,539
80	Orange USD	156,876,925
TOTAL		<u>\$ 2,532,869,177</u>



# ORANGE COUNTY TREASURER - TAX COLLECTOR BY INVESTMENT TYPE - By Percentage Holdings

October 31, 2016



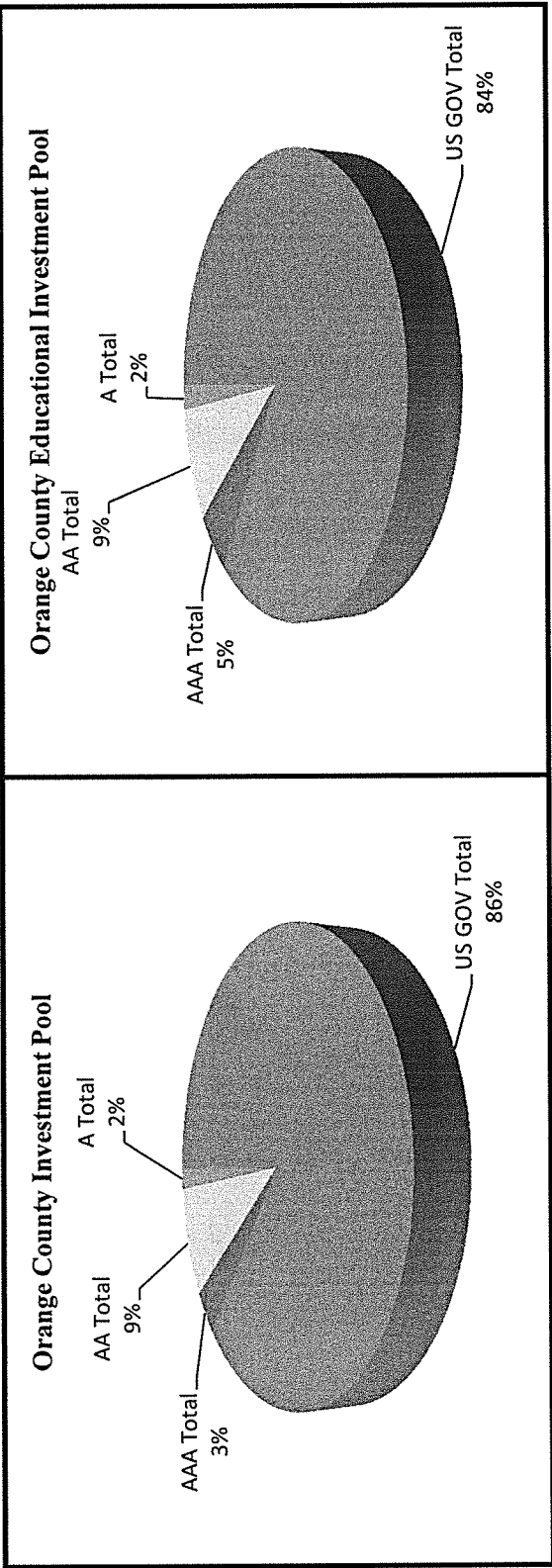
Orange County Investment Pool					
	In Thousands				%
U.S. GOVERNMENT AGENCIES	\$ 2,835,050				68.68%
U.S. TREASURIES	726,492				17.59%
MEDIUM - TERM NOTES	270,820				6.56%
MONEY MARKET MUTUAL FUNDS	86,383				2.09%
MUNICIPAL DEBT	76,345				1.85%
CERTIFICATES OF DEPOSIT	133,028				3.22%
	<u>\$ 4,129,118</u>				<u>100.00%</u>

Orange County Educational Investment Pool					
	In Thousands				%
U.S. GOVERNMENT AGENCIES	\$ 2,286,471				63.36%
U.S. TREASURIES	749,168				20.76%
MEDIUM - TERM NOTES	258,062				7.15%
MONEY MARKET MUTUAL FUNDS	122,594				3.40%
MUNICIPAL DEBT	71,801				1.99%
CERTIFICATES OF DEPOSIT	120,832				3.35%
	<u>\$ 3,608,928</u>				<u>100.00%</u>

John Wayne Airport Investment Fund					
	In Thousands				%
U.S. GOVERNMENT AGENCIES	\$ 45,311				90.30%
MEDIUM - TERM NOTES	501				1.00%
MONEY MARKET MUTUAL FUNDS	1,368				2.73%
U.S. TREASURIES	2,999				5.98%
	<u>\$ 50,179</u>				<u>100.00%</u>

Calculated Using Market Value at 10/31/2016

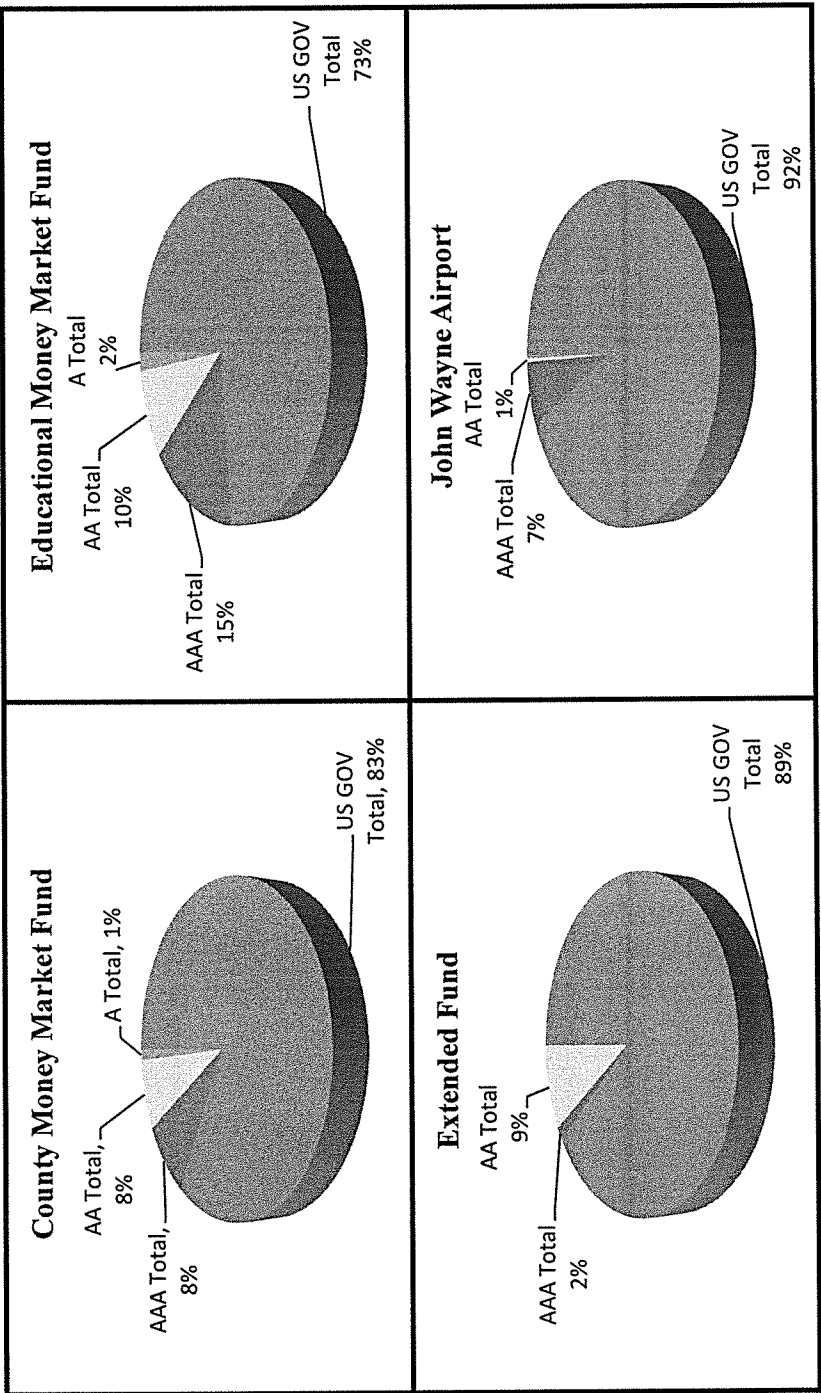
**ORANGE COUNTY TREASURER - TAX COLLECTOR**  
**CREDIT QUALITY BY MARKET VALUE**  
October 31, 2016



US GOV Includes Agency & Treasury Debt  
AA Includes AA+, AA- & AA  
A Includes A+, A- & A  
A-1 Includes A-1+, F-1+, P-1, A-1 & F-1

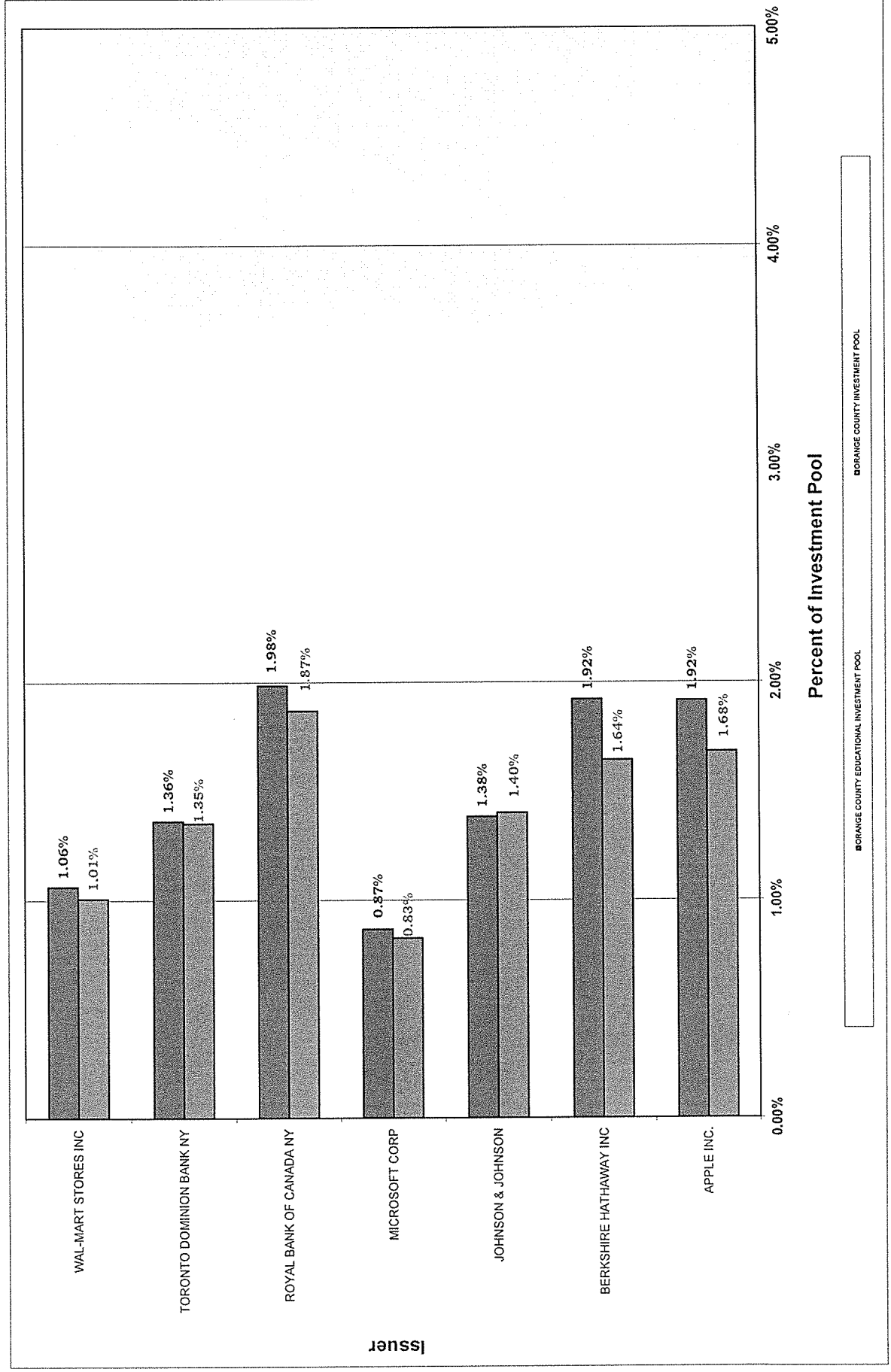
# ORANGE COUNTY TREASURER - TAX COLLECTOR CREDIT QUALITY BY MARKET VALUE

October 31, 2016

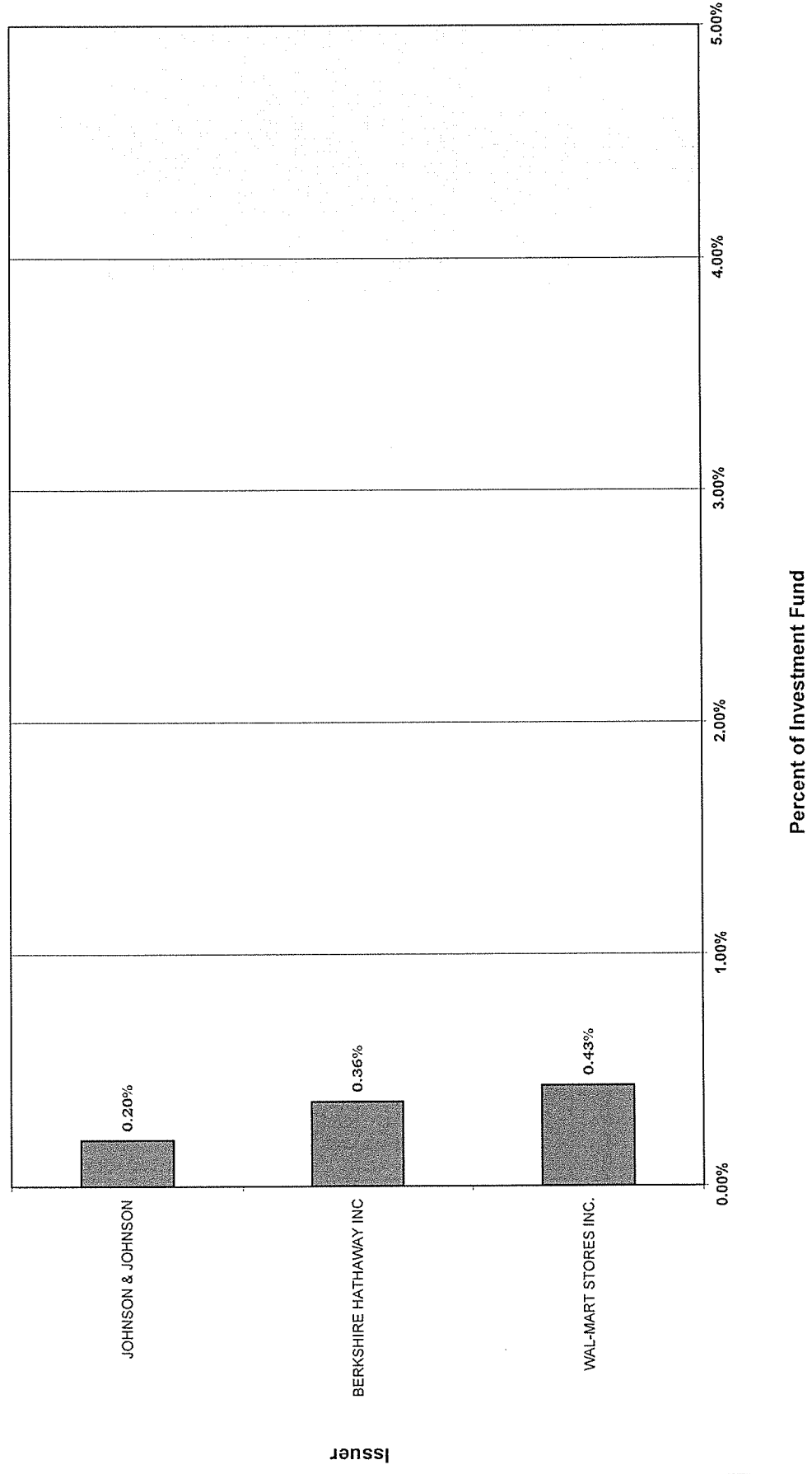


US GOV Includes Agency & Treasury Debt  
 AA Includes AA+, AA- & AA  
 A Includes A+, A- & A  
 A-1 Includes A-1+, F-1+, P-1, A-1 & F-1

# **ORANGE COUNTY TREASURER - TAX COLLECTOR** **ISSUER CONCENTRATION-By Investment Pool** October 31, 2016



**ORANGE COUNTY TREASURER - TAX COLLECTOR**  
**ISSUER CONCENTRATION - JOHN WAYNE AIRPORT INVESTMENT FUND**  
 October 31, 2016





**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**APPROVED ISSUER LIST - OCIP, OCEIP, and JWA**  
October 31, 2016

ISSUER	S/T RATINGS			L/T RATINGS		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
<b>U.S. TREASURY SECURITIES</b>						
U.S. GOVERNMENT	A-1+	P-1	F1+	AA+	Aaa	AAA
<b>U.S. GOVERNMENT AGENCY SECURITIES</b>						
FEDERAL NATIONAL MORTGAGE ASSOCIATION	A-1+	P-1	F1+	AA+	Aaa	AAA
FEDERAL HOME LOAN MORTGAGE CORPORATION	A-1+	P-1	F1+	AA+	Aaa	AAA
FEDERAL HOME LOAN BANKS	A-1+	P-1	NR	AA+	Aaa	NR
FEDERAL FARM CREDIT BANKS	A-1+	P-1	F1+	AA+	Aaa	AAA
<b>MEDIUM-TERM NOTES</b>						
APPLE INC	A-1+	P-1	NR	AA+	Aa1	NR
BERKSHIRE HATHAWAY INC	A-1+	P-1	NR	AA	Aa2	A+
BERKSHIRE HATHAWAY FINANCE	NR	P-1	NR	NR	Aa2	A+
JOHNSON & JOHNSON	A-1+	P-1	F1+	AAA	Aaa	AAA
WAL-MART STORES INC	A-1+	P-1	F1+	AA	Aa2	AA
<b>ISSUERS ON HOLD</b>						
MICROSOFT CORPORATION ***	A-1+	P-1	F1+	AAA	Aaa	AA+
ROYAL BANK OF CANADA NY *****	A-1+	P-1	F1+	AA-	Aa3	AA
<b>STATE OR NATIONALLY CHARTERED BANKS *</b>						
TORONTO DOMINION BANK NY *****	A-1+	P-1	F1+	AA-	Aa1	AA-
<b>MUNICIPAL BONDS</b>						
ORANGE CNTY CA PENSION OBLG 2016 A	NR	NR	F1+	AA	NR	AA
<b>MONEY MARKET MUTUAL FUNDS **</b>						
NAME OF FUND	S & P		Moody's		Fitch	
INVESCO GOVERNMENT & AGENCY SHORT-TERM INVESTMENTS TRUST (AIM)	AAAm		Aaa-mf		AAAmmf	
GOLDMAN SACHS FINANCIAL SQUARE GOVT FUND	AAAm		Aaa-mf		NR	
MORGAN STANLEY INSTITUTIONAL LIQUIDITY FUNDS - GOVT	AAAm		Aaa-mf		NR	
NORTHERN INSTITUTIONAL TREASURY PORTFOLIO	AAAm		NR		NR	

\* Further purchase restrictions apply due to additional trading limits.

\*\* All money market funds are institutional money market funds investing in debt issued or guaranteed by the U.S. Government and its agencies.

\*\*\* On Negative Outlook (Moody's L/T rating - July 25, 2016); on Negative Watch (Fitch L/T rating - June 15, 2016)

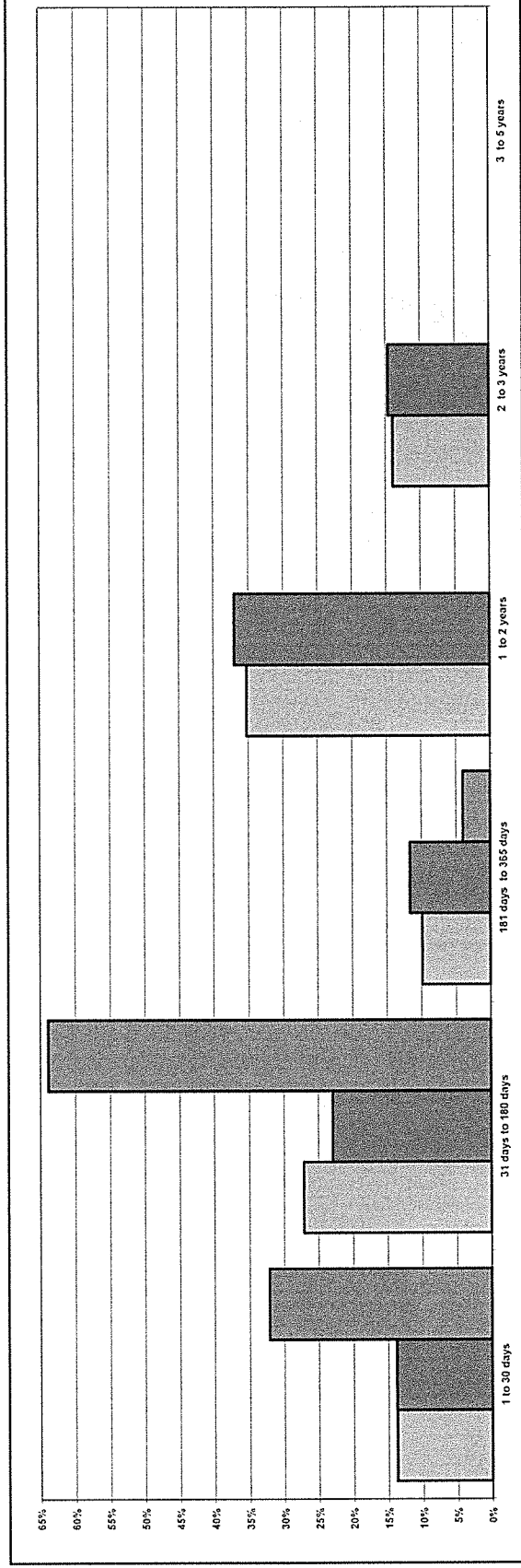
\*\*\*\* On Negative Outlook (S&P - June 6, 2016; Fitch - January 25, 2016; Moody's - June 11, 2014)

\*\*\*\*\* On Negative Outlook (Moody's - June 11, 2014)

**Orange County Treasurer-Tax Collector  
Changes in Approved Issuer's List  
For the Month Ended October 31, 2016**

During October, there were no changes to the Treasurer's Approved Issuer List.

# ORANGE COUNTY TREASURER - TAX COLLECTOR MATURITIES DISTRIBUTION October 31, 2016



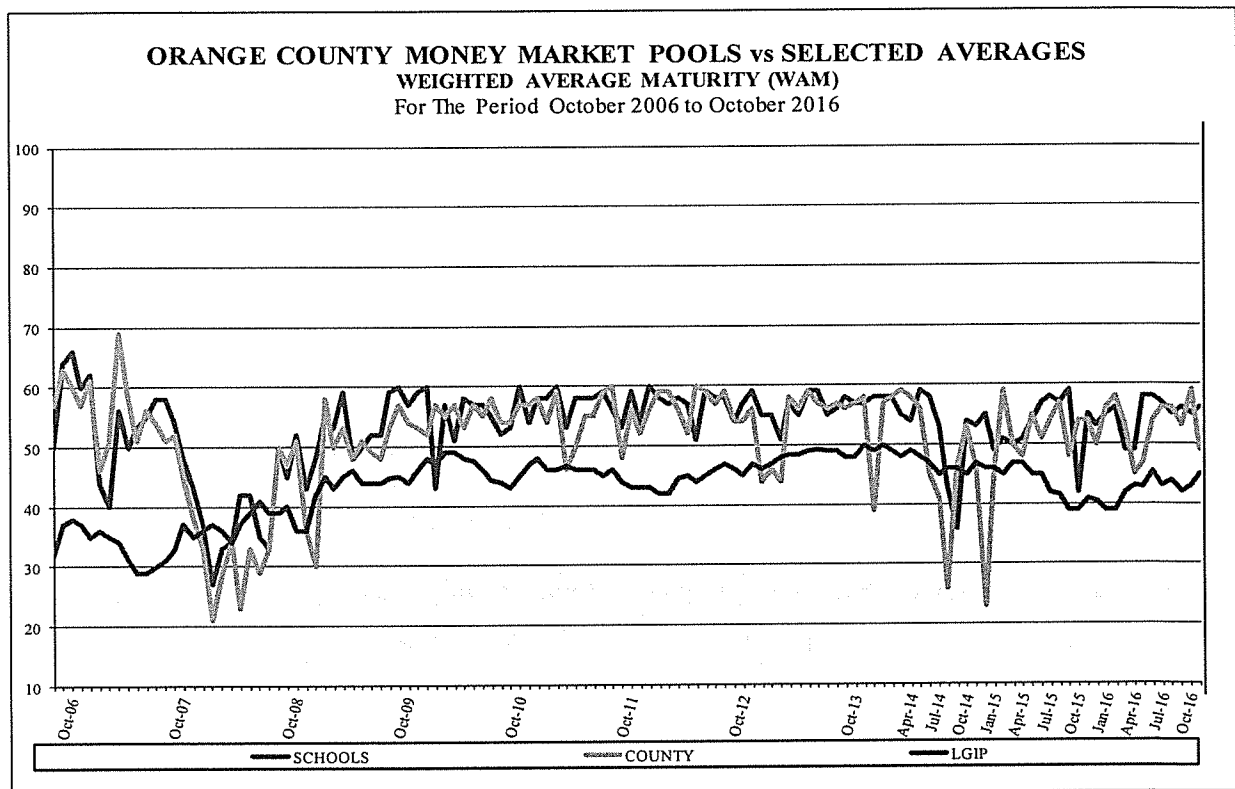
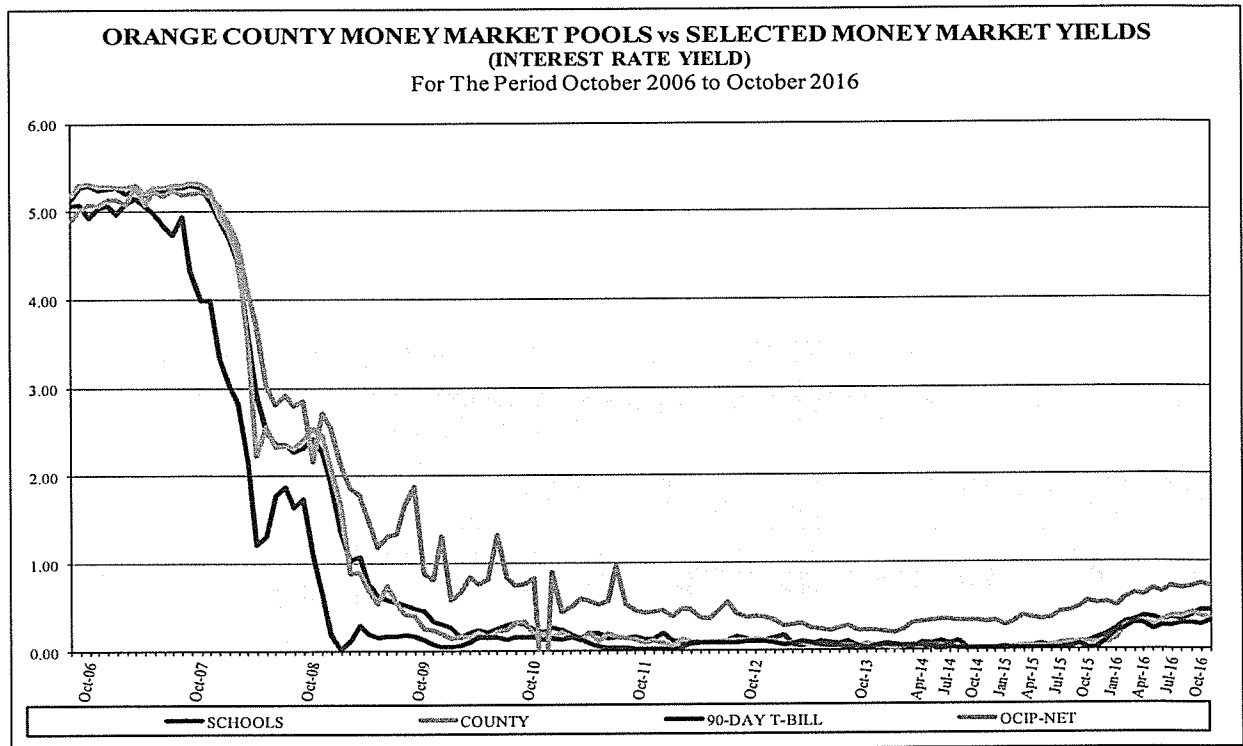
ORANGE COUNTY INVESTMENT POOL			
	In Thousands		%
1 TO 30 DAYS	\$ 567,491		13.79%
31 TO 180 DAYS	1,118,747		27.16%
181 TO 365 DAYS	407,557		9.90%
1 YEAR TO 2 YEARS	1,451,060		35.23%
2 YEARS TO 3 YEARS	573,631		13.93%
3 YEARS TO 5 YEARS	-		0.00%
<b>TOTAL</b>	<b>\$ 4,118,486</b>		<b>100.00%</b>

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL			
	In Thousands		%
1 TO 30 DAYS	\$ 497,366		13.82%
31 TO 180 DAYS	825,198		22.93%
181 TO 365 DAYS	418,181		11.62%
1 YEAR TO 2 YEARS	1,331,568		37.00%
2 YEARS TO 3 YEARS	526,394		14.63%
3 YEARS TO 5 YEARS	-		0.00%
<b>TOTAL</b>	<b>\$ 3,598,708</b>		<b>100.00%</b>

JOHN WAYNE AIRPORT INVESTMENT FUND			
	In Thousands		%
1 TO 30 DAYS	\$ 16,115		32.15%
31 TO 180 DAYS	32,003		63.86%
181 TO 365 DAYS	2,000		3.99%
1 YEAR TO 2 YEARS	-		0.00%
<b>TOTAL</b>	<b>\$ 50,118</b>		<b>100.00%</b>

Maturity Limits Are In Compliance With The Orange County Treasurer's Investment Policy Statement  
 Calculated using Face Value

Floating Rate Notes are deemed to have a maturity date equal to their next interest reset date.  
 At 10/31/2016, Floating Rate Notes comprise 2.04%, 3.19%, and 7.10% of the Orange County Investment Pool, Orange County Educational Investment Pool, and JWA Investment Fund respectively.



•As of October 31, 2016, S&P LGIP – 0.48; S&P LGIP WAM -45; 90-Day T-Bill – 0.32; OCIP – Net – 0.736

**ORANGE COUNTY TREASURER-TAX COLLECTOR**

**INVESTMENT POOL YIELDS**

November 1, 2015 - October 31, 2016

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	GROSS AVERAGE YIELD FOR MONTH	MONTH END WAM
<i>Current Month - October 2016</i>				
County Pool - Money Market Fund	\$ 1,262,431,238	\$ 351,585	0.41%	49
Educational Pool - Money Market Fund	\$ 978,305,500	\$ 469,767	0.51%	56
Extended Fund	\$ 5,497,309,348	\$ 4,298,117	0.92%	504
<i>September 2016</i>				
County Pool - Money Market Fund	\$ 751,801,815	\$ 278,284	0.46%	59
Educational Pool - Money Market Fund	\$ 1,220,526,096	\$ 498,234	0.46%	55
Extended Fund	\$ 5,494,463,600	\$ 4,191,758	0.93%	501
<i>August 2016</i>				
County Pool - Money Market Fund	\$ 686,861,455	\$ 325,471	0.45%	56
Educational Pool - Money Market Fund	\$ 1,433,126,604	\$ 519,773	0.41%	55
Extended Fund	\$ 5,327,781,739	\$ 4,052,122	0.89%	501
<i>July 2016</i>				
County Pool - Money Market Fund	\$ 686,861,455	\$ 325,471	0.45%	56
Educational Pool - Money Market Fund	\$ 1,433,126,604	\$ 519,773	0.41%	55
Extended Fund	\$ 5,327,781,739	\$ 4,052,122	0.89%	501
<i>June 2016</i>				
County Pool - Money Market Fund	\$ 928,467,500	\$ 418,507	0.44%	56
Educational Pool - Money Market Fund	\$ 1,611,309,522	\$ 519,651	0.43%	57
Extended Fund	\$ 5,387,530,673	\$ 4,192,339	0.95%	512
<i>May 2016</i>				
County Pool - Money Market Fund	\$ 1,345,822,973	\$ 487,226	0.39%	54
Educational Pool - Money Market Fund	\$ 1,550,458,922	\$ 554,610	0.39%	58
Extended Fund	\$ 5,364,702,464	\$ 4,084,932	0.90%	532
<i>April 2016</i>				
County Pool - Money Market Fund	\$ 1,650,959,211	\$ 611,665	0.34%	47
Educational Pool - Money Market Fund	\$ 1,789,408,388	\$ 534,423	0.43%	58
Extended Fund	\$ 5,336,146,252	\$ 4,277,809	1.00%	526
<i>March 2016</i>				
County Pool - Money Market Fund	\$ 1,530,995,992	\$ 435,530	0.38%	45
Educational Pool - Money Market Fund	\$ 1,327,818,642	\$ 514,646	0.44%	49
Extended Fund	\$ 5,066,946,597	\$ 3,687,551	0.86%	507
<i>February 2016</i>				
County Pool - Money Market Fund	\$ 1,356,697,509	\$ 358,060	0.36%	53
Educational Pool - Money Market Fund	\$ 1,418,948,794	\$ 502,610	0.41%	49
Extended Fund	\$ 5,055,918,854	\$ 3,563,588	0.89%	501
<i>January 2016</i>				
County Pool - Money Market Fund	\$ 1,181,133,064	\$ 378,119	0.33%	58
Educational Pool - Money Market Fund	\$ 1,734,538,876	\$ 564,397	0.37%	56
Extended Fund	\$ 5,049,818,559	\$ 3,563,663	0.83%	503
<i>December 2015</i>				
County Pool - Money Market Fund	\$ 1,720,712,911	\$ 294,202	0.20%	56
Educational Pool - Money Market Fund	\$ 1,925,021,216	\$ 321,451	0.31%	55
Extended Fund	\$ 5,036,016,892	\$ 3,442,794	0.80%	525
<i>November 2015</i>				
County Pool - Money Market Fund	\$ 1,494,036,511	\$ 139,050	0.14%	50
Educational Pool - Money Market Fund	\$ 628,302,751	\$ 135,146	0.24%	53
Extended Fund	\$ 5,037,742,541	\$ 3,334,886	0.81%	532
<b><i>Fiscal Year July 1, 2016 - June 30, 2017</i></b>	<b>Average Month End Market Value Balance</b>	<b>YTD Interest Income</b>	<b>YTD Gross Yield</b>	<b>YTD Average</b>
Orange County Investment Pool	\$ 3,687,915,870	\$ 11,107,710	0.80%	394
Orange County Educational Investment Pool	\$ 3,845,443,718	\$ 10,064,433	0.75%	359

# ORANGE COUNTY TREASURER-TAX COLLECTOR

## CASH AVAILABILITY PROJECTION

### FOR THE SIX MONTHS ENDING APRIL 30, 2017

Government Code Section 53646 (b) (3), effective on January 1, 1996, requires the Treasurer-Tax Collector to include a statement in the investment report, denoting the ability of the Orange County Investment Pool (OCIP) and the Orange County Educational Investment Pool (OCEIP) to meet their expenditure requirements for the next six months.

The OCIP and OCEIP consist of funds in the treasury deposited by various entities required to do so by statute, as well as those entities voluntarily depositing monies in accordance with Government Code Section 53684.

The Treasurer-Tax Collector is required to disburse monies placed in the treasury as directed by the Auditor-Controller and the Department of Education, except for the making of legal investments, to the extent funds are transferred to one or more clearing funds in accordance with Government Code Section 29808.

The Treasurer-Tax Collector, in her projection of cash availability to disburse funds as directed by the Auditor-Controller and the Department of Education, is relying exclusively on historical activity involving deposits and disbursements and future cash flow projections. No representation is made as to an individual depositor's ability to meet their anticipated expenditures with anticipated revenues.

The Cash Availability Projection for the six months ending April 30, 2017, indicates the ability of the pools to meet projected cash flow requirements. However, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

ORANGE COUNTY INVESTMENT POOL					
Month	Investment Maturities	Projected Deposits	Projected Disbursements	Cumulative Available Cash	
October 2016 - Ending Cash				\$	22,792,437
November	\$ 561,604,103	\$ 1,080,031,549	\$ 910,842,925		753,585,164
December	411,781,089	2,131,818,513	1,946,705,225		1,350,479,542
January	336,036,954	423,769,690	1,039,800,974		1,070,485,212
February	179,585,700	399,341,557	327,501,478		1,321,910,991
March	144,862,716	774,743,709	592,769,257		1,648,748,159
April	60,792,615	2,040,131,589	1,786,910,013		1,962,762,350

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL					
Month	Investment Maturities	Projected Deposits	Projected Disbursements	Cumulative Available Cash	
October 2016 - Ending Cash				\$	4,057,465
November	\$ 430,280,802	\$ 744,000,022	\$ 641,379,153		536,959,136
December	196,831,537	1,274,123,613	444,751,428		1,563,162,858
January	202,197,298	530,435,797	867,703,186		1,428,092,767
February	215,012,039	267,968,367	637,382,992		1,273,690,181
March	148,250,901	420,143,456	688,295,720		1,153,788,817
April	77,247,991	1,132,356,689	668,971,299		1,694,422,198

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**STATEMENT OF ACCOUNTABILITY**  
**For the Month Ended October 31, 2016**

	<u>Month</u>
<b>Treasurer's Accountability at the Beginning of the Period:</b>	<b><u>\$7,662,612,084</u></b>
<b>Cash Receipts:</b>	
County	955,274,791
School and Community College Districts	466,542,712
<b>Total Cash Receipts</b>	<b><u>1,421,817,503</u></b>
<b>Cash Disbursements:</b>	
County	434,451,646
School and Community College Districts	706,807,866
<b>Total Cash Disbursements</b>	<b><u>1,141,259,512</u></b>
<b>Net Change in Book Value of Pooled Assets</b>	<b><u>280,557,991</u></b>
<b>Net Increase in Non Pooled Investments</b>	<b>41,844</b>
<b>Net Increase in Non Pooled Cash</b>	<b><u>8,339,289</u></b>
<b>Treasurer's Accountability at the End of the Period:</b>	<b><u>\$7,951,551,208</u></b>
<b>Assets in the Treasury at the End of the Period (at Book Value):</b>	
<b>Pooled Investments:</b>	
O.C. Investment Pool	\$ 4,137,242,005
O.C. Educational Investment Pool	3,616,741,199
<b>Total Orange County Investment Pools</b>	<b><u>7,753,983,204</u></b>
<b>Non Pooled Investments:</b>	
Non Pooled Investments - John Wayne Airport	50,283,751
Non Pooled Investments - General Fund – Non AMT Restricted	67,361,904
Non Pooled Investments - Fountain Valley School District Fund 40	34,909,367
Non Pooled Investments - Other	1,081,500
<b>Total Non Pooled Investments</b>	<b><u>153,636,522</u></b>
<b>Cash:</b>	
Cash in banks - County	22,612,705
Cash in banks - Schools	4,057,194
Cash in banks - OC Sheriff	7,944,732
Cash in banks - John Wayne Airport	9,144,703
Cash - Other	172,148
<b>Total Cash</b>	<b><u>43,931,482</u></b>
<b>Total Assets in the Treasury at the End of the Period:</b>	<b><u>\$ 7,951,551,208</u></b>

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
INVESTMENT POLICY (IPS) COMPLIANCE SUMMARY  
September 30, 2016**

Investment Policy (IPS) Guidelines	Investment Type	County Money Market Fund		Extended Fund		Educational Money Market Fund		John Wayne Airport Investment Fund	
		Market Value of Investments (1)	Percent of Portfolio	Market Value of Investments (1)	Percent of Portfolio	Market Value of Investments (1)	Percent of Portfolio	Market Value of Investments (1)	Percent of Portfolio
30%	Negotiable Certificates of Deposit	\$ 35,002,380	4.66%	\$ 200,396,653	3.65%	\$ 46,208,755	3.79%	\$ -	0.00%
40%	Commercial Paper	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100%	U.S. Government Agencies	462,497,212	61.52%	3,538,710,305	64.41%	661,973,435	54.24%	38,797,482	77.31%
30%	Medium-Term Notes	68,662,442	9.13%	360,669,825	6.56%	75,149,866	6.16%	501,313	1.00%
20%	Money Market Mutual Funds	110,825,242	14.74%	-	0.00%	212,573,226	17.41%	7,886,518	15.72%
30%	Municipal Debt	24,812,039	3.30%	99,017,057	1.80%	24,512,045	2.00%	-	0.00%
100%	Repurchase Agreement	-	0.00%	-	0.00%	-	0.00%	-	0.00%
30%	Supranationals	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100%	U.S. Treasuries	50,002,500	6.65%	1,295,669,759	23.68%	200,109,769	16.40%	2,998,132	5.97%
		\$ 751,801,815	100.00%	\$ 5,494,463,599	100.00%	\$ 1,220,526,096	100.00%	\$ 50,183,445	100.00%

Investment Policy Guidelines	Compliance Category (Yes/No)	County Money Market Fund		Extended Fund		Educational Money Market Fund		John Wayne Airport Investment Fund	
		Yes	Yes <sup>(2)</sup>	Yes	Yes	Yes	Yes	Yes	Yes
5%	Percentage Limits	Yes	Yes <sup>(2)</sup>	Yes	Yes	Yes	Yes	Yes	Yes
20%	Issuer Limit	Yes	Yes <sup>(2)</sup>	N/A	N/A	Yes <sup>(2)</sup>	Yes <sup>(2)</sup>	Yes	Yes
33% (4)	Money Market Mutual Fund Issuer	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
See Above	Government Agencies Issuer	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Diversification Limit	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
60 Days	Maturity/Duration Limits	Yes	Yes	N/A	N/A	Yes/54.77	N/A	N/A	N/A
90 Days	Weighted Average Maturity - Money Market Fund	Yes/58.51	N/A	N/A	N/A	N/A	N/A	Yes/54.67	N/A
>Merrill 1-3 Year Index+25% (2.38)	Weighted Average Maturity - John Wayne Airport Investment Fund (JWA)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
13 Months/397 days	Duration	N/A	N/A	Yes/1.28	N/A	N/A	N/A	N/A	N/A
15 Months/456 days	Final Maturity - Money Market Fund	Yes/336	N/A	N/A	N/A	Yes/336	N/A	N/A	N/A
5 Years/1826 days	Final Maturity - John Wayne Airport Investment Fund	N/A	N/A	N/A	N/A	N/A	N/A	Yes/273	N/A
	Final Maturity - Extended Fund	N/A	N/A	Yes/1036	N/A	N/A	N/A	N/A	N/A
A-1/≥ A	Quality Limits	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes
≥ A-1/P-1/P2	MMF Short Term/Long Term	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes
A-1/≥ AA (2)	Short Term Debt/No Split Ratings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Approved Issuer List	Extended Fund Short Term/Long Term	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Broker/Dealer List	Authorized Issuer	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
0.995 - 1.005	Authorized Financial Dealer/Institution	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Net Asset Value - Money Market Fund and JWA	Yes/1.0002	Yes/1.0002	N/A	N/A	Yes/1.0002	Yes/1.0002	Yes/1.0002	Yes/1.0002

- (1) All investments are marked to market in compliance with the narrow valuation range prescribed by the IPS and market values are provided by Bloomberg Professional Services and Northern Trust.  
(2) Excludes US Government Debt per IPS policy approved by the Board of Supervisors on December 15, 2015.  
(3) Rating Agency requirements limit investment in each Money Market Mutual Fund to 10%. On October 31, 2016, the Educational Money Market Fund had 11.4% in one Money Market Mutual Fund that was back in compliance with rating agency requirements on November 2, 2016.  
(4) GSE issuers rated 'AA-' or higher with final maturities of 30 days or less are excluded from the calculation of the 33% limit.  
NA Not applicable

Note: Compliance exceptions, if any, are noted by red shading for the specific IPS guideline and investment pool.



**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT POLICY (IPS) AND TREASURY OVERSIGHT COMMITTEE (TOC) COMPLIANCE SUMMARY**  
**October 31, 2016**

COMPLIANCE CATEGORY	PERFORMED BY	REGULATORY/POLICY GUIDELINES	CURRENT STATUS
Annual Compliance Audit	ACIA	Performance Evaluation-Cal Govt. Code 27134	Annual audit of calendar year 2015 completed.
Quarterly Schedule of Assets Review	ACIA	Performance Evaluation-Cal Govt. Code 26920(a)	Quarter ended September 30, 2016 in progress.
Annual Schedule of Assets Audit	ACIA	Performance Evaluation-Cal Govt. Code 26920(b)	Annual audit as of June 30, 2016 in progress.
Quarterly Continuous Compliance Auditing	ACIA	TOC Directive	Quarter ended September 30, 2016 in progress.
Treasury Administrative Fee	TTC	Compensation Agreement-Cal Govt. Code 27013	Annual review of fees for FY 14/15 and FY 15/16 in progress.
Annual Broker/Dealer Review	TTC	Authorized Financial Dealers and Qualified Institutions	Annual review of calendar year 2015 completed.
Annual Broker/Dealer IPS Certification	TTC	Authorized Financial Dealers and Qualified Institutions	All 2016 IPS certifications received.
IPS Compliance Deficiencies	TTC	Investment/Diversification/Maturity Restrictions	FY 16/17 identified zero compliance incidents as of October 31, 2016.
TOC Bylaw Changes	BOS	TOC Review and BOS Annual Approval	TOC reviewed Bylaws and made one change at the October 19, 2016 meeting. BOS approval scheduled for November 22, 2016.
Annual IPS Approval	BOS	TOC Review and BOS Annual Approval	TOC reviewed proposed IPS changes at the October 19, 2016 meeting and did not make any additional changes. BOS approval scheduled for November 22, 2016.
TOC Annual Report	BOS	TOC Bylaws Rule 30 - Oral and Written Report	TOC 2015 Annual Report was presented to BOS on February 9, 2016.
Broker/Financial Institution List	TTC	OC Gift Ban Ordinance and Form 700	TOC members were provided a list of active TTC Broker/Dealers and Financial Institutions at the TOC meeting on October 19, 2016.
Certificates of Compliance	TTC	TOC Bylaws Rule 34 - Annual	TOC members are in compliance for 2016.
Ethics Training	TTC	TOC Bylaws Rule 34 - Every Two Years	TOC members are in compliance for Calendar Year 2014.
Conflict of Interest Form 700 Filing	TTC	TOC Bylaws Rule 34 / IPS - Every Year	TOC members are in compliance for Calendar Year 2016.

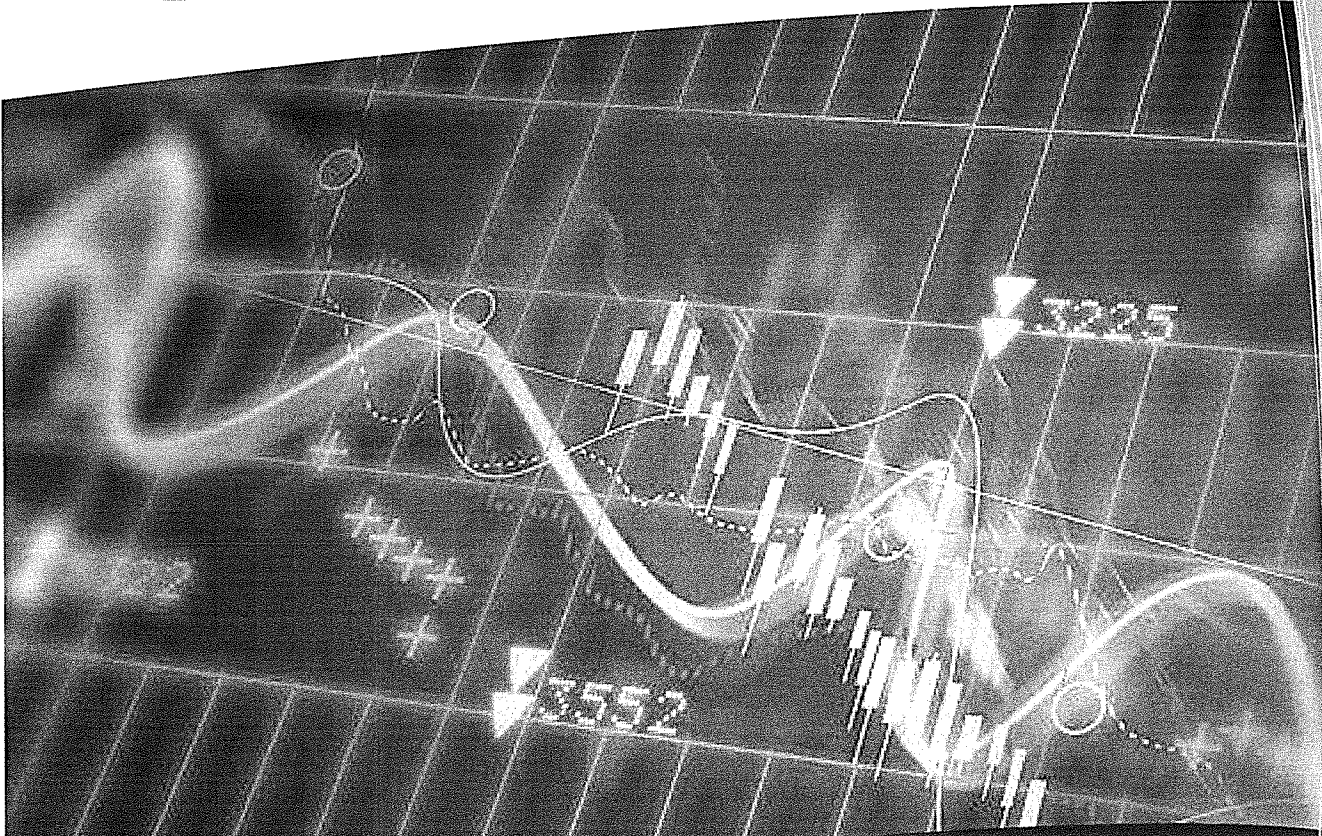
LEGEND	
Auditor-Controller Internal Audit	ACIA
Board of Supervisors	BOS
Treasury Oversight Committee	TOC
Office of Treasurer-Tax Collector	TTC

**Orange County Treasurer-Tax Collector  
Noncompliance Detail  
For the Month Ended October 31, 2016**

During October, the Orange County Investment Pool (OCIP), the Orange County Educational Investment Pool (OCEIP), and the John Wayne Airport Investment Fund were all free of noncompliance incidents.

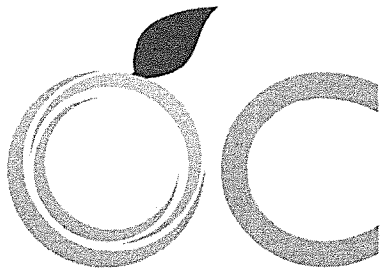


# Orange County Auditor-Controller Internal Audit



Office of the Orange County Treasurer  
Compliance Audit  
For the Year Ended December 31, 2015

Audit Number 1513  
Report Date: November 1, 2016



O R A N G E C O U N T Y  
**AUDITOR-CONTROLLER**  
I N T E R N A L A U D I T

**Eric H. Woolery, CPA**  
**Orange County Auditor-Controller**

<b>Toni Smart, CPA</b>	<b>Director, Internal Audit</b>
<b>Scott Suzuki, CPA, CIA, CISA</b>	<b>Assistant Director</b>
<b>Carol Swe, CPA, CIA, CISA</b>	<b>Senior Audit Manager</b>
<b>Michael Steinhaus, CPA, CGMA</b>	<b>Audit Manager I</b>
<b>Scott Kim, CPA</b>	<b>Senior Auditor</b>

**12 Civic Center Plaza, Room 200**  
**Santa Ana, CA 92701**

**Auditor-Controller Web Site**  
**[www.ac.ocgov.com](http://www.ac.ocgov.com)**



**ERIC H. WOOLERY, CPA**  
AUDITOR-CONTROLLER



**Transmittal Letter**

**November 1, 2016**

**Audit No. 1513**

**TO:** Members, Treasury Oversight Committee

**SUBJECT:** Office of the Orange County Treasurer Compliance Audit  
For the Year Ended December 31, 2015

At the direction of the Orange County Treasury Oversight Committee, we have completed our examination of the Office of the Orange County Treasurer's compliance with California Government Code Sections 27130 through 27137 and the Orange County Treasurer Investment Policy Statement during the year ended December 31, 2015. This annual examination is required by Government Code Section 27134. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. The results of this engagement will be included in future status reports to the AOC and BOS.

Please feel free to call me should you wish to discuss any aspect of our audit report. Additionally, we will request the department complete a **Customer Survey** of Audit Services. The Office of the Orange County Treasurer will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division

**Attachments**

Other recipients of this report are listed on the Independent Accountant's Report on pages 1 and 2.



# Table of Contents

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*Office of the Orange County Treasurer  
Compliance Audit  
Audit No. 1513*

For the Year Ended December 31, 2015

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Conclusion	6



# Independent Accountant's Report

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## Independent Accountant's Report

Gary G. Capata, CPA, Chair, Public Member  
Treasury Oversight Committee  
625 North Ross Street, Building 11  
Santa Ana, California 92701

We have examined the Office of the Orange County Treasurer's (Treasurer) compliance with the Treasury Oversight Committee provisions contained in California Government Code, Article 6, Sections 27130 through 27137 and the Orange County Treasurer Investment Policy Statement for the year ended December 31, 2015. The Treasurer's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Treasurer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasurer's compliance with specified requirements.

In our opinion, the Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2015.

This report is intended solely for the information and use of the County Treasury Oversight Committee, the management of the Office of the Orange County Treasurer, and the Board of Supervisors and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division  
Santa Ana, California

November 1, 2016

### **Members, Treasury Oversight Committee Distribution:**

Gary G. Capata, Public Member (Chair)  
Laura Parisi, Public Member (Vice-Chair)  
Hon. Dr. Al Mijares, County Superintendent, OC Department of Education  
Eric Woolery, Auditor-Controller  
Frank Kim, County Executive Officer  
William "Andy" Dunn, Public Member  
Richard A. Rohm, Public Member



# Independent Accountant's Report

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## **Distribution Pursuant to Audit Oversight Committee Procedure No. 1:**

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Shari L. Freidenrich, Treasurer-Tax Collector  
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector – Treasury  
JC Squires, Financial Manager, Treasurer-Tax Collector  
Michelle Aguirre, Chief Financial Officer  
Claire Moynihan, Director, Central Accounting Operations, Auditor-Controller  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor





# Supplemental Information

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**Office of the Orange County Treasurer  
Compliance Audit  
For the Year Ended December 31, 2015**

## **Background and General**

In 1995, the California legislature passed provisions requiring each county to establish an oversight committee of from 3 to 11 members representing various organizations, where the pool of organizations was also specified in the legislation. The purpose of this committee was to oversee the policies that guide the investment of public funds. The committee was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting. In 2005, the law changed to make the committee optional at the discretion of a California county. The County of Orange has elected to continue its Treasury Oversight Committee (TOC).

## **Establishment and Composition of Committee**

The TOC was established by the Board of Supervisors (BOS) on December 19, 1995 by Resolution No. 95-946 in accordance with the California Government Code Article 6 of Division 2 of Title 3, Sections 27130 through 27137. The TOC structure approved by the BOS consists of seven members: the County Auditor-Controller or designee, the County Executive Officer or designee, the County Superintendent of Schools or designee, and four members of the public. The members of the TOC as of December 31, 2015 were as follows:

<u>Name</u>	<u>Member Type</u>
Laura Parisi (Chair)	Public Member
William "Andy" Dunn (Vice Chair)	Public Member
Gary Capata	Public Member
Frank Kim	County Executive Officer
Al Mijares	County Superintendent of Schools
Richard Rohm	Public Member
Eric Woolery	Auditor-Controller

## **Compliance Audit Requirement**

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. California Government Code Section 27134 requires an annual audit to determine compliance with the provisions. This audit serves to comply with that requirement.

## **Committee Operation**

During 2015, five TOC meetings were held on the following dates: January 28, April 22, July 29, September 28, and October 28. We reviewed the minutes and believe that the meetings were properly conducted in order to provide oversight.

## **Investment Policy Statement Requirement**

California Government Code Section 27133 requires the County Treasurer to annually prepare an investment policy statement. The Orange County Treasurer Investment Policy Statement (IPS) is reviewed by the TOC and submitted to the BOS for approval on an annual basis. We found that this was properly done and a policy was submitted to and approved by the Orange County Board of Supervisors on December 16, 2014.



# Supplemental Information

## Investment Policy Review

We reviewed the requirement specified in Government Code Section 27133, subsections (a) through (h). We believe the policy addressed all the required provisions as follows:

<u>Requirement</u>	<u>Policy Section</u>	<u>Deemed Compliant</u>
(a) Authorized securities	VI	Yes
Maximum percentage by type	VIII	Yes
(b) Maximum terms	VIII	Yes
(c) Criteria for selection of brokers	XI	Yes
Prohibition of political donations	XI	Yes
(d) Limits on gifts	X	Yes
(e) Reporting to Oversight Committee	XXI	Yes
(f) Calculation of treasurer's costs	XVI	Yes
(g) Voluntary depositors	XVII	Yes
(h) Requests to withdrawal	XVIII	Yes

As shown above, we believe the policy adopted contained all the provisions specified in the oversight legislation.

## Investment Compliance Requirements

The investment compliance requirements presented in Government Code Sections 27130 through 27137 are summarized as follows:

### Government Code 27130

The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds.

### Government Code 27131

The board of supervisors in each county may, if the county is investing surplus funds, establish a county treasury oversight committee consisting of from three to eleven members. Members shall be nominated by the treasurer and confirmed by the board of supervisors.

### Government Code 27132

The county treasury oversight committee shall consist of members appointed from the following: county treasurer; county auditor, auditor-controller, or finance director; a representative appointed by the county board of supervisors; the county superintendent of schools or designee; a representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county; a representative selected by a majority of the presiding officers of the legislative bodies of the special districts; up to five other members of the public who either have expertise or an academic background in public finance and are economically diverse and bipartisan in political registration.



# Supplemental Information

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## Investment Compliance Requirements, continued

### Government Code 27132.1

Committee members may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

### Government Code 27132.2

Committee members may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

### Government Code 27132.3

Committee members may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

### Government Code 27132.4

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act.

### Government Code 27133

The county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include subsections (a) through (h) noted in the Investment Policy Review Section on page 4.

### Government Code 27134

The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article [Government Code Sections 27130 through 27137].

### Government Code 27135

The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.

### Government Code 27136

Notwithstanding any other provision of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.

The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.

### Government Code 27137

Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.



# Supplemental Information

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## **Conclusion**

We reviewed the Office of the Orange County Treasurer's actual practices during 2015 to determine compliance with California Government Code Sections 27130 through 27137 and the Orange County Treasurer Investment Policy Statement. In our opinion, the Orange County Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2015.

# MONTHLY TREASURER'S INVESTMENT REPORT

## Distribution List

---

### County of Orange Elected Officials

Honorable Sandra Hutchens, Sheriff-Coroner  
Honorable Hugh Nguyen, Clerk-Recorder  
Honorable Claude Parrish, Assessor  
Honorable Anthony J. Rackauckas, Jr., District  
Attorney/Public Administrator  
Honorable Eric Woolery, Auditor-Controller

### Treasury Oversight Committee

Gary Capata  
William "Andy" Dunn  
Frank Kim  
Al Mijares  
Laura Parisi  
Richard Rohm  
Eric Woolery

### County of Orange Departments

Assessor  
Auditor-Controller  
Child Support Services  
Clerk of the Board  
Clerk-Recorder  
County Counsel  
County Executive Office  
District Attorney/Public Administrator  
Health Care Agency  
Human Resources Services  
John Wayne Airport  
OC Community Resources  
OC Dana Point Harbor  
OC Public Works  
OC Waste & Recycling  
Independent Review  
Performance Audit  
Probation  
Public Defender  
Registrar of Voters  
Sheriff-Coroner  
Social Services Agency

### County Agencies

Children & Families Commission  
Civic Center Commission  
Law Library  
Orange County Employees Retirement System  
Orange County Cemetery District  
Orange County Fire Authority  
Orange County Transportation Authority  
Transportation Corridor Agencies

### State of California

CDIAC  
Superior Court

### Orange County School Districts

Orange County Department of Education  
Anaheim City School District  
Anaheim Union High School District

Brea-Olinda Unified School District  
Buena Park School District  
Capistrano Unified School District  
Centralia School District  
Cypress School District  
Fountain Valley School District  
Fullerton School District  
Fullerton Joint Union High School District  
Garden Grove Unified School District  
Huntington Beach City School District  
Huntington Beach Union High School District  
Irvine Unified School District  
Laguna Beach Unified School District  
La Habra City School District  
Los Alamitos Unified School District  
Lowell Joint School District  
Magnolia School District  
Newport-Mesa Unified School District  
Ocean View School District  
Orange Unified School District  
Placentia-Yorba Linda Unified School District  
Saddleback Valley Unified School District  
Santa Ana Unified School District  
Savanna School District  
Tustin Unified School District  
Westminster School District

### Orange County Community College Districts (CCD)

Coast Community CCD  
North Orange County CCD  
Rancho-Santiago CCD  
South Orange County CCD

### Orange County Regional Occupational Programs (ROP)

Capistrano-Laguna Beach ROP  
Coastline ROP  
North Orange County ROP

### Voluntary Pool Participants (date approved)

Serrano Water District (6-22-99)  
City of Villa Park (10-2-01)  
City of Tustin (5-21-02)  
Mesa Water District (8-9-02)  
Orange County Water District (3-30-04)  
Municipal Water District of OC (7-27-04)  
Orange County Mosquito and Vector Control District (11-14-06)  
Buena Park Library District (2-9-10)  
Local Agency Formation Commission (10-5-10)  
Villa Park Community Services Foundation (4-5-11)  
City of Laguna Niguel (3-13-14)  
City of Lake Forest (12-16-15)  
Foothill/Eastern TCA (10-13-16)  
San Joaquin Hills TCA (10-13-16)



*January 11, 2017*

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

**Subject:** Orange County Transportation Authority Investment and Debt Programs Report - October 2016

### **Overview**

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's Debt Program. This report is for the month ending October 31, 2016. The report has been reviewed and is consistent with the investment practices contained in the investment policy.

### **Recommendation**

Receive and file as an information item.

### **Discussion**

As of October 31, 2016, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$1.4 billion. The portfolio is divided into two managed portfolios: the liquid portfolio for immediate cash needs and the short-term portfolio for future budgeted expenditures. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program. The weighted average yield for the OCTA portfolio is 0.97 percent.

OCTA's debt portfolio had an outstanding principal balance of \$435 million as of October 31, 2016. Approximately 75 percent of the outstanding balance is comprised of Measure M2 debt and 25 percent is associated with the 91 Express Lanes Program.

***Summary***

The Treasurer is submitting a copy of the Orange County Transportation Authority Investment and Debt Programs report to the Finance and Administration Committee. The report is for the month ending October 31, 2016.

***Attachment***

- A. Orange County Transportation Authority Investment and Debt Programs  
– For the Period Ending October 31, 2016.

**Prepared by:**



Rodney Johnson  
Deputy Treasurer  
Treasury/Toll Roads  
(714) 560-5675

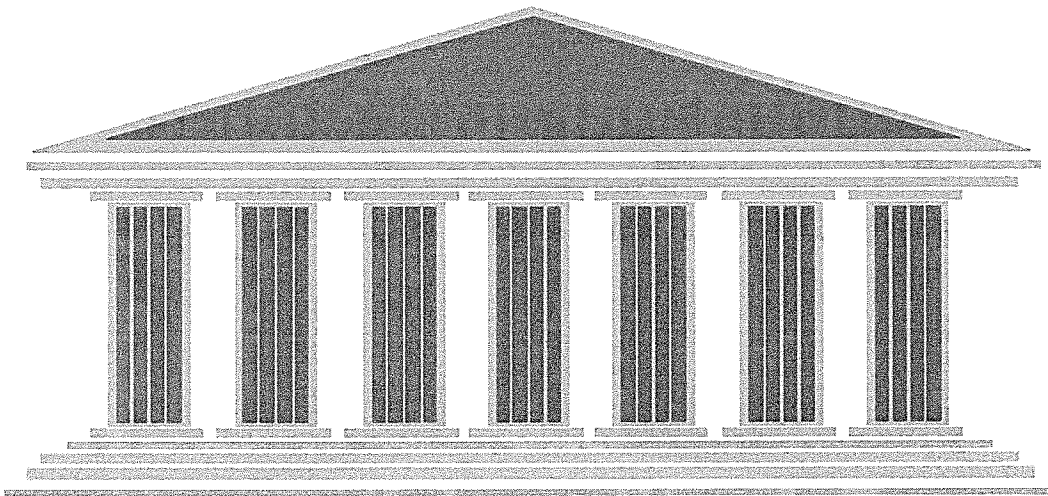
**Approved by:**



Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649

**Treasury/Public Finance Department's  
Report On**

**Orange County Transportation Authority  
Investment and Debt Programs**



**Presented to the  
Finance and Administration Committee**

**For The Period Ending  
October 31, 2016**



# INVESTMENT PROGRAM

# Investment Profile

## As of 9/30/16

---

<u>Portfolio Manager</u>	<u>Depository</u>	<u>Role</u>	<u>Type of Investment</u>	<u>Amount (\$ Millions)</u>
<i>ACTIVELY MANAGED INVESTMENTS</i>				
JP Morgan	Union Bank	Custodian	Short-Term Operating	305.8
State Street Global Advisors	Union Bank	Custodian	Short-Term Operating	306.1
Payden & Rygel Investment Counsel	Union Bank	Custodian	Short-Term Operating	306.2
Western Asset Management	Union Bank	Custodian	Short-Term Operating	305.8
<i>POOLED INVESTMENTS</i>				
California State Treasurer	LAIF	Custodian	Liquid	10.2
Orange County Treasurer	OCIP	Custodian	Legal Requirement	0.0
<i>CASH INVESTMENTS</i>				
OCTA	BNY Mellon	Trustee	Liquid	95.1
OCTA	Bank of the West	Broker	Liquid	70.2
OCTA	U.S Bank	Trustee	Liquid	0.0
<i>DEBT SERVICE RESERVE FUNDS</i>				
91 Express Lanes 2013 Ref. Bonds	U.S Bank	Trustee	Commercial Paper	10.8
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	10.0
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	3.0
<b>TOTAL</b>				<b>\$1,423.4</b>

# Short-Term Portfolio - \$1.22 Billion

As of 10/31/16

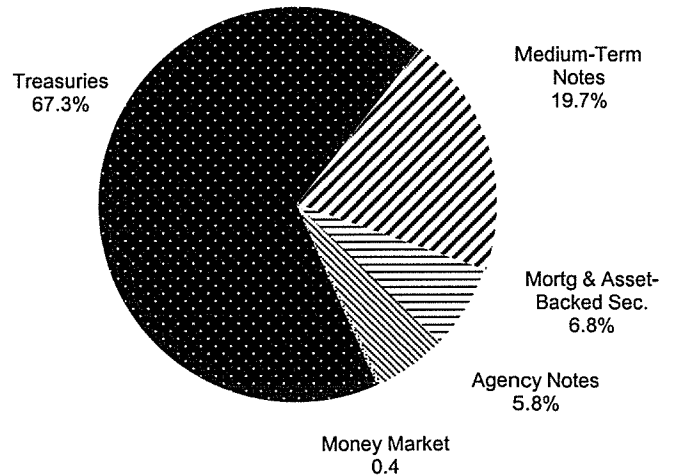
Part 1 of 2

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## JP Morgan

Book Value               \$    305,819,932

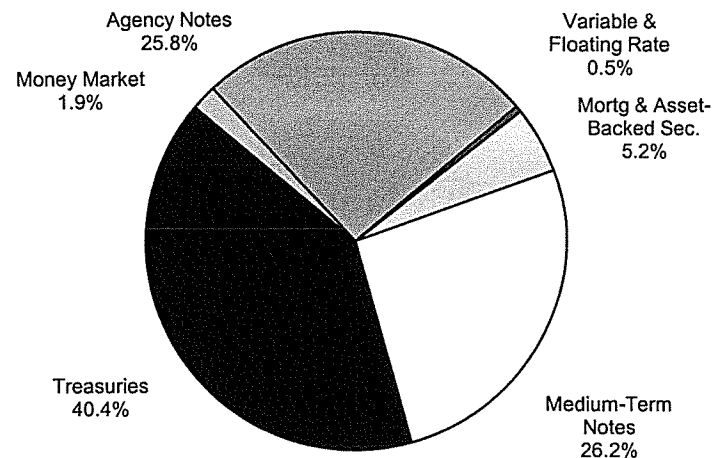
Market Value            \$    305,010,412



## State Street Global

Book Value               \$    306,092,054

Market Value            \$    306,374,039



*Market Value Reported By Custodial Bank*

# Short-Term Portfolio - \$1.22 Billion

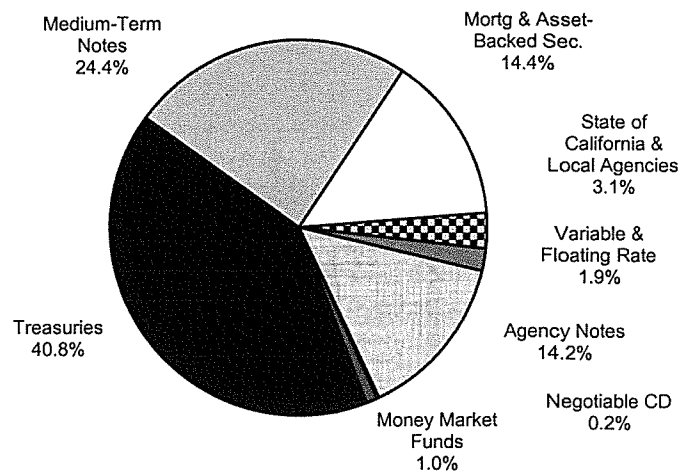
## As of 10/31/16

### Part 2 of 2

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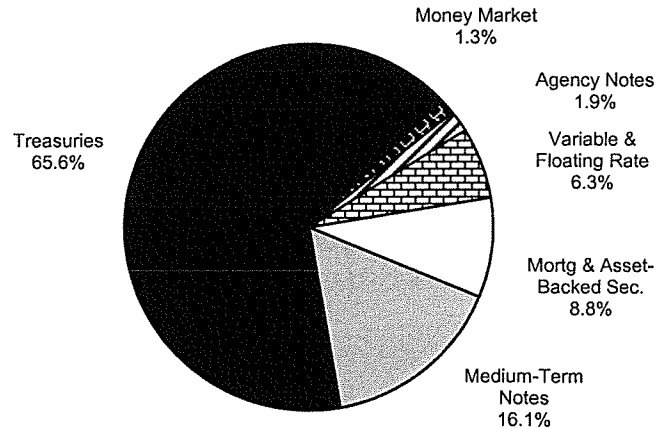
#### Payden & Rygel

Book Value	\$	306,236,072
Market Value	\$	306,116,416



#### Western Asset Management

Book Value	\$	305,836,525
Market Value	\$	306,771,129

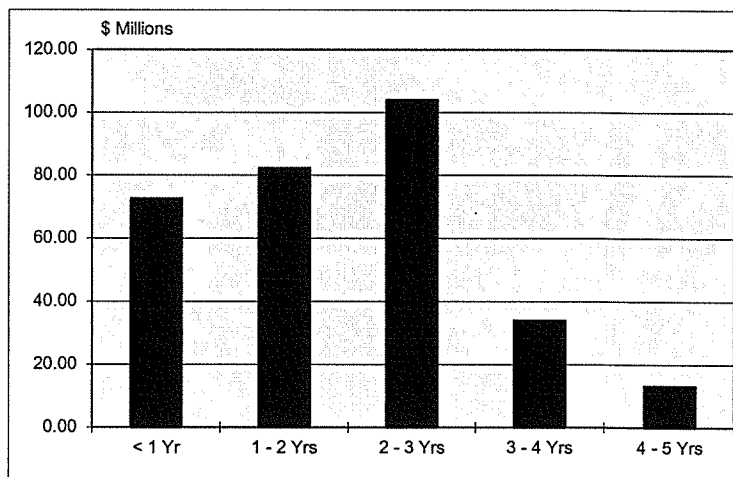


# Short-Term Portfolio Maturity Schedule

## As of 10/31/16

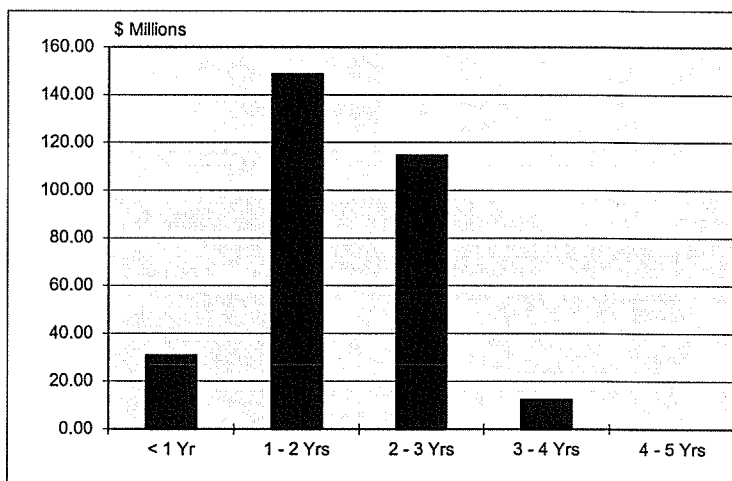
### JP Morgan (\$305.8 M)

Monthly Return	-0.06%
TSY Benchmark	-0.07%
Gov/Corp Benchmark	-0.05%
Fiscal YTD Return	-0.08%
TSY Benchmark	-0.17%
Gov/Corp Benchmark	-0.09%
12 Month Return	1.18%
TSY Benchmark	0.92%
Gov/Corp Benchmark	1.12%



### State Street Global (\$306.1 M)

Monthly Return	-0.03%
Benchmark Comparison	-0.07%
Gov/Corp Benchmark	-0.05%
Fiscal YTD Return	-0.07%
TSY Benchmark	-0.17%
Gov/Corp Benchmark	-0.09%
12 Month Return	1.17%
TSY Benchmark	0.92%
Gov/Corp Benchmark	1.12%



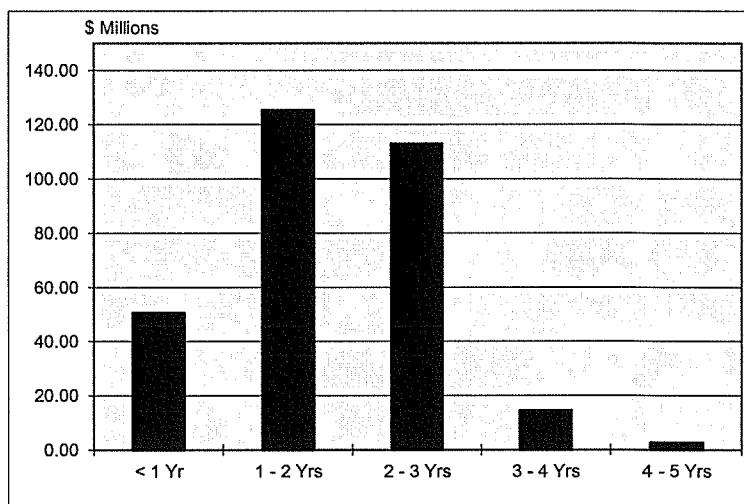
Yield Curve Change From 9/30/16 to 10/31/16			
	9/30/16	10/31/16	Change
1 Year	0.588%	0.644%	0.0560%
2 Year	0.764%	0.843%	0.0790%
3 Year	0.876%	0.991%	0.1150%
5 Year	1.150%	1.308%	0.1580%
30 Year	2.316%	2.580%	0.2640%

# Short-Term Portfolio Maturity Schedule

## As of 10/31/16

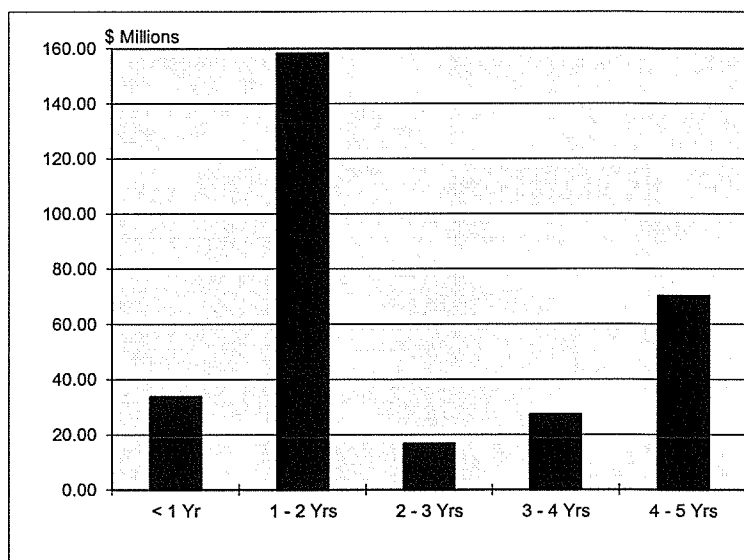
### Payden & Rygel (\$306.2 M)

Monthly Return	0.00%
TSY Benchmark	-0.07%
Gov/Corp Benchmark	-0.05%
Fiscal YTD Return	0.02%
TSY Benchmark	-0.17%
Gov/Corp Benchmark	-0.09%
12 Month Return	1.04%
TSY Benchmark	0.92%
Gov/Corp Benchmark	1.12%



### Western Asset Management (\$305.8 M)

Monthly Return	-0.09%
TSY Benchmark	-0.07%
Gov/Corp Benchmark	-0.05%
Fiscal YTD Return	-0.10%
TSY Benchmark	-0.17%
Gov/Corp Benchmark	-0.09%
12 Month Return	1.28%
TSY Benchmark	0.92%
Gov/Corp Benchmark	1.12%



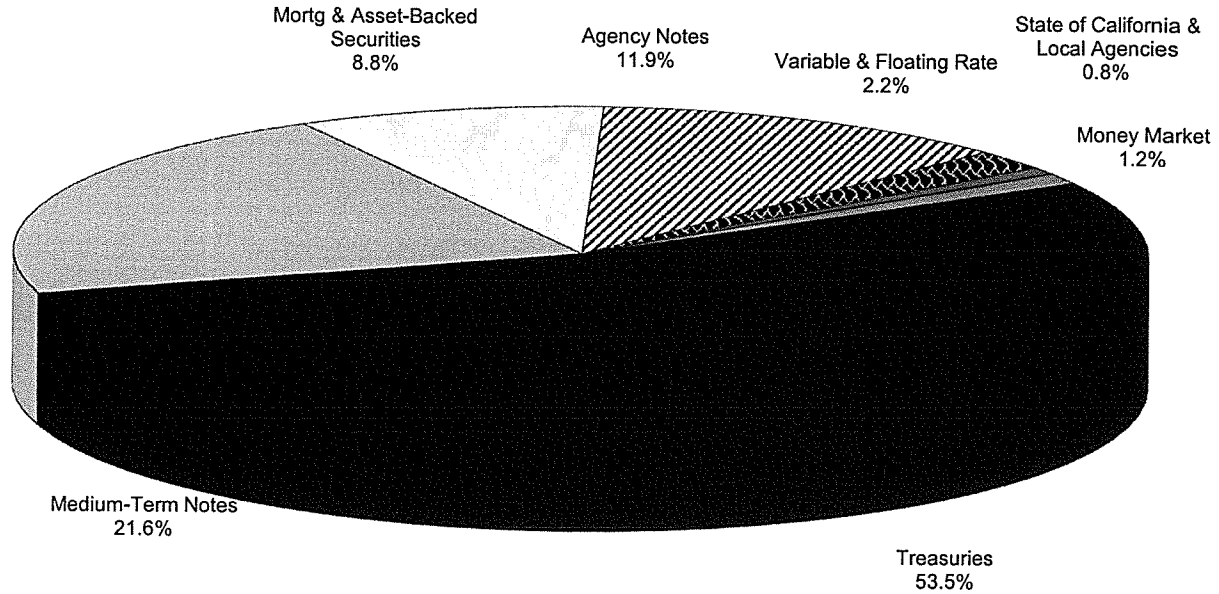
Yield Curve Change From 9/30/16 to 10/31/16			
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1 Year	0.588%	0.644%	0.0560%
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3 Year	0.876%	0.991%	0.1150%
5 Year	1.150%	1.308%	0.1580%
30 Year	2.316%	2.580%	0.2640%

# Short-Term Portfolio

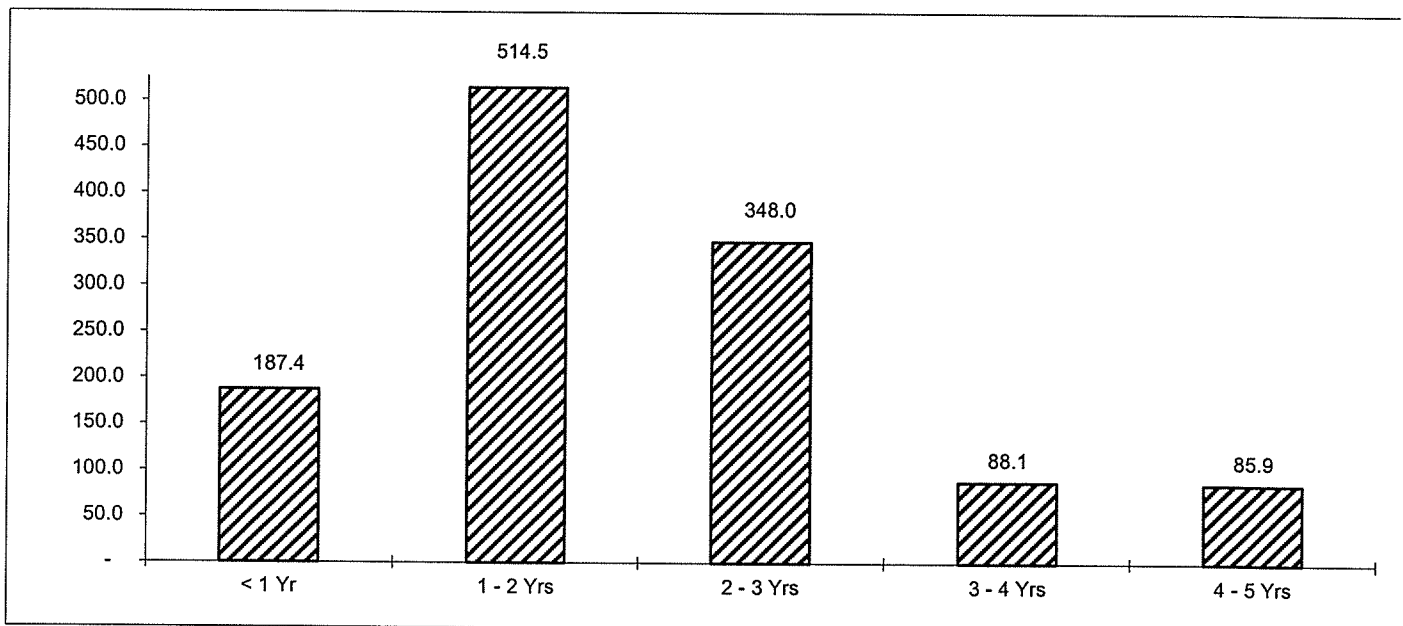
## As of 10/31/16

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### Total Portfolio Composition



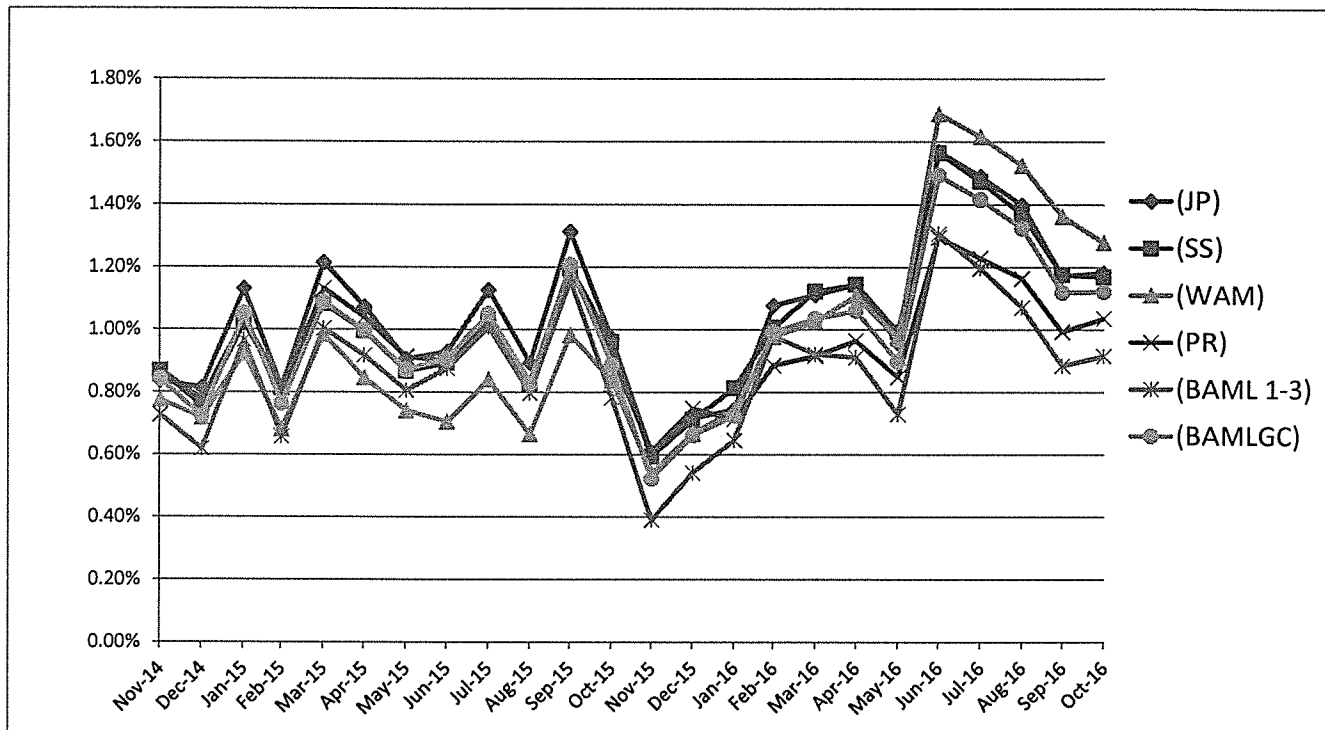
### Total Portfolio Maturity Schedule



# Short-Term Portfolio Performance

## As of 10/31/16

Trailing 1-Year Total Return  
Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks



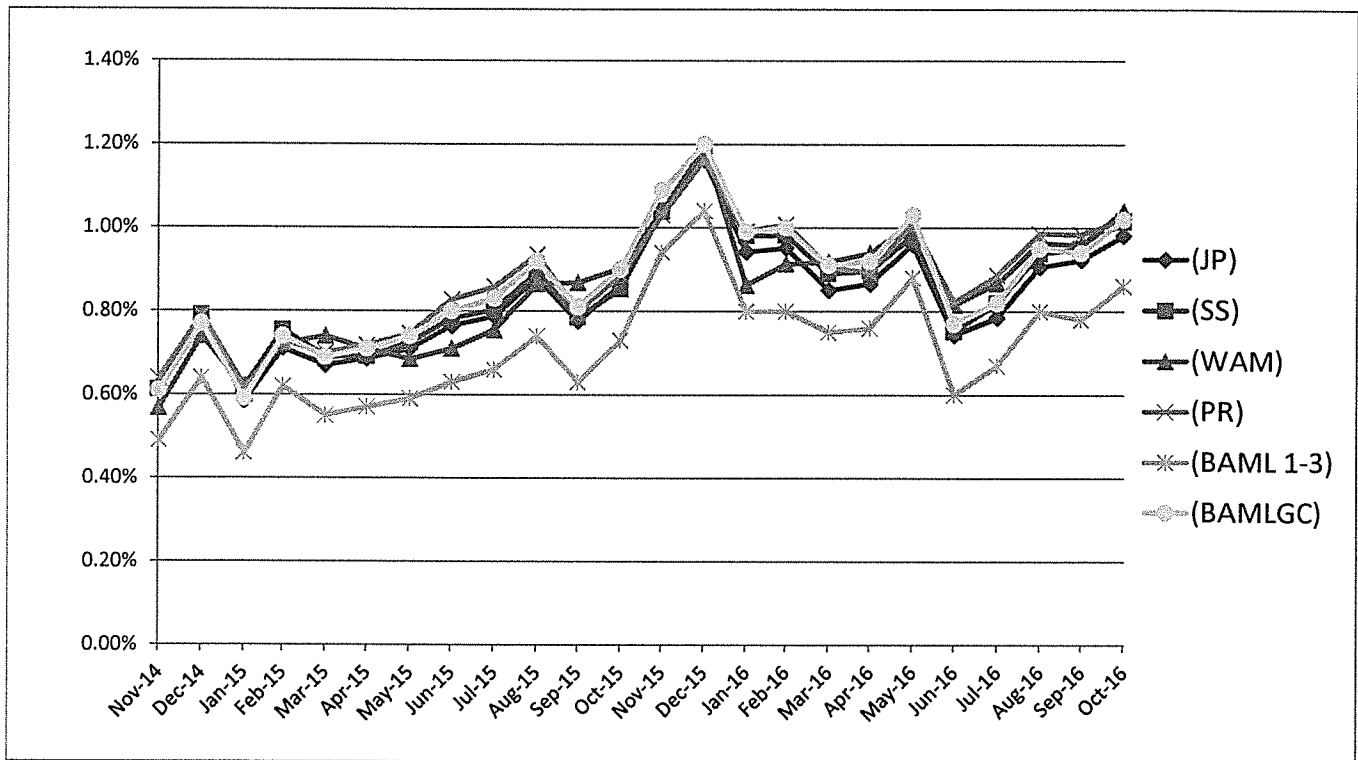
	JP Morgan (JP)	State Street (SS)	Western Asset Mgmt (WAM)	Payden & Rygel (PR)	BAML 1-3 Yr Trsy (BAML 1-3)	BAML 1-3 Yr Gov/Corp (BAMLGC)
Nov-14	0.84%	0.87%	0.77%	0.87%	0.73%	0.84%
Dec-14	0.81%	0.76%	0.72%	0.78%	0.62%	0.72%
Jan-15	1.13%	1.02%	0.92%	1.03%	0.97%	1.05%
Feb-15	0.82%	0.81%	0.68%	0.81%	0.66%	0.76%
Mar-15	1.21%	1.08%	0.98%	1.13%	1.00%	1.09%
Apr-15	1.07%	1.00%	0.85%	1.04%	0.92%	1.00%
May-15	0.91%	0.87%	0.74%	0.91%	0.81%	0.87%
Jun-15	0.93%	0.89%	0.70%	0.90%	0.88%	0.91%
Jul-15	1.13%	1.03%	0.84%	1.04%	1.01%	1.05%
Aug-15	0.89%	0.83%	0.66%	0.83%	0.80%	0.83%
Sep-15	1.31%	1.20%	0.98%	1.19%	1.16%	1.21%
Oct-15	0.97%	0.96%	0.84%	0.91%	0.78%	0.89%
Nov-15	0.61%	0.59%	0.54%	0.61%	0.39%	0.52%
Dec-15	0.72%	0.71%	0.67%	0.75%	0.54%	0.66%
Jan-16	0.74%	0.81%	0.74%	0.71%	0.65%	0.72%
Feb-16	1.08%	1.01%	0.98%	0.89%	0.98%	0.99%
Mar-16	1.11%	1.12%	1.03%	0.92%	0.92%	1.04%
Apr-16	1.15%	1.14%	1.11%	0.96%	0.91%	1.06%
May-16	0.96%	0.99%	0.97%	0.85%	0.73%	0.90%
Jun-16	1.57%	1.56%	1.69%	1.30%	1.31%	1.49%
Jul-16	1.49%	1.47%	1.62%	1.23%	1.20%	1.42%
Aug-16	1.40%	1.37%	1.52%	1.16%	1.07%	1.32%
Sep-16	1.17%	1.18%	1.36%	0.99%	0.88%	1.12%
Oct-16	1.18%	1.17%	1.28%	1.04%	0.92%	1.12%



# Comparative Yield Performance

## As of 10/31/16

### Historical Yields Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks



	JP Morgan (JP)	State Street (SS)	Western Asset Mgmt (WAM)	Payden Rygel (PR)	BAML 1-3 Yr Trsy (BAML 1-3)	BAML 1-3 Yr Gov/Corp (BAMLGC)
Nov-14	0.62%	0.61%	0.57%	0.64%	0.49%	0.61%
Dec-14	0.78%	0.79%	0.74%	0.79%	0.64%	0.77%
Jan-15	0.59%	0.62%	0.62%	0.61%	0.46%	0.59%
Feb-15	0.71%	0.76%	0.72%	0.73%	0.62%	0.74%
Mar-15	0.67%	0.69%	0.74%	0.70%	0.55%	0.69%
Apr-15	0.69%	0.69%	0.71%	0.72%	0.57%	0.71%
May-15	0.71%	0.73%	0.69%	0.75%	0.59%	0.74%
Jun-15	0.77%	0.78%	0.71%	0.83%	0.63%	0.80%
Jul-15	0.79%	0.80%	0.76%	0.86%	0.66%	0.83%
Aug-15	0.88%	0.89%	0.87%	0.94%	0.74%	0.92%
Sep-15	0.78%	0.79%	0.87%	0.80%	0.63%	0.81%
Oct-15	0.86%	0.85%	0.90%	0.89%	0.73%	0.90%
Nov-15	1.04%	1.04%	1.04%	1.03%	0.94%	1.09%
Dec-15	1.16%	1.17%	1.19%	1.16%	1.04%	1.20%
Jan-16	0.94%	0.98%	0.86%	0.99%	0.80%	0.99%
Feb-16	0.95%	0.98%	0.91%	1.01%	0.80%	1.00%
Mar-16	0.85%	0.89%	0.92%	0.91%	0.75%	0.91%
Apr-16	0.87%	0.90%	0.94%	0.89%	0.76%	0.92%
May-16	0.96%	0.98%	1.01%	1.01%	0.88%	1.03%
Jun-16	0.74%	0.75%	0.82%	0.82%	0.60%	0.77%
Jul-16	0.79%	0.82%	0.87%	0.89%	0.67%	0.82%
Aug-16	0.91%	0.94%	0.96%	0.99%	0.80%	0.95%
Sep-16	0.92%	0.95%	0.96%	0.98%	0.78%	0.94%
Oct-16	0.98%	1.02%	1.04%	1.02%	0.86%	1.02%

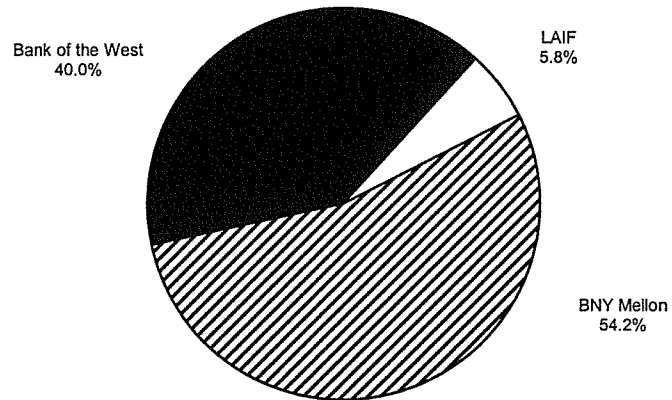
# Liquid Funds Portfolio - \$175.6 M

## As of 10/31/16

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### Other Liquid Funds

Book Value	\$	175,568,381
Market Value	\$	175,568,381



Yield Curve Change From 9/30/16 to 10/31/16			
	<u>9/30/16</u>	<u>10/31/16</u>	<u>Change</u>
1 Month	0.185%	0.165%	-0.0200%
3 Month	0.276%	0.302%	0.0260%
6 Month	0.434%	0.495%	0.0610%

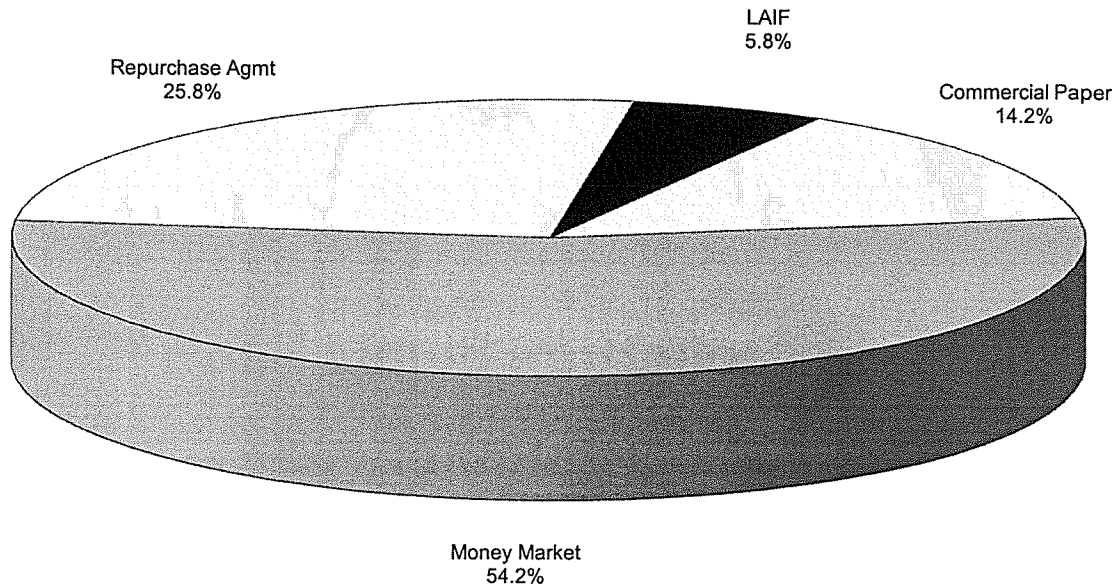
Market Value Reported By Custodial Bank

# Liquid Portfolio

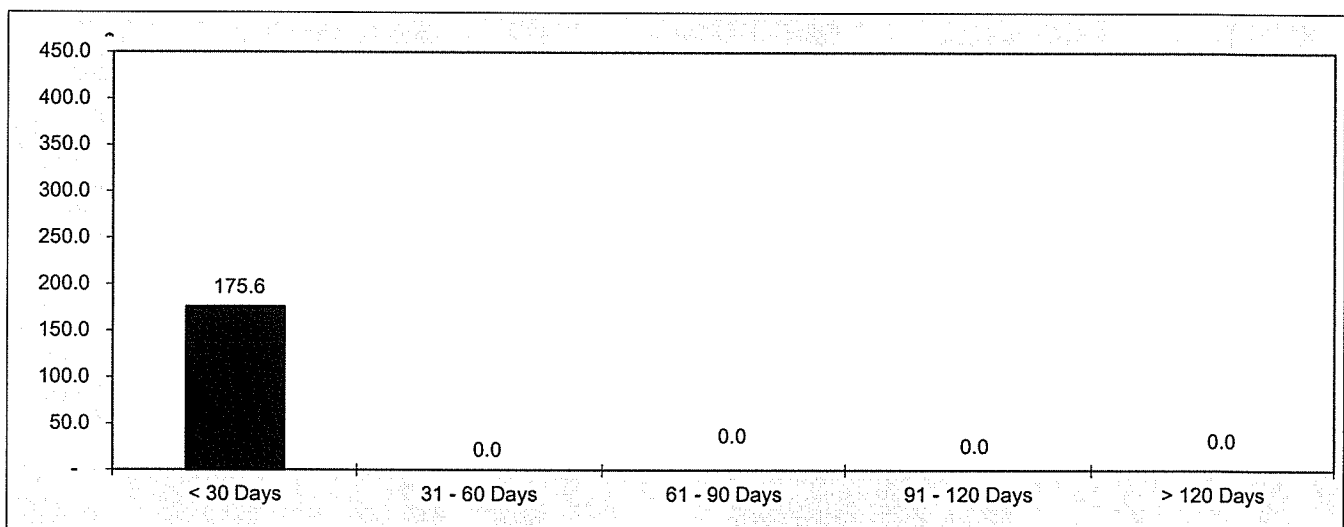
## As of 10/31/16

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### Total Portfolio Composition



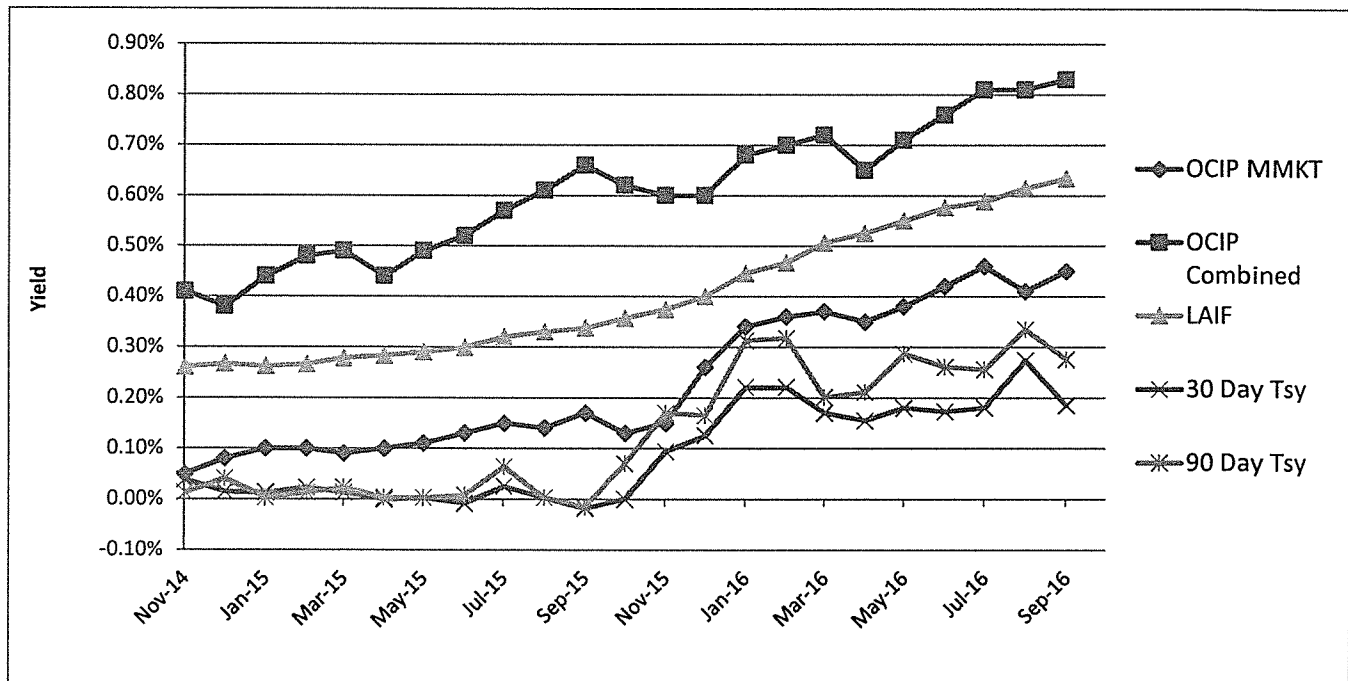
### Maturity Schedule For Liquid Portfolio



# Liquid Portfolio Performance

## As of 10/31/16

### Trailing 2-Year Yield OCIP, LAIF, 30 & 90 Day Treasury Bills



	OCIP MMKT	OCIP Combined	LAIF	30 Day Tsy	90 Day Tsy
Nov-14	0.05%	0.41%	0.26%	0.04%	0.01%
Dec-14	0.08%	0.38%	0.27%	0.02%	0.04%
Jan-15	0.10%	0.44%	0.26%	0.01%	0.00%
Feb-15	0.10%	0.48%	0.27%	0.02%	0.01%
Mar-15	0.09%	0.49%	0.28%	0.01%	0.02%
Apr-15	0.10%	0.44%	0.28%	0.00%	0.00%
May-15	0.11%	0.49%	0.29%	0.00%	0.00%
Jun-15	0.13%	0.52%	0.30%	-0.01%	0.01%
Jul-15	0.15%	0.57%	0.32%	0.03%	0.06%
Aug-15	0.14%	0.61%	0.33%	0.00%	0.00%
Sep-15	0.17%	0.66%	0.34%	-0.02%	-0.02%
Oct-15	0.13%	0.62%	0.36%	0.00%	0.07%
Nov-15	0.15%	0.60%	0.37%	0.09%	0.17%
Dec-15	0.26%	0.60%	0.40%	0.13%	0.17%
Jan-16	0.34%	0.68%	0.45%	0.22%	0.31%
Feb-16	0.36%	0.70%	0.47%	0.22%	0.32%
Mar-16	0.37%	0.72%	0.51%	0.17%	0.20%
Apr-16	0.35%	0.65%	0.53%	0.16%	0.21%
May-16	0.38%	0.71%	0.55%	0.18%	0.29%
Jun-16	0.42%	0.76%	0.58%	0.17%	0.26%
Jul-16	0.46%	0.81%	0.59%	0.18%	0.26%
Aug-16	0.41%	0.81%	0.61%	0.27%	0.34%
Sep-16	0.45%	0.83%	0.63%	0.19%	0.28%
Oct-16	0.37%	0.80%	0.65%	0.17%	0.30%

# Investment Policy Compliance

## As of 10/31/16

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Portfolio</u>	<u>Investment Policy Maximum Percentages</u>
U.S. Treasuries	655,085,983	46.0%	100%
Federal Agencies & U.S. Government Sponsored *	145,981,682	10.3%	100%
State of California & Local Agencies	9,436,645	0.7%	25%
Money Market Funds & Mutual Funds	109,278,873	7.7%	20%
Bankers Acceptances	0	0.0%	30%
Negotiable Certificates of Deposit	560,000	0.0%	30%
Commercial Paper	48,833,685	3.4%	25%
Medium Term Maturity Corporate Securities	264,215,693	18.6%	30%
Mortgage and Asset-backed Securities	107,809,006	7.6%	10%
Repurchase Agreements	45,246,333	3.2%	75%
Investment Agreements Pursuant To Indenture	0	0.0%	100%
Local Agency Investment Fund (LAIF)	10,216,772	0.7%	\$ 40 Million
Orange County Investment Pool (OCIP)	22,668	0.0%	\$ 40 Million
CAMP	0	0.0%	10%
Variable & Floating Rate Securities	26,704,545	1.9%	30%
Debt Service Reserve Funds - Investment Agreements	0	0.0%	Not Applicable
Bank Deposits	58,029	0.0%	5%
Derivatives (hedging transactions only)	0	0.0%	5%
<b>TOTAL</b>	<b>1,423,449,913</b>	<b>100.0%</b>	

\* See attached page for a detailed listing of this category

# Investment Policy Compliance

## As of 10/31/16

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### Detail Composition

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Total Portfolio</u>	<u>Investment Policy Guidelines</u>
<u>Federal Agencies &amp; U.S. Government Sponsored</u>			
Federal Home Loan Bank (FHLB)	22,549,942	1.6%	35%
Federal Home Loan Mortgage Corporation (FHLMC)	65,875,595	4.6%	35%
Federal National Mortgage Association (FNMA)	87,785,916	6.2%	35%
Federal Housing and Urban Development	<u>1,000,000</u>	0.1%	35%
	177,211,452 *	12.4%	

\* The Total Dollar Amount Invested Equals The Dollar Amount Invested For Federal Agency Securities, Variable & Floating Rate (Agency) Securities, And A Portion Of Mortgage (Agency) & Asset-back Securities.

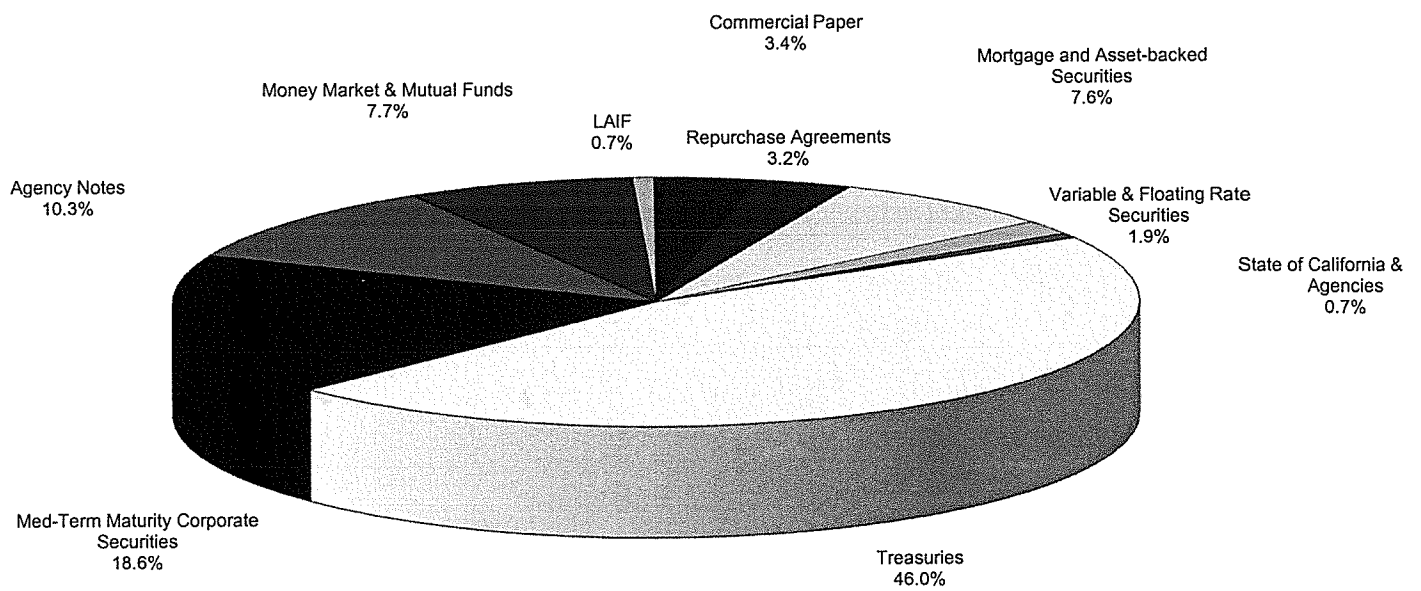
### Money Market Funds (MMF) & Mutual Funds

First American Obligations Treasury Fund	242	0.0%
Goldman Sach Fin. Square Govt. MMF	0	0.0%
Blackrock Institutional T-Fund	14,191,030	1.0%
Fidelity Treasury Obligations MMF	80,904,476	5.7%
Federated Treasury Obligations Fund	<u>14,183,126</u>	<u>1.0%</u>
	109,278,873	7.7%

# Investment Allocation

## As of 10/31/16

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# Negative Credit Watch

## As of 10/31/16

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<u>Manager / Security</u>	<u>Par Amount</u>	<u>Maturity</u>	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch Ratings</u>
---------------------------	-------------------	-----------------	----------------	----------------	----------------------

### JPM

<i>McDonalds</i>	250,000	Various	BBB+	Baa1	BBB+
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Removed from negative credit watch, but no longer within Investment Policy guidelines.

<i>Anheuser-Busch Cos</i>	375,000	Various	A-	A2	A
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During October, all three ratings agencies placed the long-term ratings of Anheuser-Busch under review for possible downgrade.

<i>Bayer US Financial</i>	200,000	10/8/2019	A-	A3	NA
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During May, Standard & Poor's and Moody's placed the long-term ratings of Bayer Financial under review for possible downgrade.

<i>Microsoft</i>	550,000	Various	AAA	Aaa	AA+
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During June, Fitch and Moody's placed the long-term ratings of Microsoft under review for possible downgrade.

### Payden & Rygel

<i>Microsoft</i>	1,440,000	11/3/2018	AAA	Aaa	AA+
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During June, Fitch and Moody's placed the long-term ratings of Microsoft under review for possible downgrade.

<i>Qualcom</i>	915,000	5/18/2018	A+	A1	NR
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During October, Standard and Poor's and Moody's placed the long-term ratings of Qualcom under review for possible downgrade.

### State Street

<i>Microsoft</i>	3,815,000	11/3/2018	AAA	Aaa	AA+
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During June, Fitch and Moody's placed the long-term ratings of Microsoft under review for possible downgrade.

<i>Danaher Corp.</i>	740,000	9/15/2018	A	A2	NR
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During September, Standard and Poor's placed the long-term ratings of Danaher Corp. under review for possible downgrade.

### Western Asset

<i>Danaher Corp.</i>	760,000	9/15/2018	A	A2	NR
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During September, Standard and Poor's placed the long-term ratings of Danaher Corp. under review for possible downgrade.

<i>Qualcom</i>	1,250,000	Various	A+	A1	NR
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During October, Standard and Poor's and Moody's placed the long-term ratings of Qualcom under review for possible downgrade.



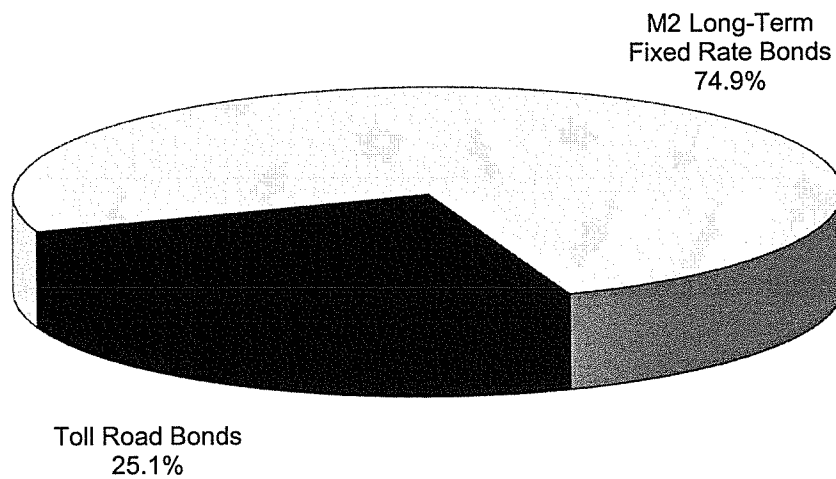
## DEBT PROGRAM

# Total Outstanding Debt

## As of 10/31/16

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### Outstanding Debt



**TOTAL OUTSTANDING DEBT:    \$434,615,000**

# Outstanding Debt

## As of 10/31/16

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### Orange County Local Transportation Authority (OCLTA-M2)

#### 2010 Series A Taxable Build America Bonds - Sales Tax Revenue Bonds

Issued:	\$	293,540,000
Outstanding:	\$	293,540,000
Debt Service FY 2017:		13,409,389
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings	Aa2/AA+/AA+	
Final Maturity		2041

#### 2010 Series B Tax-Exempt Sales Tax Revenue Bonds

Issued:	\$	59,030,000
Outstanding:	\$	31,945,000
Debt Service FY 2017:		8,912,100
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings	Aa2/AA+/AA+	
Final Maturity		2020

### 91 Express Lanes

#### 2013 OCTA 91 Express Lanes Refunding Bonds

Issued:	\$	124,415,000
Outstanding:		109,130,000
Debt Service FY 2017:		10,798,525
Pledged Revenue Source:	Toll Road Revenues	
Underlying Ratings	A1/AA-/A	
Final Maturity		2030



*January 11, 2017*

**To:** Finance and Administration Committee  
**From:** Darrell Johnson, Chief Executive Officer  
**Subject:** Local Agency Investment Fund - October 2016

**Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending October 31, 2016. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

**Recommendation**

Receive and file as an information item.

**Discussion**

As of October 31, 2016, the fair value including accrued interest of the Pooled Money Investment Account (PMIA) was \$70,467,377,193 with a month-average yield of 0.65 percent and a month-end weighted average maturity of 163 days. The Local Agency Investment Fund (LAIF) is a component of the State of California PMIA. The month-end balance of LAIF was \$20,928,325,161. The Orange County Transportation Authority's month-end balance in LAIF was \$10,216,772.

**Summary**

The Orange County Transportation Authority is submitting a copy of the Local Agency Investment Fund statements and summary reports to the Finance and Administration Committee. The statements are for the month ending October 31, 2016.

---

***Attachment***

A. Local Agency Investment Fund – As of October 31, 2016

**Prepared by:**



---

Rodney Johnson  
Deputy Treasurer  
Treasury/Toll Roads  
(714) 560-5675

**Approved by:**



---

Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649

Local Agency Investment Fund  
P.O. Box 942809  
Sacramento, CA 94209-0001  
(916) 653-3001

[www.treasurer.ca.gov/pmia-laif/laif.asp](http://www.treasurer.ca.gov/pmia-laif/laif.asp)  
November 16, 2016

ORANGE COUNTY TRANSPORTATION AUTHORITY

MANAGER, TREASURY/PUBLIC FINANCE  
550 SOUTH MAIN STREET  
P.O. BOX 14184  
ORANGE, CA 92613-1584

PMIA Average Monthly Yields

**Account Number:**  
80-30-001

Tran Type Definitions

October 2016 Statement

Effective Date	Transaction Date	Tran Type	Confirm Number	Authorized Caller	Amount
10/14/2016	10/13/2016	QRD	1516785	SYSTEM	15,500.23

Account Summary

Total Deposit:	15,500.23	Beginning Balance:	10,201,271.68
Total Withdrawal:	0.00	Ending Balance:	10,216,771.91



**JOHN CHIANG  
TREASURER  
STATE OF CALIFORNIA**



**PMIA Performance Report**

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
10/10/16	0.65	0.65	168
10/11/16	0.65	0.65	169
10/12/16	0.65	0.65	168
10/13/16	0.65	0.65	170
10/14/16	0.66	0.65	171
10/15/16	0.66	0.65	171
10/16/16	0.66	0.65	171
10/17/16	0.65	0.65	168
10/18/16	0.65	0.65	167
10/19/16	0.65	0.65	166
10/20/16	0.65	0.65	164
10/21/16	0.66	0.65	165
10/22/16	0.66	0.65	165
10/23/16	0.66	0.65	165
10/24/16	0.66	0.65	164
10/25/16	0.66	0.65	168
10/26/16	0.66	0.65	167
10/27/16	0.66	0.65	171
10/28/16	0.66	0.65	172
10/29/16	0.66	0.65	172
10/30/16	0.66	0.65	172
10/31/16	0.67	0.65	163
11/01/16	0.66	0.66	170
11/02/16	0.67	0.66	173
11/03/16	0.67	0.66	174
11/04/16	0.67	0.66	173
11/05/16	0.67	0.66	173
11/06/16	0.67	0.66	173
11/07/16	0.67	0.66	173
11/08/16	0.67	0.66	176
11/09/16	0.67	0.66	176

\*Daily yield does not reflect capital gains or losses

[View Prior Month Daily Rates](#)

**LAIF Performance Report**

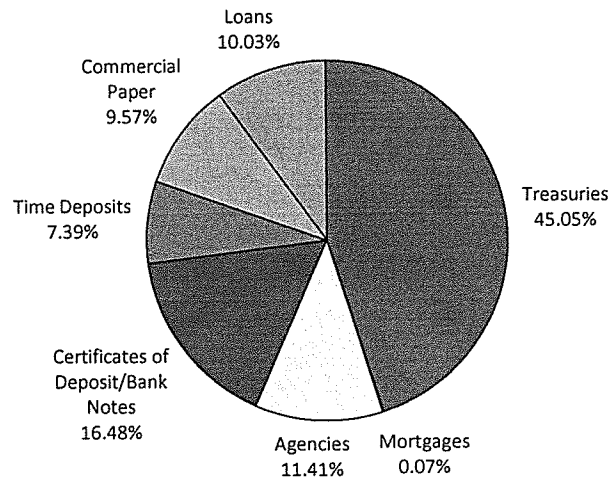
**Quarter Ending 09/30/16**

Apportionment Rate: 0.60%  
 Earnings Ratio: .00001651908048883  
 Fair Value Factor: 1.000306032  
 Daily: 0.65%  
 Quarter to Date: 0.61%  
 Average Life: 165

**PMIA Average Monthly  
Effective Yields**

Oct 2016 0.654%  
 Sep 2016 0.634%  
 Aug 2016 0.614%

**Pooled Money Investment Account  
Portfolio Composition  
10/31/16  
\$70.4 billion**



Based on data available as of 11/9/2016



Fair Value Including Accrued Interest	\$	70,467,377,193.24
---------------------------------------	----	-------------------

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).





*January 11, 2017*

**To:** Finance and Administration Committee  
**From:** Darrell Johnson, Chief Executive Officer  
**Subject:** Local Agency Investment Fund - November 2016

**Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending November 30, 2016. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

**Recommendation**

Receive and file as an information item.

**Discussion**

As of November 30, 2016, the fair value including accrued interest of the Pooled Money Investment Account (PMIA) was \$70,431,997,188 with a month-average yield of 0.68 percent and a month-end weighted average maturity of 167 days. The Local Agency Investment Fund (LAIF) is a component of the State of California PMIA. The month-end balance of LAIF was \$20,709,944,257. The Orange County Transportation Authority's month-end balance in LAIF was \$10,216,772.

**Summary**

The Orange County Transportation Authority is submitting a copy of the Local Agency Investment Fund statements and summary reports to the Finance and Administration Committee. The statements are for the month ending November 30, 2016.

---

***Attachment***

A. Local Agency Investment Fund – As of November 30, 2016

**Prepared by:**



---

Rodney Johnson  
Deputy Treasurer  
Treasury/Toll Roads  
(714) 560-5675

**Approved by:**



---

Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649

Local Agency Investment Fund  
P.O. Box 942809  
Sacramento, CA 94209-0001  
(916) 653-3001

[www.treasurer.ca.gov/pmia-laif/laif.asp](http://www.treasurer.ca.gov/pmia-laif/laif.asp)  
December 07, 2016

ORANGE COUNTY TRANSPORTATION AUTHORITY

MANAGER, TREASURY/PUBLIC FINANCE  
550 SOUTH MAIN STREET  
P.O. BOX 14184  
ORANGE, CA 92613-1584

PMIA Average Monthly Yields

Account Number:  
80-30-001

Tran Type Definitions

November 2016 Statement

Account Summary

Total Deposit:	0.00	Beginning Balance:	10,216,771.91
Total Withdrawal:	0.00	Ending Balance:	10,216,771.91



**JOHN CHIANG  
TREASURER  
STATE OF CALIFORNIA**



**PMIA Performance Report**

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
11/14/16	0.68	0.66	176
11/15/16	0.68	0.66	177
11/16/16	0.68	0.66	181
11/17/16	0.68	0.66	179
11/18/16	0.68	0.66	177
11/19/16	0.68	0.66	177
11/20/16	0.68	0.66	177
11/21/16	0.68	0.66	173
11/22/16	0.68	0.66	172
11/23/16	0.68	0.66	169
11/24/16	0.68	0.66	169
11/25/16	0.68	0.67	169
11/26/16	0.68	0.67	169
11/27/16	0.68	0.67	169
11/28/16	0.68	0.67	169
11/29/16	0.68	0.67	167
11/30/16	0.69	0.67	167
12/01/16	0.70	0.67	176
12/02/16	0.70	0.67	177
12/03/16	0.70	0.67	177
12/04/16	0.70	0.67	177
12/05/16	0.70	0.67	177
12/06/16	0.70	0.67	177
12/07/16	0.70	0.67	180
12/08/16	0.71	0.67	182
12/09/16	0.71	0.67	184
12/10/16	0.71	0.67	184
12/11/16	0.71	0.67	184
12/12/16	0.71	0.67	181
12/13/16	0.71	0.67	182
12/14/16	0.72	0.67	181

\*Daily yield does not reflect capital gains or losses

[View Prior Month Daily Rates](#)

**LAIF Performance Report**

**Quarter Ending 09/30/16**

Apportionment Rate: 0.60%  
 Earnings Ratio: .00001651908048883  
 Fair Value Factor: 1.000306032  
 Daily: 0.65%  
 Quarter to Date: 0.61%  
 Average Life: 165

**PMIA Average Monthly  
Effective Yields**

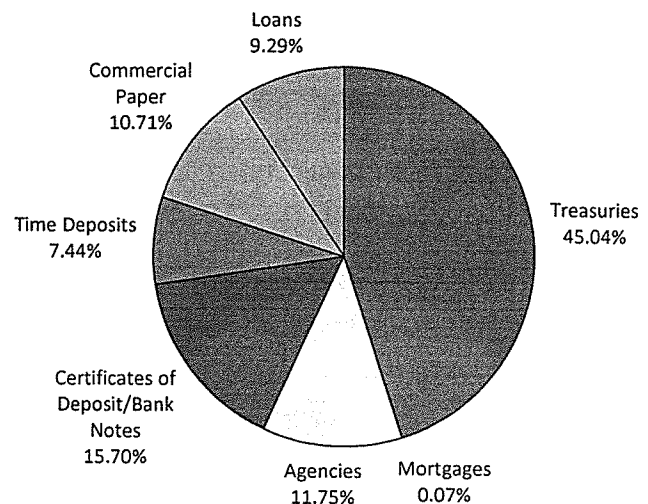
Nov 2016 0.678%  
 Oct 2016 0.654%  
 Sep 2016 0.634%

**Pooled Money Investment Account**

**Portfolio Composition**

**11/30/16**

**\$70.4 billion**



Based on data available as of 12/14/2016



# State of California

## Pooled Money Investment Account

### Market Valuation

### 11/30/2016

Description	Carrying Cost Plus		Fair Value	Accrued Interest
	Accrued Interest	Purch.		
United States Treasury:				
Bills	\$ 11,349,827,525.09		\$ 11,372,982,500.00	NA
Notes	\$ 20,341,038,812.28		\$ 20,311,892,500.00	\$ 35,486,430.00
Federal Agency:				
SBA	\$ 761,405,131.96		\$ 754,065,685.42	\$ 482,520.99
MBS-REMICs	\$ 50,840,002.73		\$ 53,523,811.20	\$ 240,005.75
Debentures	\$ 975,123,587.82		\$ 971,802,500.00	\$ 1,873,479.25
Debentures FR	\$ -		\$ -	\$ -
Discount Notes	\$ 6,178,470,972.14		\$ 6,191,058,000.00	NA
GNMA	\$ -		\$ -	\$ -
Supranational Debentures	\$ 299,983,841.05		\$ 298,532,000.00	\$ 452,014.00
Supranational Debentures FR	\$ 50,000,000.00		\$ 50,186,500.00	\$ 66,524.31
CDs and YCDs FR	\$ 200,000,000.00		\$ 200,000,000.00	\$ 151,707.17
Bank Notes	\$ 600,000,000.00		\$ 600,134,553.25	\$ 1,801,055.55
CDs and YCDs	\$ 10,250,000,000.00		\$ 10,251,619,276.00	\$ 20,974,777.74
Commercial Paper	\$ 7,533,795,680.52		\$ 7,542,975,347.20	NA
Corporate:				
Bonds FR	\$ -		\$ -	\$ -
Bonds	\$ -		\$ -	\$ -
Repurchase Agreements	\$ -		\$ -	\$ -
Reverse Repurchase	\$ -		\$ -	\$ -
Time Deposits	\$ 5,231,440,000.00		\$ 5,231,440,000.00	NA
AB 55 & GF Loans	\$ 6,540,256,000.00		\$ 6,540,256,000.00	NA
<b>TOTAL</b>	<b>\$ 70,362,181,553.59</b>		<b>\$ 70,370,468,673.07</b>	<b>\$ 61,528,514.76</b>

Fair Value Including Accrued Interest

\$ 70,431,997,187.83

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).



*January 11, 2017*

*[Handwritten signature in blue ink]*

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

**Subject:** Orange County Treasurer's Management Report - November 2016

**Overview**

The Orange County Transportation Authority invests a portion of its liquid portfolio in the Orange County Investment Pool. Each month the Orange County Treasurer publishes a comprehensive report detailing the composition of the pool and the prevailing economic and market conditions. The attached Treasurer's Management Report for the Orange County Investment Pool is for the month ending November 30, 2016. The report has been reviewed and is consistent with the investment practices of the Orange County Treasurer.

**Recommendation**

Receive and file as an information item.

**Discussion**

As of November 30, 2016, the book value of the Orange County Investment Pool (OCIP) Money Market Fund was \$1,263,793,941 with a monthly gross yield of 0.32 percent and a month-end average days to maturity of 44 days. The OCIP Extended Fund book value was \$5,548,786,953 with a monthly yield of 0.97 percent and a month-end average days to maturity of 515 days. The Orange County Transportation Authority's month-end balance in the OCIP was \$3,069,364; the combined pool had a monthly yield of 0.77 percent and month-end average days to maturity of 373 days.

There were two changes to the Treasurer's Approved Issuer List. The Orange County Pension Obligation Bonds, 2017 A and the Local Agency Investment Fund were added to the approved issuer list. Both the Money Market Fund and the Extended Fund were in compliance at month-end. Pages 27 through 90 containing investment inventory are not included in the attachment. Copies of OCIP's investment inventory reports are available upon request.

***Summary***

The Orange County Transportation Authority is submitting a copy of the Orange County Treasurer's Management Report to the Finance and Administration Committee. The report is for the month ending November 30, 2016.

***Attachment***

A. Treasurer's Monthly Investment Report – November 30, 2016

**Prepared by:**



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Rodney Johnson  
Deputy Treasurer  
Treasury/Toll Roads  
(714) 560-5675

**Approved by:**



---

Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649



# *Treasurer's Monthly* **INVESTMENT** NOVEMBER 2016 **REPORT**

From the Office of  
SHARIL L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM  
Orange County Treasurer





COUNTY OF ORANGE

**TREASURER'S INVESTMENT REPORT  
For November 30, 2016**

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OFFICE OF THE TREASURER-TAX COLLECTOR  
SHARI L. FREIDENRICH, CPA, CCMT, CPFA, ACPFIM



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INTERDEPARTMENTAL COMMUNICATION

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**Date:** December 15, 2016

**To:** Supervisor Lisa Bartlett, Chairwoman  
Supervisor Michelle Steel, Vice-Chair  
Supervisor Andrew Do  
Supervisor Todd Spitzer  
Supervisor Shawn Nelson

**From:** Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM *SLF*

**Subject:** Treasurer's Investment Report for the Month Ended November 30, 2016

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Attached, please find the Treasurer's Investment Report for the County of Orange for the month ended November 30, 2016. The County Treasurer provides this report in compliance with California Government Code Sections 53607, 53646, and 27134 and the County's Investment Policy Statement (IPS). We have included some charts and other data for your information including charts on fund composition and the top ten pool participants. This report is also publicly available on our website at [ocgov.com/ocinvestments](http://ocgov.com/ocinvestments).

**INVESTMENT POOL COMPOSITION**

The investments contained within this report are as of November 30, 2016. The Investment Pool Statistics summary shows the total investment responsibility of the County Treasurer as delegated by the Board of Supervisors: the Orange County Investment Pool (OCIP) that includes the Voluntary Participants' funds, the Orange County Educational Investment Pool (OCEIP), the John Wayne Airport Investment Fund and various other non-Pooled investment funds. The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The County Treasurer established three Money Market Funds, the Orange County Money Market Fund, the Orange County Educational Money Market Fund, and the John Wayne Airport Investment Fund, which all are invested in cash-equivalent securities and provide liquidity for immediate cash needs. Standard & Poor's, on June 16, 2016, reaffirmed their highest rating of AAAM on the Orange County and the Educational Money Market Funds. The County Treasurer also established the Extended Fund that is invested to meet cash needs between one and five years out. The Orange County Investment Pool is comprised of the Orange County Money Market Fund and portions of the Extended Fund. The Orange County Educational Investment Pool is comprised of the Orange County Educational Money Market Fund and portions of the Extended Fund.

The maximum maturity of investments for the Orange County and Educational Money Market Funds is 13 months, with a maximum weighted average maturity (WAM) of 60 days, and they have a current WAM of 44 and 57 respectively. The maximum maturity of investments for the John Wayne Investment Fund is 15 months, with a maximum WAM of 90 days, and a current WAM of 73. The maximum maturity of the Extended Fund is five years, with duration not to exceed the Merrill Lynch 1-3 Year index +25% (2.39). The duration is currently at 1.40. The investments in all of the funds are marked to market daily to determine the value of the funds. To further maintain safety, adherence to an investment strategy of only purchasing top-rated securities and diversification of instrument types and maturities is required.

## **ECONOMIC UPDATE**

In November, the job market added 178,000 new jobs, and October's job numbers were revised downwards by 19,000 to 142,000. The U.S. unemployment rate for November rose to 4.6%. U.S. gross domestic product (GDP) rose at a 3.2% annualized rate in the third quarter of 2016, an increase from the previous quarter's rate of 2.9%. The Empire State Manufacturing Index increased to 1.5, while the Philadelphia Fed Index decreased to 7.6. The Federal Reserve uses these indexes as regional economic gauges, and a reading above zero signals economic expansion. With respect to housing, the S&P/CaseShiller Index reported that housing prices continue to show positive momentum as year-over-year prices increased for the fifty-third consecutive month in September, up 5.46% from a year ago. The index for pending home sales increased 0.2% on a year-over-year basis in October. The 10-year Treasury rate increased fifty-three basis points in November to 2.37%.

The short-term 90-day T-bill ended the month at 0.48%, up from 0.34% in October and the rate on the 2-year Treasury note was 1.11% at the end of November, up from 0.86% in October.

## **INVESTMENT INTEREST YIELDS AND FORECAST**

The current gross interest yield year-to-date for fiscal year 2016/2017 is 0.80% for the Orange County Investment Pool and 0.77% for the Orange County Educational Investment Pool. The current net yield for fiscal year 2016/2017 is 0.73% and 0.70% respectively. The forecasted net yield for fiscal year 2016/2017 for both OCIP and OCEIP is expected to be 0.77%.

## **APPORTIONMENT OF COMMINGLED POOL INTEREST EARNINGS**

Each month, the County Treasurer apportions the accrued interest earnings to each pool participant. As of the first business day of the following month accrued, but unpaid, interest earnings are added to pool participants' average balances in determining a participant's relative share of the pool's monthly earnings. The actual cash distribution will generally be paid in the months following. The November 2016 interest apportionment is expected to be paid by December 31, 2016. The investment administrative fee for fiscal year 2016/2017 is estimated at 6.5 basis points.

## **TEMPORARY TRANSFERS**

The County Treasurer, as required by Constitution Article XVI, Section 6, and per the Board of Supervisor's Resolution 15-016, is authorized to make temporary transfers to school districts to address their short-term cash flow needs. The loans are secured by tax receipts to be received by the County Treasurer, as the banker for the school districts. Temporary transfers from the OCEIP totaled \$75 million and will be repaid by January 31, 2017.

## **PORTFOLIO HOLDINGS OF DEBT ISSUED BY POOL PARTICIPANTS**

Under guidelines outlined in the current IPS, the County Treasurer may invest in A or above rated securities issued by municipalities. Municipal debt issued by the County of Orange is exempt from this credit rating requirement. The Investment Pools may invest no more than 5% of pool assets in any one issuer, with the exception of the County of Orange which has a 10% limit. The Investment Pools have a total market value of \$121.9 million in AA rated County of Orange debt, which represents approximately 1.5% of total pooled assets. Prior to purchasing any pool participant debt, a standardized credit analysis is performed.

## **COMPLIANCE SUMMARY**

The investment portfolios had no compliance exceptions for the month of November 2016.

## **CREDIT UPDATE**

During November, there were two changes to the Treasurer's Approved Issuer List. The Orange County Pension Obligation Bonds, 2017 Series A and the Local Agency Investment Fund were added to the Approved Issuer List. An ongoing credit analysis of all issuers owned in the Investment Pools is reviewed on a daily, monthly, quarterly, and annual basis.

I certify that this report includes all pool and non-pooled investments as of November 30, 2016 and is in conformity with all State laws and the IPS approved by the Board of Supervisors on December 15, 2015. The investments herein shown provide adequate liquidity to meet the next six months of projected cash flow requirements. I am available if you have any questions on this Investment Report at (714) 834-7625.

Enclosures  
cc: Distribution List

ORANGE COUNTY TREASURER-TAX COLLECTOR

SUMMARY OF INVESTMENT DATA

INVESTMENT TRENDS

	NOVEMBER 2016	OCTOBER 2016	INCREASE (DECREASE)	NET CHANGE %	NOVEMBER 2015	INCREASE (DECREASE)	NET CHANGE %
<u>Orange County Investment Pool (OCIP)</u>							
End Of Month Market Value <sup>1</sup>	\$ 4,178,977,444	\$ 4,129,118,364	\$ 49,859,080	1.21%	\$ 4,003,830,711	\$ 175,146,733	4.37%
End Of Month Book Value	\$ 4,184,330,079	\$ 4,125,753,976	\$ 58,576,103	1.42%	\$ 4,005,302,408	\$ 179,027,671	4.47%
Monthly Average Balance <sup>2</sup>	\$ 4,152,128,442	\$ 3,887,875,905	\$ 264,252,537	6.80%	\$ 3,753,729,505	\$ 398,398,937	10.61%
Year-To-Date Average Balance	\$ 3,736,197,625	\$ 3,632,214,921	\$ 103,982,704	2.86%	\$ 3,428,063,288	\$ 308,134,337	8.99%
Monthly Accrued Earnings <sup>3</sup>	\$ 2,691,634	\$ 2,594,847	\$ 96,787	3.73%	\$ 1,798,899	\$ 892,735	49.63%
Monthly Net Yield <sup>3</sup>	0.72%	0.72%	0.00%	0.56%	0.51%	0.21%	39.90%
Year-To-Date Net Yield <sup>3</sup>	0.73%	0.74%	0.00%	-0.54%	0.51%	0.22%	42.69%
Annual Estimated Gross Yield <sup>4</sup>	0.84%	0.84%	0.00%	0.00%	0.64%	0.20%	30.43%
Weighted Average Maturity (WAM)	373	365	8	2.19%	353	20	5.67%
<u>Orange County Educational Investment Pool (OCEIP)</u>							
End Of Month Market Value <sup>1,2</sup>	\$ 3,746,891,740	\$ 3,608,927,721	\$ 137,964,019	3.82%	\$ 3,156,251,092	\$ 590,640,648	18.71%
End Of Month Book Value <sup>2</sup>	\$ 3,751,586,163	\$ 3,605,787,286	\$ 145,798,877	4.04%	\$ 3,157,665,265	\$ 593,920,898	18.81%
Monthly Average Balance <sup>2</sup>	\$ 3,641,031,973	\$ 3,718,332,696	\$ (77,300,723)	-2.08%	\$ 3,237,807,100	\$ 403,224,873	12.45%
Year-To-Date Average Balance <sup>2</sup>	\$ 3,860,703,958	\$ 3,915,621,954	\$ (54,917,996)	-1.40%	\$ 3,469,758,863	\$ 390,945,095	11.27%
Monthly Accrued Earnings <sup>3</sup>	\$ 2,523,501	\$ 2,524,622	\$ (1,121)	-0.04%	\$ 1,810,183	\$ 713,318	39.41%
Monthly Net Yield <sup>3</sup>	0.76%	0.72%	0.04%	5.85%	0.59%	0.17%	28.81%
Year-To-Date Net Yield <sup>3</sup>	0.70%	0.69%	0.01%	1.89%	0.51%	0.19%	37.99%
Annual Estimated Gross Yield <sup>4</sup>	0.84%	0.84%	0.00%	0.00%	0.65%	0.19%	28.64%
Weighted Average Maturity (WAM) <sup>5</sup>	383	383	0	0.00%	437	(54)	-12.36%

<sup>1</sup> Market values provided by Bloomberg and Northern Trust.

<sup>2</sup> In November 2016, OCIP Monthly Average Balance increased from November 2015 primarily due to higher incoming secured property tax receipts from property tax bills being mailed earlier than the prior year. Over 66% of the secured property tax receipts will be paid out to County Agencies and School and Community College Districts in mid-December. In November 2016, OCEIP End of Month Market and Book Values and Monthly and Year-To-Date Average Balances increased from November 2015 primarily due to higher State Local Educational Agency (LEA) funding and higher ERAF receipts.

<sup>3</sup> In November 2016, OCIP and OCEIP Monthly Accrued Earnings and Monthly and Year-To-Date Net Yield were higher than November 2015 primarily due to slightly higher short-term interest rates and higher average pool balances.

<sup>4</sup> The OCIP and OCEIP Annual Estimated Gross Yield for November 2015 is reported at the actual annual gross yield for FY15/16, and their Annual Estimated Gross Yield for November 2016 is reported at the latest forecasted gross yields of 0.84%. Their Annual Estimated Gross Yield for FY 16/17 is higher than FY 15/16 due to reductions in excess liquidity and improved cash management while maintaining the same high credit quality of securities.

<sup>5</sup> In November 2016, OCEIP WAM was lower than in November 2015 primarily due to higher liquidity needs than in 2015.

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT POOL STATISTICS**  
**FOR THE MONTH ENDED: NOVEMBER 30, 2016**

**INVESTMENT STATISTICS - By Investment Pool\***

DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Daily Yield as of 11/30/16	MONTHLY Gross Yield	Current NAV
<b>COMBINED POOL BALANCES</b> <b>(includes the Extended Fund)</b>					
Orange County Investment Pool (OCIP)	MARKET Value \$ 4,178,977,444	373	0.77%	0.79%	1.00
	COST (Capital) \$ 4,195,475,691				
	MONTHLY AVG Balance \$ 4,152,128,442				
	BOOK Value \$ 4,184,330,079				
Orange County Educational Investment Pool (OCEIP)	MARKET Value \$ 3,746,891,740	378	0.83%	0.83%	1.00
	COST (Capital) \$ 3,762,143,949				
	MONTHLY AVG Balance \$ 3,641,031,973				
	BOOK Value \$ 3,751,586,163				

**INVESTMENT STATISTICS - Non Pooled Investments \*\***

DESCRIPTION	CURRENT BALANCE	INVESTMENT BALANCES AT COST	
Specific Investment			
Funds:	MARKET Value \$ 153,423,972	General Fund - Non AMT Restricted	\$ 67,380,047
100, 283, 505, 650 FVSD	COST (Capital) \$ 153,670,519	John Wayne Airport Investment Fund	50,299,606
	MONTHLY AVG Balance \$ 153,654,959	Repurchase Agreement	1,081,500
	BOOK Value \$ 153,474,597	Fountain Valley School District Fund 40	34,909,366
			\$ 153,670,519

**MONTH END TOTALS**

INVESTMENTS & CASH		FUND ACCOUNTING, SPECIFIC INVESTMENTS & NON POOLED CASH	
<b>COUNTY MONEY MARKET FUND (OCMMF)</b>			
County Money Market Fund	\$ 1,264,106,169	County Funds	\$ 4,222,056,106
County Cash	26,580,415	Educational Funds	3,765,940,280
<b>EXTENDED FUND</b>	5,569,369,522	Specific Investment Funds	153,670,519
<b>EDUCATIONAL MONEY MARKET FUND (OCEMMF)</b>		Non Pooled Cash	17,806,656
Educational Money Market Fund	1,124,143,949		
Educational Cash	3,796,331		
<b>NON POOLED INVESTMENTS &amp; CASH</b>			
Non Pooled Investments	153,670,519		
Non Pooled Cash	17,806,656		
	\$ 8,159,473,561		\$ 8,159,473,561

**KEY POOL STATISTICS**

INTEREST RATE YIELD		WEIGHTED AVERAGE MATURITY (WAM)	
OCMMF - MONTHLY GROSS YIELD	0.38%	OCMMF	44
OCEMMF - MONTHLY GROSS YIELD	0.53%	OCEMMF	57
JOHN WAYNE AIRPORT - MONTHLY GROSS YIELD	0.45%	JOHN WAYNE AIRPORT WAM	73
OCIP - YTD NET YIELD***	0.73%	LGIP WAM (Standard & Poors)	45
OCEIP - YTD NET YIELD***	0.70%		
90-DAY T-BILL YIELD - MONTHLY AVERAGE	0.45%		

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT POOL STATISTICS**  
**FOR THE MONTH ENDED: NOVEMBER 30, 2016**

**INVESTMENT STATISTICS - By Investment Fund\*\*\*\***

DESCRIPTION	CURRENT BALANCES	Average Days to Maturity	Daily Yield as of 11/30/16	MONTHLY Gross Yield	Current NAV
<u>County Money Market Fund (OCMMF)</u>	MARKET Value \$ 1,263,748,930 COST (Capital) \$ 1,264,106,169 MONTHLY AVG Balance \$ 1,257,166,635 BOOK Value \$ 1,263,793,941	44	0.32%	0.38%	1.00
<u>Educational Money Market Fund (OCEMMF)</u>	MARKET Value \$ 1,123,417,366 COST (Capital) \$ 1,124,143,949 MONTHLY AVG Balance \$ 1,003,031,973 BOOK Value \$ 1,123,335,348	57	0.46%	0.53%	1.00
<u>Extended Fund</u>	MARKET Value \$ 5,538,702,888 COST (Capital) \$ 5,569,369,522 MONTHLY AVG Balance \$ 5,532,961,806 BOOK Value \$ 5,548,786,953	515	0.97%	0.96%	1.00
<b>ALLOCATION OF EXTENDED FUND</b>					
<u>Extended Fund</u>					
<u>OCIP Share</u>	MARKET Value \$ 2,915,228,514 COST (Capital) \$ 2,931,369,522 MONTHLY AVG Balance \$ 2,894,961,806 BOOK Value \$ 2,920,536,138	515	0.97%	0.96%	1.00
<u>OCEIP Share</u>	MARKET Value \$ 2,623,474,374 COST (Capital) \$ 2,638,000,000 MONTHLY AVG Balance \$ 2,638,000,000 BOOK Value \$ 2,628,250,815	515	0.97%	0.96%	1.00
<u>Effective Duration</u>		1.40			

\* The Combined Pool Balances include the County and Educational Money Market Funds and their respective portions of the Extended Fund.

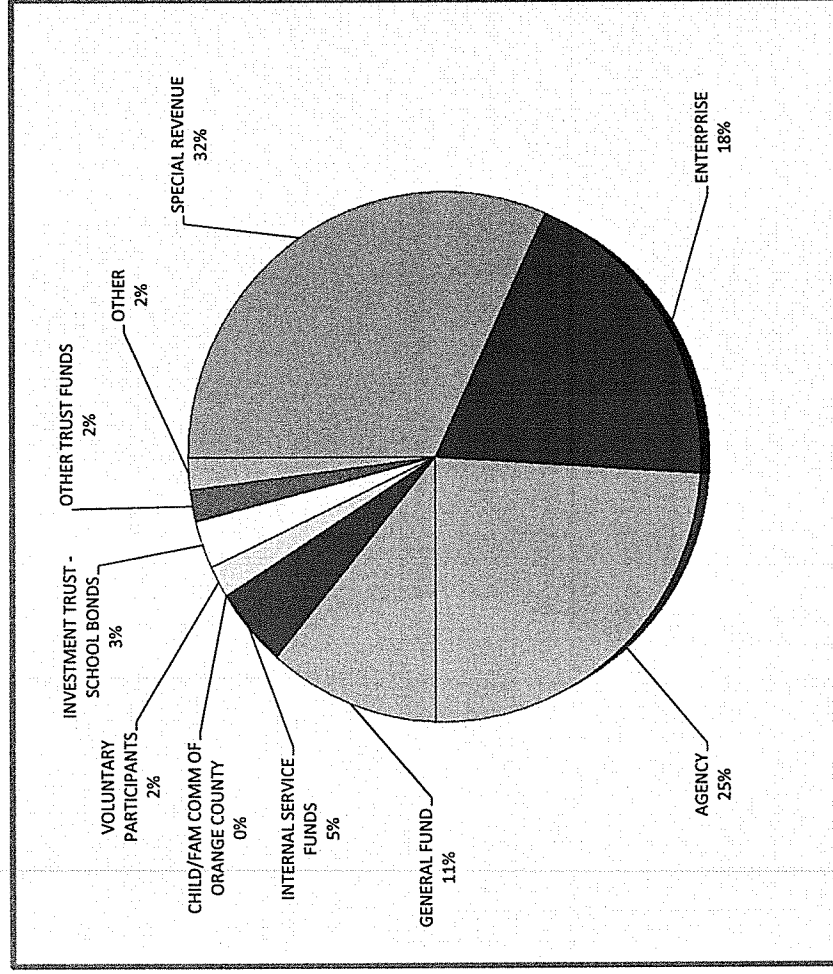
\*\* Specific non pooled investments are reported in compliance with Government Code Section 53646 (b)(1). Detailed descriptions are included in the inventory listing in Section VII of this report.

\*\*\* The Net Yield differs from the monthly average yield as it includes the Treasury administrative fees.

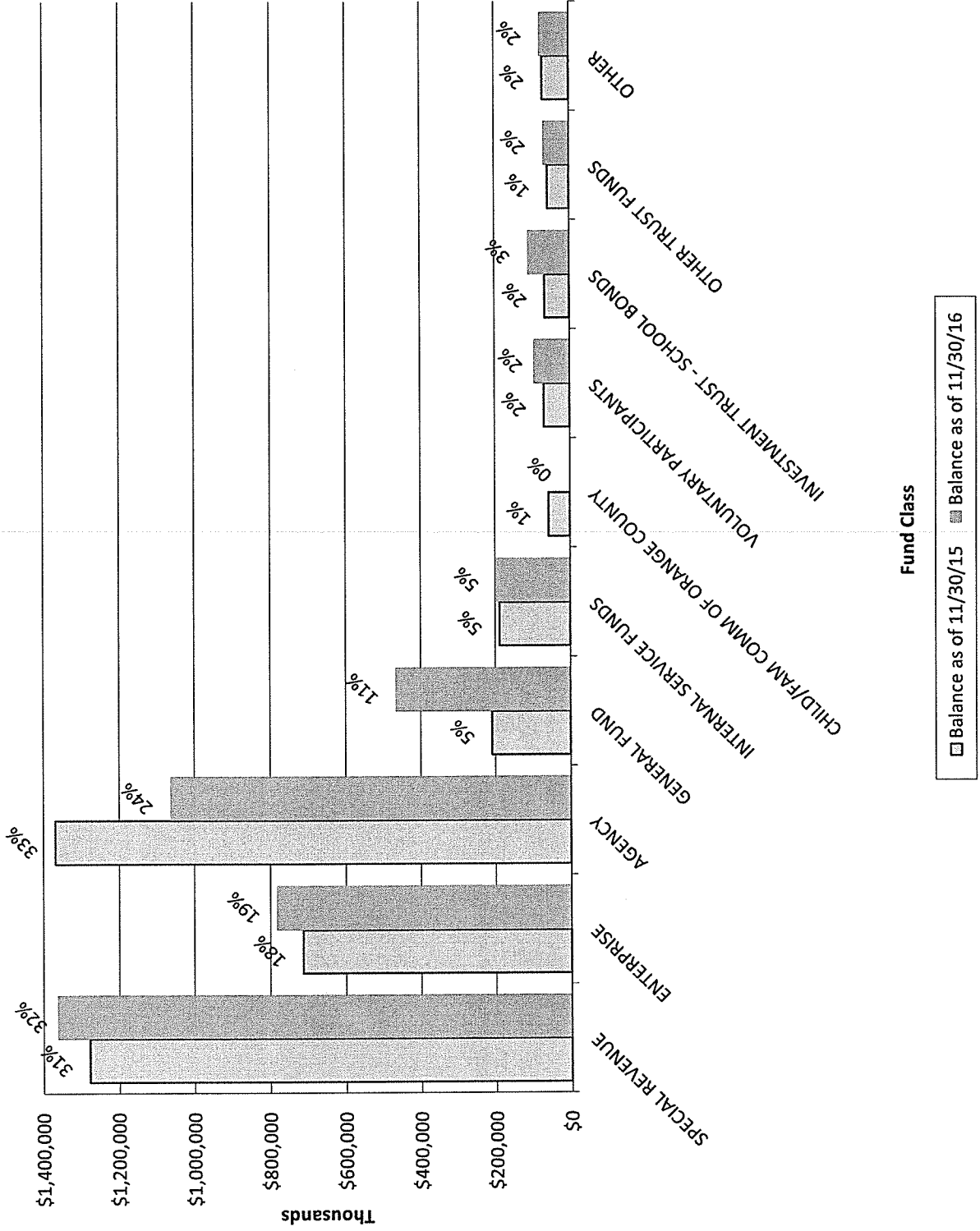
\*\*\*\* Book Value is computed as Cost reduced by amortization of premium and increased by the accretion of discount of the Investment Portfolio. Net Asset Value (NAV) is equal to Market Value divided by Book Value.

ORANGE COUNTY INVESTMENT POOL  
COMPOSITION BY FUND  
AS OF NOVEMBER 30, 2016

FUNDS	BALANCE
SPECIAL REVENUE	\$ 1,363,041,510
ENTERPRISE	782,064,792
AGENCY	1,062,869,484
GENERAL FUND	465,630,875
INVESTMENT TRUST - SCHOOL BONDS	110,452,143
INTERNAL SERVICE FUNDS	196,684,889
CHILDFAM COMM OF ORANGE COUNTY	1,613
VOLUNTARY PARTICIPANTS	94,261,882
OTHER TRUST FUNDS	68,045,073
OTHER	78,560,808
<b>TOTAL</b>	<b>\$ 4,221,613,069</b>



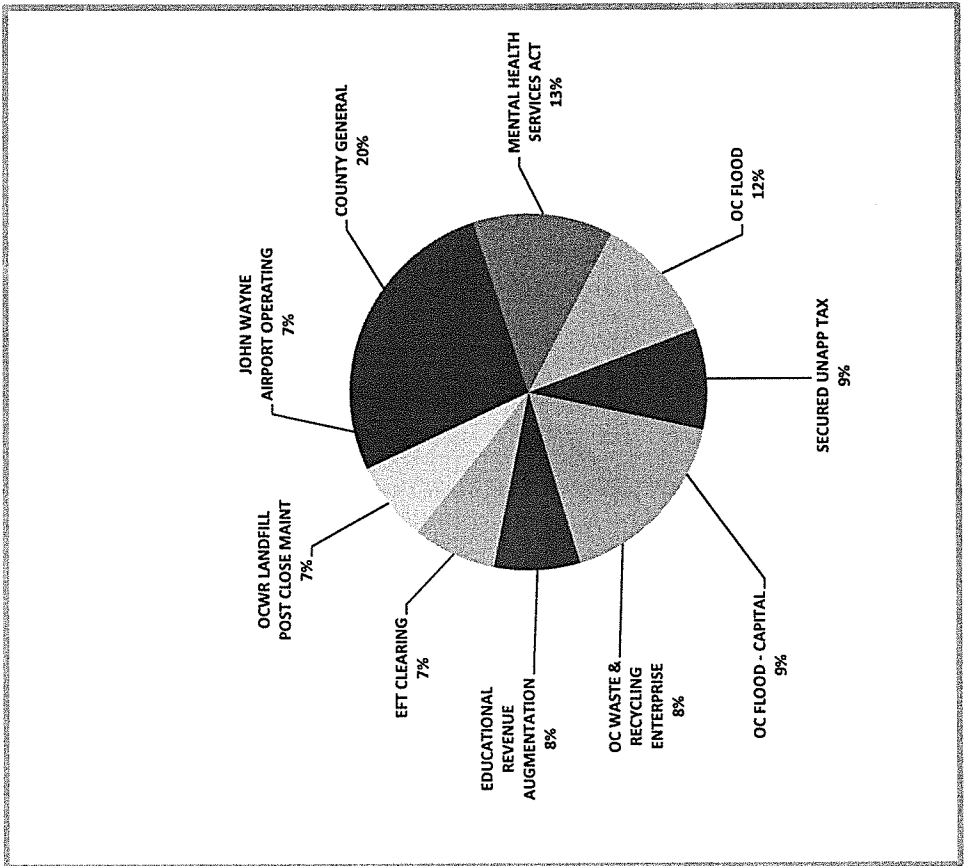
# ORANGE COUNTY INVESTMENT POOL COMPOSITION BY FUND AS OF NOVEMBER 30





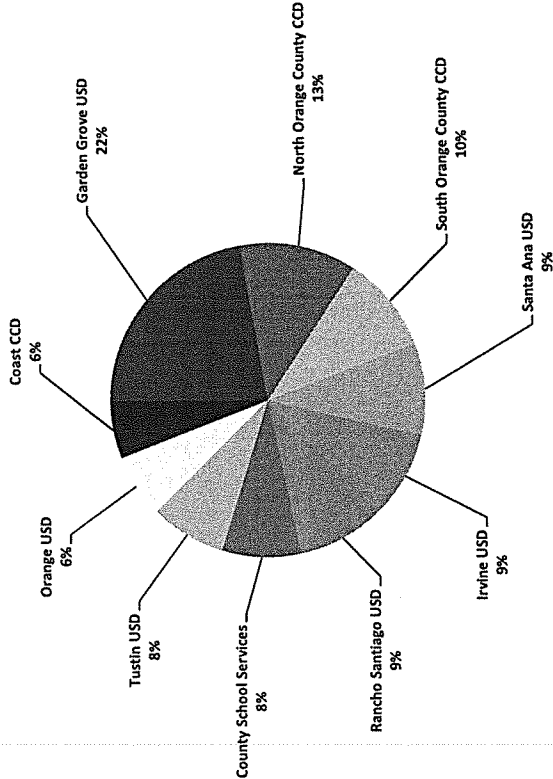
ORANGE COUNTY INVESTMENT POOL  
TOP TEN POOL PARTICIPANTS  
AS OF NOVEMBER 30, 2016

FUND #	FUND NAME	BALANCE
100	COUNTY GENERAL	\$ 435,734,193
13Y	MENTAL HEALTH SERVICES ACT	277,880,939
400	OC FLOOD	251,709,892
673	SECURED UNAPP TAX	199,573,569
404	OC FLOOD - CAPITAL	189,223,600
299	OC WASTE & RECYCLING ENTERPRISE	181,407,051
664	EDUCATIONAL REVENUE AUGMENTATION	170,566,558
810	EFT CLEARING	164,710,619
279	OCWR LANDFILL POST-CLOSE MAINT	157,795,901
280	JOHN WAYNE AIRPORT OPERATING	153,509,159
<b>TOTAL</b>		<b>\$ 2,182,111,481</b>



ORANGE COUNTY EDUCATIONAL INVESTMENT POOL  
 TOP TEN POOL PARTICIPANTS  
 AS OF NOVEMBER 30, 2016

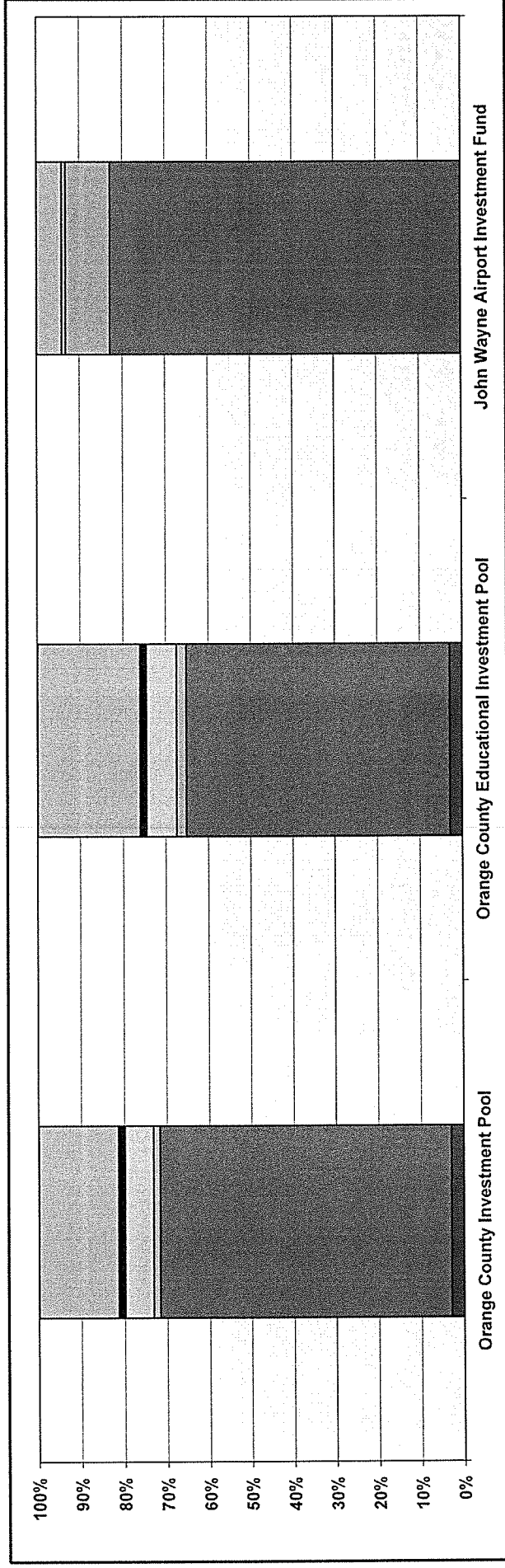
DISTRICT #	SCHOOL DISTRICT	BALANCE
72	Garden Grove USD	\$ 568,064,534
88	North Orange County CCD	309,805,368
96	South Orange County CCD	256,039,726
84	Santa Ana USD	241,406,926
75	Irvine USD	230,768,898
92	Rancho Santiago CCD	230,469,116
94	County School Services	207,365,309
87	Tustin USD	200,947,573
80	Orange USD	166,002,164
90	Coast CCD	153,353,941
	<b>TOTAL</b>	<b>\$ 2,564,123,555</b>



# ORANGE COUNTY TREASURER - TAX COLLECTOR

## BY INVESTMENT TYPE - By Percentage Holdings

November 30, 2016



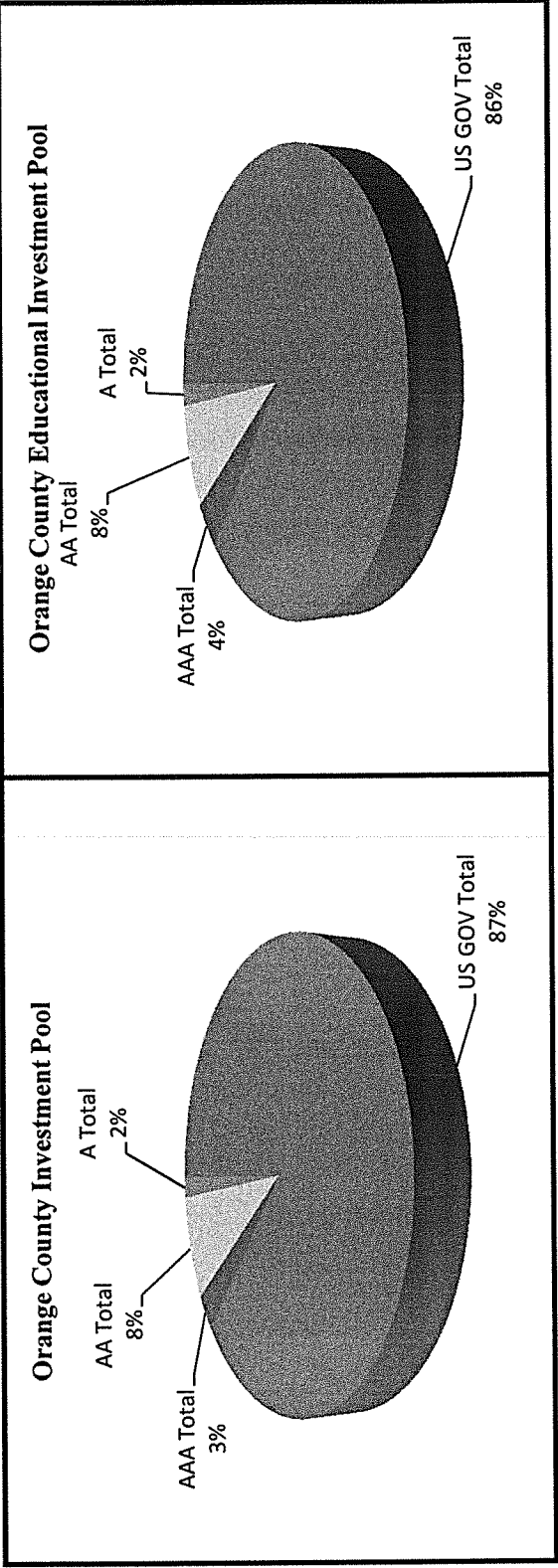
Orange County Investment Pool			
	In Thousands		%
U.S. GOVERNMENT AGENCIES	\$ 2,872,601		68.73%
U.S. TREASURIES	773,379		18.51%
LOCAL AGENCY INVESTMENT FUND	4,513		0.11%
MEDIUM - TERM NOTES	278,155		6.66%
MONEY MARKET MUTUAL FUNDS	63,739		1.53%
MUNICIPAL DEBT	63,530		1.52%
CERTIFICATES OF DEPOSIT	123,060		2.94%
	<u>\$ 4,178,977</u>		<u>100.00%</u>

Orange County Educational Investment Pool			
	In Thousands		%
U.S. GOVERNMENT AGENCIES	\$ 2,333,570		62.28%
U.S. TREASURIES	894,067		23.86%
LOCAL AGENCY INVESTMENT FUND	4,061		0.11%
MEDIUM - TERM NOTES	261,850		6.99%
MONEY MARKET MUTUAL FUNDS	86,018		2.30%
MUNICIPAL DEBT	58,322		1.55%
CERTIFICATES OF DEPOSIT	109,003		2.91%
	<u>\$ 3,746,891</u>		<u>100.00%</u>

John Wayne Airport Investment Fund			
	In Thousands		%
U.S. GOVERNMENT AGENCIES	\$ 41,552		82.83%
MEDIUM - TERM NOTES	401		0.80%
MONEY MARKET MUTUAL FUNDS	5,212		10.39%
U.S. TREASURIES	2,999		5.98%
	<u>\$ 50,164</u>		<u>100.00%</u>

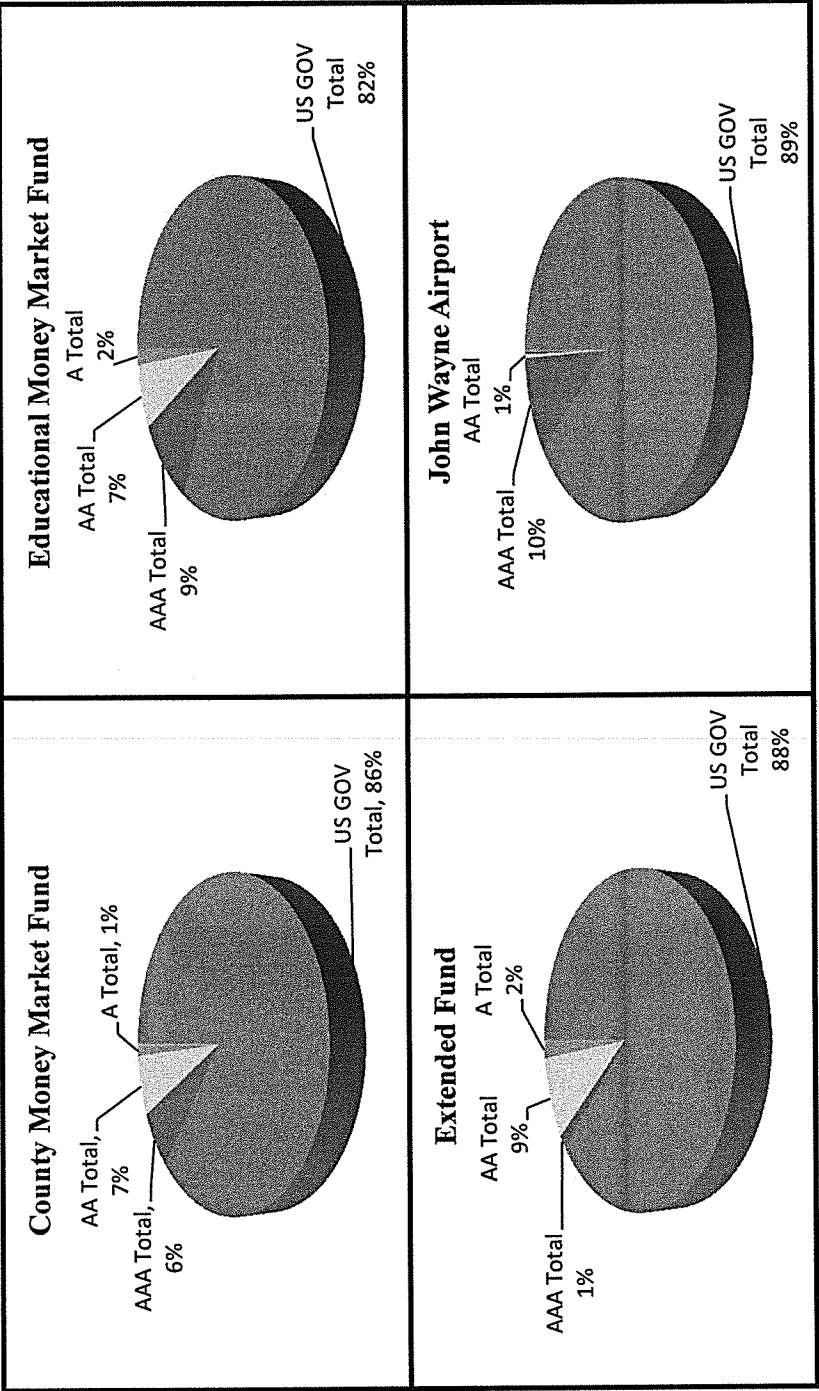
Calculated Using Market Value at 11/30/2016

# ORANGE COUNTY TREASURER - TAX COLLECTOR CREDIT QUALITY BY MARKET VALUE November 30, 2016



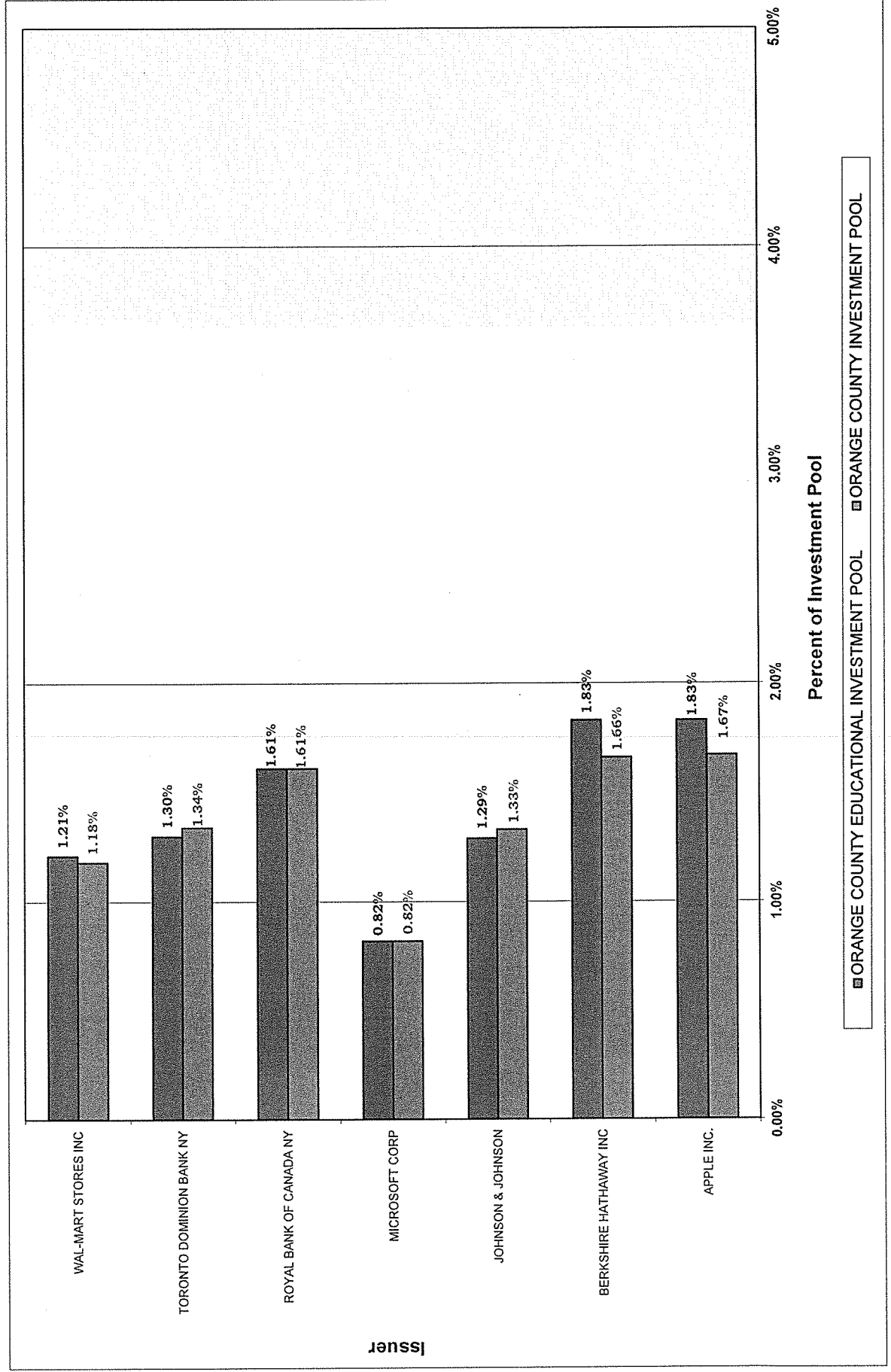
US GOV Includes Agency & Treasury Debt  
 AA Includes AA+, AA- & AA  
 A Includes A+,A- & A  
 A-1 Includes A-1+, F-1+, P-1, A-1 & F-1

# ORANGE COUNTY TREASURER - TAX COLLECTOR CREDIT QUALITY BY MARKET VALUE November 30, 2016

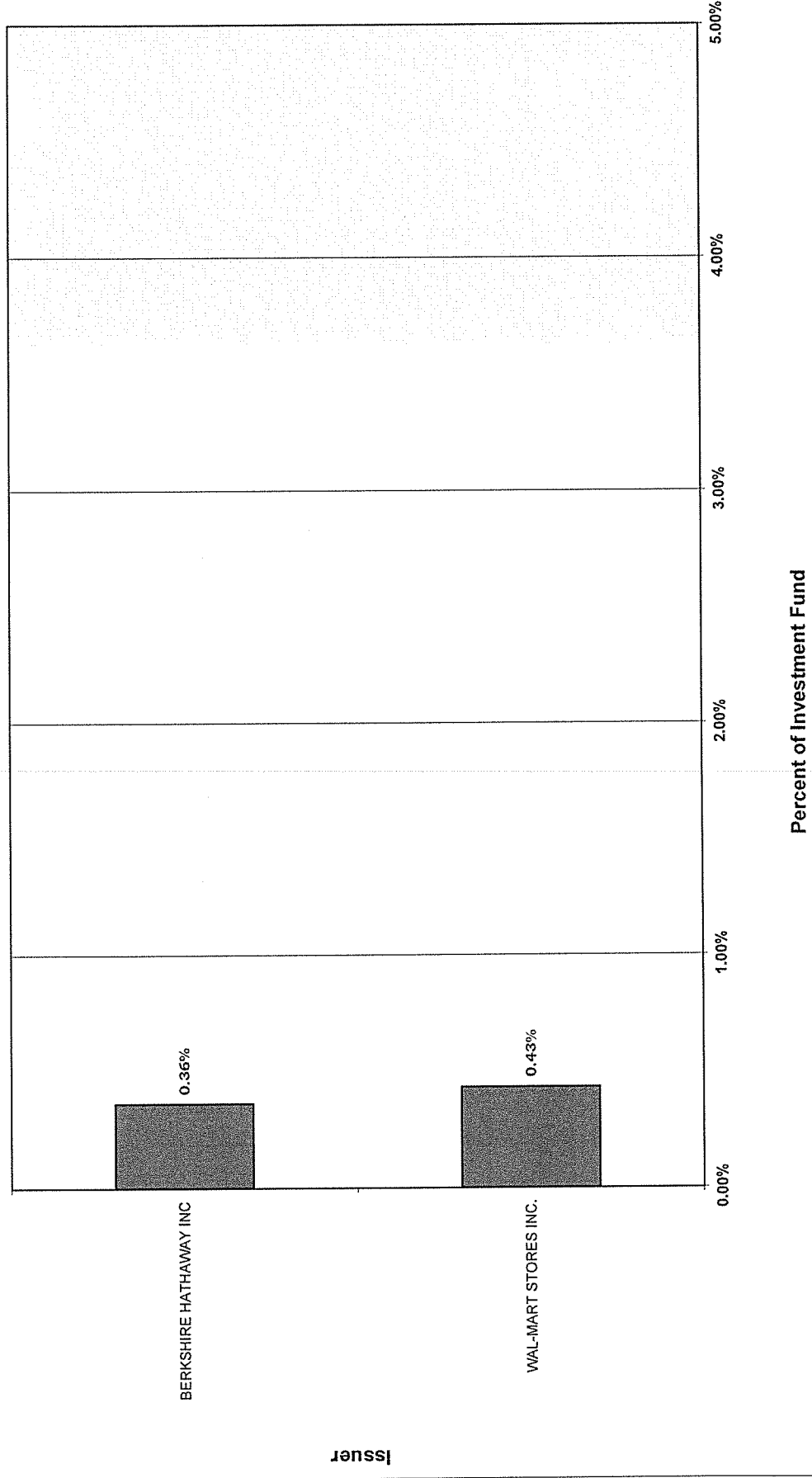


US GOV Includes Agency & Treasury Debt  
 AA Includes AA+, AA- & AA  
 A Includes A+,A- & A  
 A-1 Includes A-1+, F-1+, P-1, A-1 & F-1

# ORANGE COUNTY TREASURER - TAX COLLECTOR ISSUER CONCENTRATION-By Investment Pool November 30, 2016



**ORANGE COUNTY TREASURER - TAX COLLECTOR**  
**ISSUER CONCENTRATION - JOHN WAYNE AIRPORT INVESTMENT FUND**  
 November 30, 2016



# ORANGE COUNTY TREASURER-TAX COLLECTOR

## APPROVED ISSUER LIST - OCIP, OCEIP, and JWA

November 30, 2016

ISSUER	S/T RATINGS			L/T RATINGS		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
U.S. TREASURY SECURITIES						
U.S. GOVERNMENT	A-1+	P-1	F1+	AA+	Aaa	AAA
U.S. GOVERNMENT AGENCY SECURITIES						
FEDERAL NATIONAL MORTGAGE ASSOCIATION	A-1+	P-1	F1+	AA+	Aaa	AAA
FEDERAL HOME LOAN MORTGAGE CORPORATION	A-1+	P-1	F1+	AA+	Aaa	AAA
FEDERAL HOME LOAN BANKS	A-1+	P-1	NR	AA+	Aaa	NR
FEDERAL FARM CREDIT BANKS	A-1+	P-1	F1+	AA+	Aaa	AAA
MEDIUM-TERM NOTES						
APPLE INC	A-1+	P-1	NR	AA+	Aa1	NR
BERKSHIRE HATHAWAY INC	A-1+	P-1	NR	AA	Aa2	A+
BERKSHIRE HATHAWAY FINANCE	NR	P-1	NR	NR	Aa2	A+
JOHNSON & JOHNSON	A-1+	P-1	F1+	AAA	Aaa	AAA
WAL-MART STORES INC	A-1+	P-1	F1+	AA	Aa2	AA
ISSUERS ON HOLD						
MICROSOFT CORPORATION ***	A-1+	P-1	F1+	AAA	Aaa	AA+
ROYAL BANK OF CANADA NY ****	A-1+	P-1	F1+	AA-	Aa3	AA
STATE OR NATIONALLY CHARTERED BANKS *						
TORONTO DOMINION BANK NY *****	A-1+	P-1	F1+	AA-	Aa1	AA-
MUNICIPAL BONDS						
ORANGE CNTY CA PENSION OBLG 2016 A	NR	NR	F1+	AA	NR	AA
ORANGE CNTY CA PENSION OBLG 2017 A	NR	NR	NR	NR	NR	NR
STATE POOL - LOCAL AGENCY INVESTMENT FUND						
LOCAL AGENCY INVESTMENT FUND	NR	NR	NR	NR	NR	NR
MONEY MARKET MUTUAL FUNDS **						
NAME OF FUND	S & P	Moody's	Fitch			
INVESCO GOVERNMENT & AGENCY SHORT-TERM INVESTMENTS TRUST (AIM)	AAAm	Aaa-mf	AAAmnf			
GOLDMAN SACHS FINANCIAL SQUARE GOVT FUND	AAAm	Aaa-mf	NR			
MORGAN STANLEY INSTITUTIONAL LIQUIDITY FUNDS - GOVT	AAAm	Aaa-mf	NR			
NORTHERN INSTITUTIONAL TREASURY PORTFOLIO	AAAm	NR	NR			

\* Further purchase restrictions apply due to additional trading limits.

\*\* All money market funds are institutional money market funds investing in debt issued or guaranteed by the U.S. Government and its agencies.

\*\*\* On Negative Outlook (Moody's L/T rating - July 25, 2016); on Negative Watch (Fitch L/T rating - June 15, 2016)

\*\*\*\* On Negative Outlook (S&P - June 6, 2016; Fitch - January 25, 2016; Moody's - June 11, 2014)

\*\*\*\*\* On Negative Outlook (Moody's - June 11, 2014)

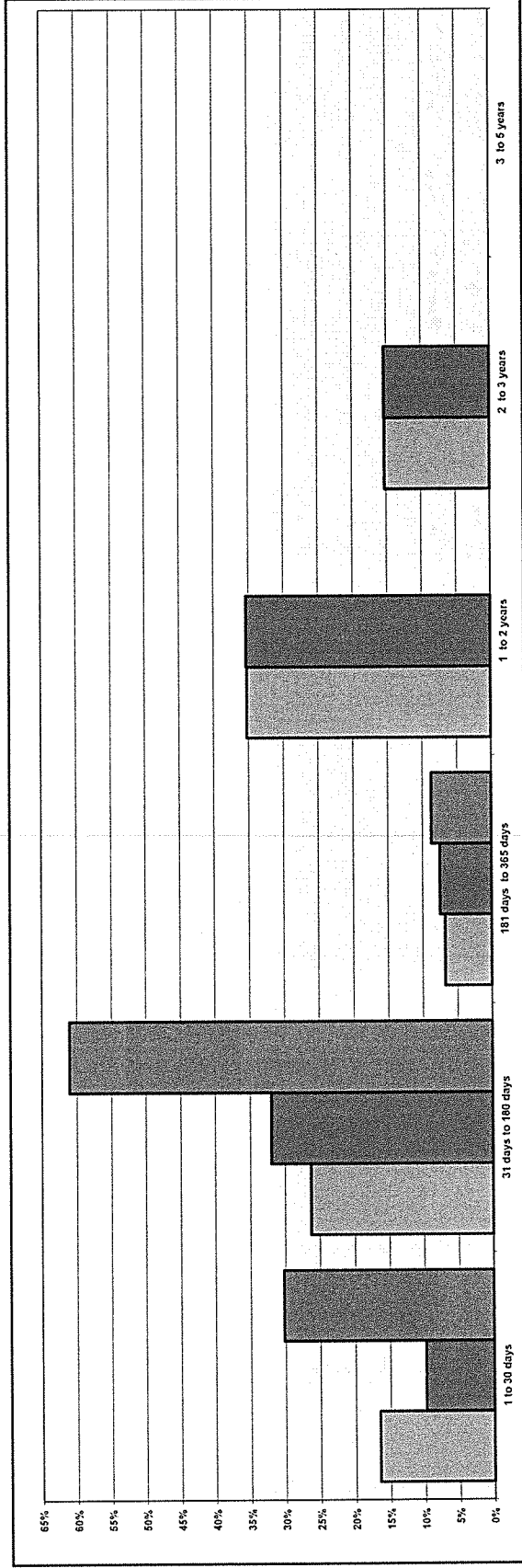


**Orange County Treasurer-Tax Collector  
Changes in Approved Issuer's List  
For the Month Ended November 30, 2016**

During November, there were two changes to the Treasurer's Approved Issuer List. In November, the Credit Investment Committee approved the following changes:

- Added the Orange County Taxable Pension Obligation Bonds, Series 2017 A
- Added the Local Agency Investment Fund after the State Treasurer approved and opened an account for the County that was previously approved by the Credit Investment Committee in April 2016

# ORANGE COUNTY TREASURER - TAX COLLECTOR MATURITIES DISTRIBUTION November 30, 2016



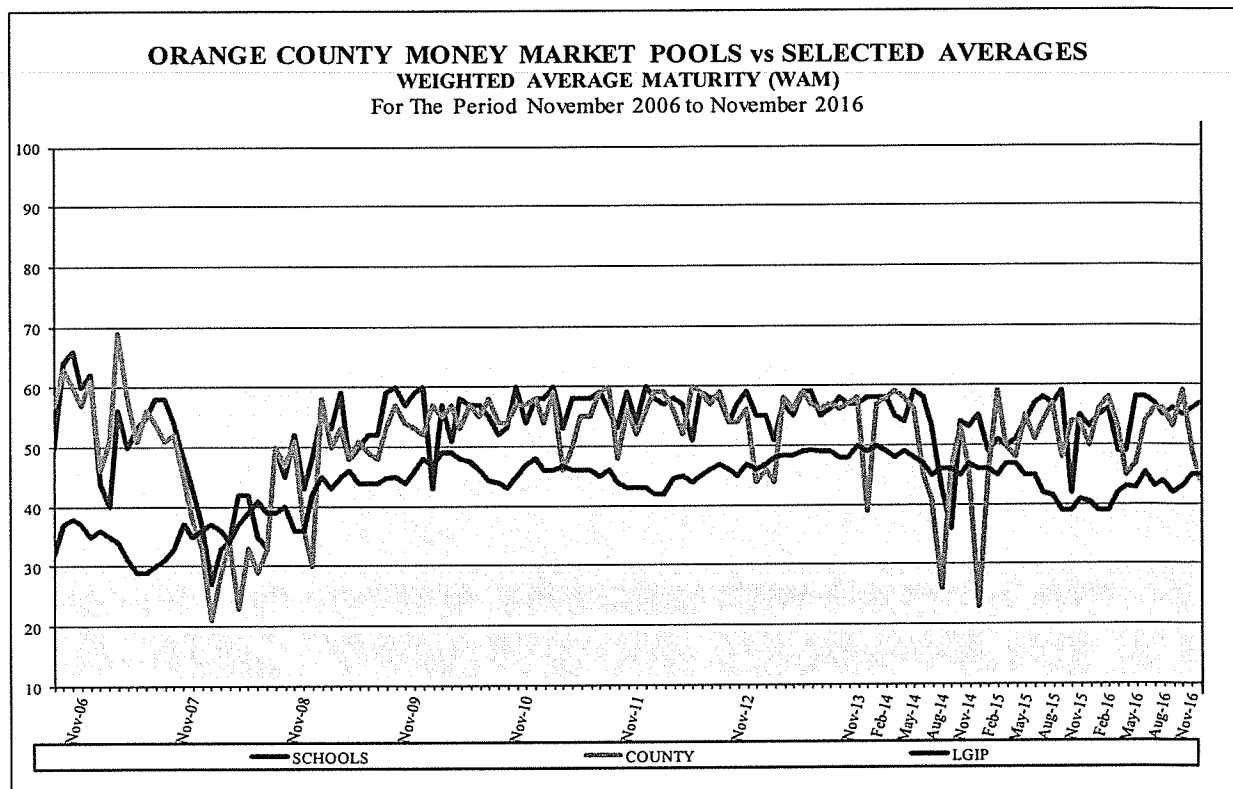
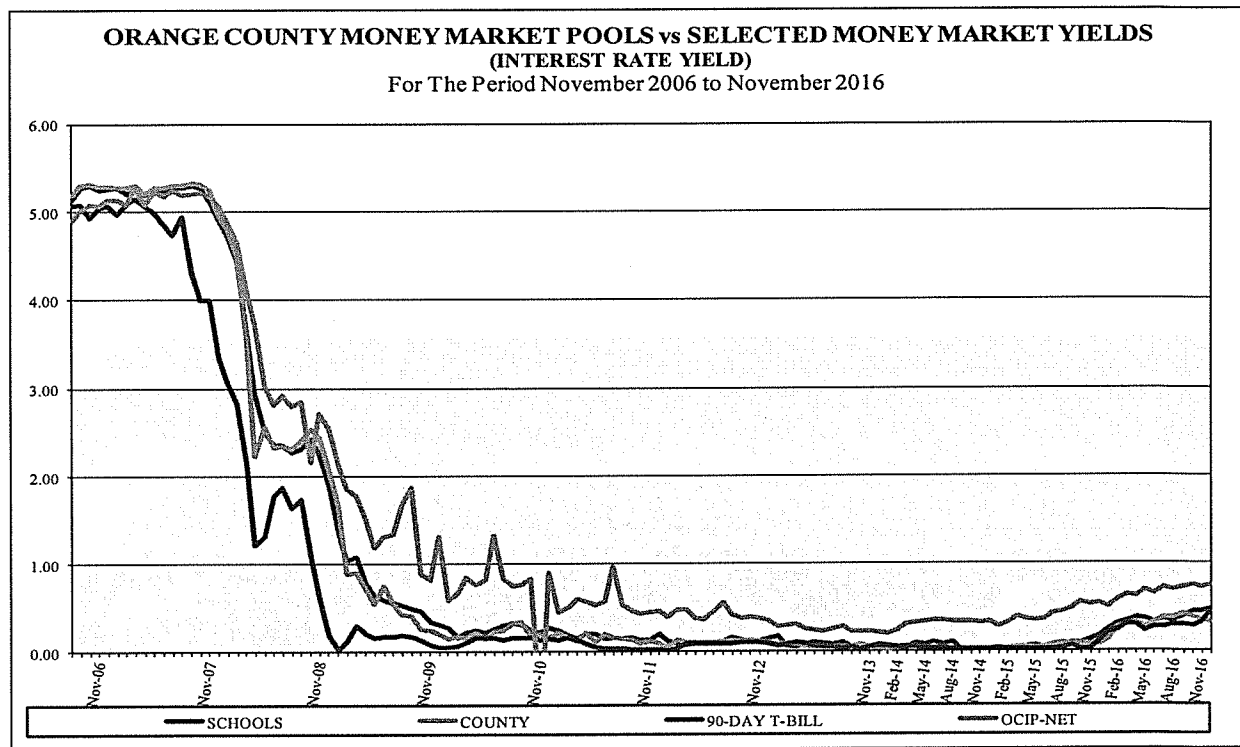
ORANGE COUNTY INVESTMENT POOL			
	In Thousands	%	
1 TO 30 DAYS	\$ 688,820	16.49%	
31 TO 180 DAYS	1,098,258	26.29%	
181 TO 365 DAYS	281,289	6.74%	
1 YEAR TO 2 YEARS	1,471,455	35.22%	
2 YEARS TO 3 YEARS	637,408	15.26%	
3 YEARS TO 5 YEARS	-	0.00%	
<b>TOTAL</b>	<b>\$ 4,177,230</b>	<b>100.00%</b>	

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL			
	In Thousands	%	
1 TO 30 DAYS	\$ 369,101	9.86%	
31 TO 180 DAYS	1,197,725	31.97%	
181 TO 365 DAYS	280,628	7.50%	
1 YEAR TO 2 YEARS	1,324,192	35.35%	
2 YEARS TO 3 YEARS	573,617	15.32%	
3 YEARS TO 5 YEARS	-	0.00%	
<b>TOTAL</b>	<b>\$ 3,745,264</b>	<b>100.00%</b>	

JOHN WAYNE AIRPORT INVESTMENT FUND			
	In Thousands	%	
1 TO 30 DAYS	\$ 15,155	30.23%	
31 TO 180 DAYS	30,596	61.04%	
181 TO 365 DAYS	4,375	8.73%	
1 YEAR TO 2 YEARS	-	0.00%	
<b>TOTAL</b>	<b>\$ 50,126</b>	<b>100.00%</b>	

Maturity Limits Are In Compliance With The Orange County Treasurer's Investment Policy Statement  
Calculated using Face Value

Floating Rate Notes are deemed to have a maturity date equal to their next interest reset date.  
At 11/30/2016, Floating Rate Notes comprise 1.06%, 2.26%, and 0.40% of the Orange County Investment Pool, Orange County Educational Investment Pool, and JWA Investment Fund respectively.



•As of November 30, 2016, S&P LGIP – 0.50; S&P LGIP WAM -45; 90-Day T-Bill – 0.45; OCIP – Net – 0.732

**ORANGE COUNTY TREASURER-TAX COLLECTOR**

**INVESTMENT POOL YIELDS**

December 1, 2015 - November 30, 2016

PERIOD ENDING - MONTH / YEAR	MONTH END MARKET VALUE	EARNINGS FOR MONTH	GROSS AVERAGE YIELD FOR MONTH	MONTH END WAM
<b>Current Month - November 2016</b>				
County Pool - Money Market Fund	\$ 1,263,748,930	\$ 397,303	0.38%	44
Educational Pool - Money Market Fund	\$ 1,123,417,366	\$ 433,001	0.53%	57
Extended Fund	\$ 5,538,702,888	\$ 4,384,832	0.96%	515
<b>October 2016</b>				
County Pool - Money Market Fund	\$ 1,262,431,238	\$ 351,585	0.41%	49
Educational Pool - Money Market Fund	\$ 978,305,500	\$ 469,767	0.51%	56
Extended Fund	\$ 5,497,309,348	\$ 4,298,117	0.92%	504
<b>September 2016</b>				
County Pool - Money Market Fund	\$ 751,801,815	\$ 278,284	0.46%	59
Educational Pool - Money Market Fund	\$ 1,220,526,096	\$ 498,234	0.46%	55
Extended Fund	\$ 5,494,463,600	\$ 4,191,758	0.93%	501
<b>August 2016</b>				
County Pool - Money Market Fund	\$ 800,306,654	\$ 295,786	0.49%	53
Educational Pool - Money Market Fund	\$ 1,221,174,892	\$ 516,653	0.46%	56
Extended Fund	\$ 5,459,349,411	\$ 4,074,594	0.90%	484
<b>July 2016</b>				
County Pool - Money Market Fund	\$ 686,861,455	\$ 325,471	0.45%	56
Educational Pool - Money Market Fund	\$ 1,433,126,604	\$ 519,773	0.41%	55
Extended Fund	\$ 5,327,781,739	\$ 4,052,122	0.89%	501
<b>June 2016</b>				
County Pool - Money Market Fund	\$ 928,467,500	\$ 418,507	0.44%	56
Educational Pool - Money Market Fund	\$ 1,611,309,522	\$ 519,651	0.43%	57
Extended Fund	\$ 5,387,530,673	\$ 4,192,339	0.95%	512
<b>May 2016</b>				
County Pool - Money Market Fund	\$ 1,345,822,973	\$ 487,226	0.39%	54
Educational Pool - Money Market Fund	\$ 1,550,458,922	\$ 554,610	0.39%	58
Extended Fund	\$ 5,364,702,464	\$ 4,084,932	0.90%	532
<b>April 2016</b>				
County Pool - Money Market Fund	\$ 1,650,959,211	\$ 611,665	0.34%	47
Educational Pool - Money Market Fund	\$ 1,789,408,388	\$ 534,423	0.43%	58
Extended Fund	\$ 5,336,146,252	\$ 4,277,809	1.00%	526
<b>March 2016</b>				
County Pool - Money Market Fund	\$ 1,530,995,992	\$ 435,530	0.38%	45
Educational Pool - Money Market Fund	\$ 1,327,818,642	\$ 514,646	0.44%	49
Extended Fund	\$ 5,066,946,597	\$ 3,687,551	0.86%	507
<b>February 2016</b>				
County Pool - Money Market Fund	\$ 1,356,697,509	\$ 358,060	0.36%	53
Educational Pool - Money Market Fund	\$ 1,418,948,794	\$ 502,610	0.41%	49
Extended Fund	\$ 5,055,918,854	\$ 3,563,588	0.89%	501
<b>January 2016</b>				
County Pool - Money Market Fund	\$ 1,181,133,064	\$ 378,119	0.33%	58
Educational Pool - Money Market Fund	\$ 1,734,538,876	\$ 564,397	0.37%	56
Extended Fund	\$ 5,049,818,559	\$ 3,563,663	0.83%	503
<b>December 2015</b>				
County Pool - Money Market Fund	\$ 1,720,712,911	\$ 294,202	0.20%	56
Educational Pool - Money Market Fund	\$ 1,925,021,216	\$ 321,451	0.31%	55
Extended Fund	\$ 5,036,016,892	\$ 3,442,794	0.80%	525
<b>Fiscal Year July 1, 2016 - June 30, 2017</b>	<b>Average Month End Market Value Balance</b>	<b>YTD Interest Income</b>	<b>YTD Gross Yield</b>	<b>YTD Average</b>
Orange County Investment Pool	\$ 3,786,128,185	\$ 12,499,345	0.80%	390
Orange County Educational Investment Pool	\$ 3,825,733,322	\$ 12,587,934	0.77%	363

# ORANGE COUNTY TREASURER-TAX COLLECTOR

## CASH AVAILABILITY PROJECTION

### FOR THE SIX MONTHS ENDING MAY 31, 2017

Government Code Section 53646 (b) (3), effective on January 1, 1996, requires the Treasurer-Tax Collector to include a statement in the investment report, denoting the ability of the Orange County Investment Pool (OCIP) and the Orange County Educational Investment Pool (OCEIP) to meet their expenditure requirements for the next six months.

The OCIP and OCEIP consist of funds in the treasury deposited by various entities required to do so by statute, as well as those entities voluntarily depositing monies in accordance with Government Code Section 53684.

The Treasurer-Tax Collector is required to disburse monies placed in the treasury as directed by the Auditor-Controller and the Department of Education, except for the making of legal investments, to the extent funds are transferred to one or more clearing funds in accordance with Government Code Section 29808.

The Treasurer-Tax Collector, in her projection of cash availability to disburse funds as directed by the Auditor-Controller and the Department of Education, is relying exclusively on historical activity involving deposits and disbursements and future cash flow projections. No representation is made as to an individual depositor's ability to meet their anticipated expenditures with anticipated revenues.

The Cash Availability Projection for the six months ending May 31, 2017, indicates the ability of the pools to meet projected cash flow requirements. However, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

ORANGE COUNTY INVESTMENT POOL				
Month	Investment Maturities	Projected Deposits	Projected Disbursements	Cumulative Available Cash
November 2016 - Ending Cash				\$ 26,580,415
December	\$ 729,794,879	\$ 2,119,957,159	\$ 1,971,500,185	904,832,268
January	559,680,377	423,769,690	1,039,800,974	848,481,361
February	191,531,712	399,341,557	327,501,478	1,111,853,151
March	148,668,826	774,743,709	592,769,257	1,442,496,430
April	68,646,821	2,040,131,589	1,786,910,013	1,764,364,826
May	144,872,238	330,454,385	671,773,527	1,567,917,921

ORANGE COUNTY EDUCATIONAL INVESTMENT POOL				
Month	Investment Maturities	Projected Deposits	Projected Disbursements	Cumulative Available Cash
November 2016 - Ending Cash				\$ 3,796,331
December	\$ 373,051,306	\$ 1,274,123,613	\$ 444,751,428	1,206,219,822
January	576,238,922	530,435,797	867,703,186	1,445,191,355
February	259,317,521	267,968,367	637,382,992	1,335,094,251
March	156,941,191	420,143,456	688,295,720	1,223,883,177
April	84,468,785	1,132,356,689	668,971,299	1,771,737,353
May	150,179,693	417,792,738	687,442,480	1,652,267,304

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**STATEMENT OF ACCOUNTABILITY**  
**For the Month Ended November 30, 2016**

	<u>Month</u>
<b>Treasurer's Accountability at the Beginning of the Period:</b>	<b><u>\$7,951,551,208</u></b>
<b>Cash Receipts:</b>	
County	1,051,457,041
School and Community College Districts	845,721,626
<b>Total Cash Receipts</b>	<b><u>1,897,178,667</u></b>
<b>Cash Disbursements:</b>	
County	989,427,794
School and Community College Districts	700,579,740
<b>Total Cash Disbursements</b>	<b><u>1,690,007,534</u></b>
<b>Net Change in Book Value of Pooled Assets</b>	<b><u>207,171,133</u></b>
<b>Net Increase in Non Pooled Investments</b>	<b>33,998</b>
<b>Net Increase in Non Pooled Cash</b>	<b><u>717,222</u></b>
<b>Treasurer's Accountability at the End of the Period:</b>	<b><u>\$8,159,473,561</u></b>
<b>Assets in the Treasury at the End of the Period (at Book Value):</b>	
<b>Pooled Investments:</b>	
O.C. Investment Pool	\$ 4,195,475,691
O.C. Educational Investment Pool	3,762,143,949
<b>Total Orange County Investment Pools</b>	<b><u>7,957,619,640</u></b>
<b>Non Pooled Investments:</b>	
Non Pooled Investments - John Wayne Airport	50,299,606
Non Pooled Investments - General Fund – Non AMT Restricted	67,380,047
Non Pooled Investments - Fountain Valley School District Fund 40	34,909,366
Non Pooled Investments - Other	1,081,500
<b>Total Non Pooled Investments</b>	<b><u>153,670,519</u></b>
<b>Cash:</b>	
Cash in banks - County	26,404,364
Cash in banks - Schools	3,796,331
Cash in banks - OC Sheriff	9,180,754
Cash in banks - John Wayne Airport	8,625,902
Cash - Other	176,051
<b>Total Cash</b>	<b><u>48,183,402</u></b>
<b>Total Assets in the Treasury at the End of the Period:</b>	<b><u>\$ 8,159,473,561</u></b>

**ORANGE COUNTY TREASURER-TAX COLLECTOR  
INVESTMENT POLICY (IPS) COMPLIANCE SUMMARY**  
November 30, 2016

Investment Policy (IPS) Guidelines	Investment Type	County Money Market Fund		Extended Fund		Educational Money Market Fund		John Wayne Airport Investment Fund	
		Market Value of Investments <sup>(1)</sup>	Percent of Portfolio	Market Value of Investments <sup>(1)</sup>	Percent of Portfolio	Market Value of Investments <sup>(1)</sup>	Percent of Portfolio	Market Value of Investments <sup>(1)</sup>	Percent of Portfolio
Diversification Limit									
30%	Negotiable Certificates of Deposit	\$ 18,606,378	1.47%	\$ 198,454,500	3.58%	\$ 15,002,200	1.33%	\$ -	0.00%
40%	Commercial Paper	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100%	U.S. Government Agencies	1,009,644,790	79.89%	3,539,469,432	63.91%	657,057,236	58.49%	41,551,881	82.83%
\$50MM	LAIF	-	0.00%	8,574,000	0.15%	-	0.00%	-	0.00%
30%	Medium-Term Notes	80,269,098	6.35%	375,967,625	6.79%	83,768,548	7.46%	401,198	0.80%
20%	Money Market Mutual Funds	63,738,867	5.05%	-	0.00%	86,017,865	7.66%	5,212,040	10.39%
20%	Municipal Debt	11,499,540	0.91%	98,853,018	1.78%	11,499,540	1.02%	-	0.00%
20%	Repurchase Agreement	-	0.00%	-	0.00%	-	0.00%	-	0.00%
30%	Supranationals	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100%	U.S. Treasuries	79,990,257	6.33%	1,317,384,313	23.79%	270,071,977	24.04%	2,998,525	5.98%
		\$ 1,263,748,930	100.00%	\$ 5,538,702,888	100.00%	\$ 1,123,417,366	100.00%	\$ 50,163,644	100.00%

Investment Policy Guidelines	Compliance Category (Yes/No)	County Money Market Fund		Extended Fund		Educational Money Market Fund		John Wayne Airport Investment Fund	
		Market Value of Investments <sup>(1)</sup>	Percent of Portfolio	Market Value of Investments <sup>(1)</sup>	Percent of Portfolio	Market Value of Investments <sup>(1)</sup>	Percent of Portfolio	Market Value of Investments <sup>(1)</sup>	Percent of Portfolio
5%	Percentage Limits	Yes		Yes		Yes		Yes	
20%	Issuer Limit	Yes <sup>(2)</sup>		N/A		Yes <sup>(2)</sup>		Yes	
33% <sup>(4)</sup>	Money Market Mutual Fund Issuer	Yes		Yes		Yes		Yes	
See Above	Government Agencies Issuer	Yes		Yes		Yes		Yes	
	Diversification Limit								
60 Days	Maturity/Duration Limits	Yes/44.46		N/A		Yes/57.33		N/A	
90 Days	Weighted Average Maturity - Money Market Fund	N/A		N/A		N/A		Yes/73.06	
>Merrill 1-3 Year Index+25% (2.39)	Weighted Average Maturity - John Wayne Airport Investment Fund (JWA)	N/A		N/A		N/A		N/A	
13 Months/397 days	Duration	N/A		Yes/1.36		N/A		N/A	
15 Months/456 days	Final Maturity - Money Market Fund	Yes/356		N/A		Yes/356		N/A	
5 Years/1826 days	Final Maturity - John Wayne Airport Investment Fund	N/A		N/A		N/A		Yes/306	
	Final Maturity - Extended Fund	N/A		Yes/1080		N/A		N/A	
A-1/≥ A	Quality Limits	Yes		N/A		Yes		Yes	
≥ A-1/P-1/F2	MMF Short Term/Long Term	Yes		N/A		Yes		Yes	
A-1/≥ AA (2)	Short Term Debt/No Split Ratings	N/A		N/A		N/A		N/A	
Approved Issuer List	Extended Fund Short Term/Long Term	Yes		Yes		N/A		Yes	
Broker/Dealer List	Authorized Issuer	Yes		Yes		Yes		Yes	
	Authorized Financial Dealer/Institution	Yes		Yes		Yes		Yes	
0.995 - 1.005	Net Asset Value - Money Market Fund and JWA	Yes/7.0000		N/A		Yes/7.0001		Yes/7.0000	

(1) All investments are marked to market in compliance with the narrow valuation range prescribed by the IPS and market values are provided by Bloomberg Professional Services and Northern Trust.

(2) Excludes US Government Debt per IPS policy approved by the Board of Supervisors on December 15, 2015.

(3) Rating Agency requirements limit investment in each Money Market Mutual Fund to 10%. On October 31, 2016, the Educational Money Market Fund had 11.4% in one Money Market Mutual Fund that was back in compliance with rating agency requirements on November 2, 2016.

(4) GSE issuers rated 'AA-' or higher with final maturities of 30 days or less are excluded from the calculation of the 33% limit.

NA Not applicable

Note: Compliance exceptions, if any, are noted by red shading for the specific IPS guideline and investment pool.

**ORANGE COUNTY TREASURER-TAX COLLECTOR**  
**INVESTMENT POLICY (IPS) AND TREASURY OVERSIGHT COMMITTEE (TOC) COMPLIANCE SUMMARY**  
**November 30, 2016**

COMPLIANCE CATEGORY	PERFORMED BY	REGULATORY/POLICY GUIDELINES	CURRENT STATUS
Annual Compliance Audit	ACIA	Performance Evaluation-Cal Govt. Code 27134	Annual audit of calendar year 2015 completed.
Quarterly Schedule of Assets Review	ACIA	Performance Evaluation-Cal Govt. Code 26920(a)	Quarter ended September 30, 2016 in progress.
Annual Schedule of Assets Audit	ACIA	Performance Evaluation-Cal Govt. Code 26920(b)	Annual audit as of June 30, 2016 in progress.
Quarterly Continuous Compliance Auditing	ACIA	TOC Directive	Quarter ended September 30, 2016 in progress.
Treasury Administrative Fee	TTC	Compensation Agreement-Cal Govt. Code 27013	Annual review of fees for FY 14/15 and FY 15/16 in progress.
Annual Broker/Dealer Review	TTC	Authorized Financial Dealers and Qualified Institutions	Annual review of calendar year 2015 completed.
Annual Broker/Dealer IPS Certification	TTC	Investment/Diversification/Maturity Restrictions	All 2016 IPS certifications received.
IPS Compliance Deficiencies	TTC		FY 16/17 identified zero compliance incidents as of November 30, 2016.
TOC Bylaw Changes	BOS	TOC Review and BOS Annual Approval	TOC reviewed Bylaws and made one change at the October 19, 2016 meeting. BOS approved on November 22, 2016.
Annual IPS Approval	BOS	TOC Review and BOS Annual Approval	TOC reviewed proposed IPS changes at the October 19, 2016 meeting and did not make any additional changes. BOS approved on November 22, 2016.
TOC Annual Report	BOS	TOC Bylaws Rule 30 - Oral and Written Report	TOC 2015 Annual Report was presented to BOS on February 9, 2016.
Broker/Financial Institution List	TTC	OC Gift Ban Ordinance and Form 700	TOC members were provided a list of active TTC Broker/Dealers and Financial Institutions at the TOC meeting on October 19, 2016.
Certificates of Compliance	TTC	TOC Bylaws Rule 34 - Annual	TOC members are in compliance for 2016.
Ethics Training	TTC	TOC Bylaws Rule 34 - Every Two Years	TOC members are in compliance for Calendar Year 2014.
Conflict of Interest Form 700 Filing	TTC	TOC Bylaws Rule 34 / IPS - Every Year	TOC members are in compliance for Calendar Year 2016.

LEGEND	
Auditor-Controller Internal Audit	ACIA
Board of Supervisors	BOS
Treasury Oversight Committee	TOC
Office of Treasurer-Tax Collector	TTC



**Orange County Treasurer-Tax Collector  
Noncompliance Detail  
For the Month Ended November 30, 2016**

During November, the Orange County Investment Pool (OCIP), the Orange County Educational Investment Pool (OCEIP), and the John Wayne Airport Investment Fund were all free of noncompliance incidents.

# MONTHLY TREASURER'S INVESTMENT REPORT

## Distribution List

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### County of Orange Elected Officials

Honorable Sandra Hutchens, Sheriff-Coroner  
Honorable Hugh Nguyen, Clerk-Recorder  
Honorable Claude Parrish, Assessor  
Honorable Anthony J. Rackauckas, Jr., District  
Attorney/Public Administrator  
Honorable Eric Woolery, Auditor-Controller

### Treasury Oversight Committee

Gary Capata  
William "Andy" Dunn  
Frank Kim  
Al Mijares  
Laura Parisi  
Richard Rohm  
Eric Woolery

### County of Orange Departments

Assessor  
Auditor-Controller  
Child Support Services  
Clerk of the Board  
Clerk-Recorder  
County Counsel  
County Executive Office  
District Attorney/Public Administrator  
Health Care Agency  
Human Resources Services  
John Wayne Airport  
OC Community Resources  
OC Dana Point Harbor  
OC Public Works  
OC Waste & Recycling  
Independent Review  
Performance Audit  
Probation  
Public Defender  
Registrar of Voters  
Sheriff-Coroner  
Social Services Agency

### County Agencies

Children & Families Commission  
Civic Center Commission  
Law Library  
Orange County Employees Retirement System  
Orange County Cemetery District  
Orange County Fire Authority  
Orange County Transportation Authority  
Transportation Corridor Agencies

### State of California

CDIAC  
Superior Court

### Orange County School Districts

Orange County Department of Education  
Anaheim City School District  
Anaheim Union High School District

Brea-Olinda Unified School District  
Buena Park School District  
Capistrano Unified School District  
Centralia School District  
Cypress School District  
Fountain Valley School District  
Fullerton School District  
Fullerton Joint Union High School District  
Garden Grove Unified School District  
Huntington Beach City School District  
Huntington Beach Union High School District  
Irvine Unified School District  
Laguna Beach Unified School District  
La Habra City School District  
Los Alamitos Unified School District  
Lowell Joint School District  
Magnolia School District  
Newport-Mesa Unified School District  
Ocean View School District  
Orange Unified School District  
Placentia-Yorba Linda Unified School District  
Saddleback Valley Unified School District  
Santa Ana Unified School District  
Savanna School District  
Tustin Unified School District  
Westminster School District

### Orange County Community College Districts (CCD)

Coast Community CCD  
North Orange County CCD  
Rancho-Santiago CCD  
South Orange County CCD

### Orange County Regional Occupational Programs (ROP)

Capistrano-Laguna Beach ROP  
Coastline ROP  
North Orange County ROP

### Voluntary Pool Participants (date approved)

Serrano Water District (6-22-99)  
City of Villa Park (10-2-01)  
City of Tustin (5-21-02)  
Mesa Water District (8-9-02)  
Orange County Water District (3-30-04)  
Municipal Water District of OC (7-27-04)  
Orange County Mosquito and Vector Control District (11-14-06)  
Buena Park Library District (2-9-10)  
Local Agency Formation Commission (10-5-10)  
Villa Park Community Services Foundation (4-5-11)  
City of Laguna Niguel (3-13-14)  
City of Lake Forest (12-16-15)  
Foothill/Eastern TCA (10-14-16)  
San Joaquin Hills TCA (10-14-16)  
Foothill/Eastern TCA/RCC (11-17-16)



*January 11, 2017*

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

**Subject:** Orange County Transportation Authority Investment and Debt Programs Report - November 2016

**Overview**

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending November 30, 2016. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

**Recommendation**

Receive and file as an information item.

**Discussion**

As of November 30, 2016, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$1.45 billion. The portfolio is divided into two managed portfolios: the liquid portfolio for immediate cash needs and the short-term portfolio for future budgeted expenditures. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program. The weighted average yield for the OCTA portfolio is 1.14 percent.

OCTA's debt portfolio had an outstanding principal balance of \$435 million as of November 30, 2016. Approximately 75 percent of the outstanding balance is comprised of M2 debt and 25 percent is associated with the 91 Express Lanes Program.

***Summary***

The Treasurer is submitting a copy of the Orange County Transportation Authority Investment and Debt Programs report to the Finance and Administration Committee. The report is for the month ending November 30, 2016.

***Attachment***

- A. Orange County Transportation Authority Investment and Debt Programs  
– For the Period Ending November 30, 2016.

**Prepared by:**



Rodney Johnson  
Treasury/Toll Roads  
Deputy Treasurer  
(714) 560-5675

**Approved by:**

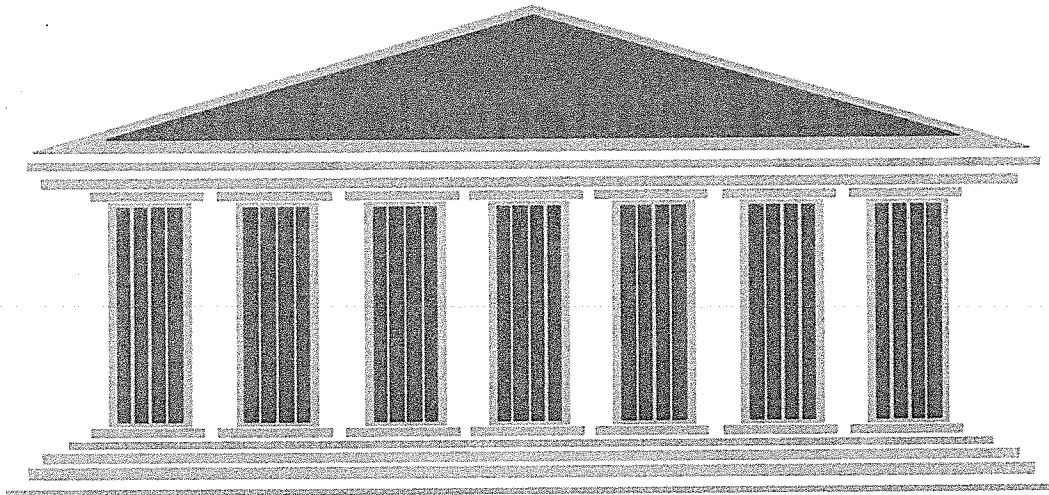


Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649



**Treasury/Public Finance Department's  
Report On**

**Orange County Transportation Authority  
Investment and Debt Programs**



**Presented to the  
Finance and Administration Committee**

**For The Period Ending  
November 30, 2016**

# INVESTMENT PROGRAM

# Investment Profile

## As of 11/30/16

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<u>Portfolio Manager</u>	<u>Depository</u>	<u>Role</u>	<u>Type of Investment</u>	<u>Amount (\$ Millions)</u>
<i>ACTIVELY MANAGED INVESTMENTS</i>				
JP Morgan	Union Bank	Custodian	Short-Term Operating	323.7
State Street Global Advisors	Union Bank	Custodian	Short-Term Operating	323.8
Payden & Rygel Investment Counsel	Union Bank	Custodian	Short-Term Operating	324.0
Western Asset Management	Union Bank	Custodian	Short-Term Operating	323.4
<i>POOLED INVESTMENTS</i>				
California State Treasurer	LAIF	Custodian	Liquid	10.2
Orange County Treasurer	OCIP	Custodian	Legal Requirement	3.1
<i>CASH INVESTMENTS</i>				
OCTA	BNY Mellon	Trustee	Liquid	52.4
OCTA	Bank of the West	Broker	Liquid	69.1
OCTA	U.S Bank	Trustee	Liquid	0.0
<i>DEBT SERVICE RESERVE FUNDS</i>				
91 Express Lanes 2013 Ref. Bonds	U.S Bank	Trustee	Commercial Paper	10.8
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	10.0
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	3.0
Bank Deposits/Cash				0.1
<b>TOTAL</b>				<b>\$1,453.7</b>



# Short-Term Portfolio - \$1.29 Billion

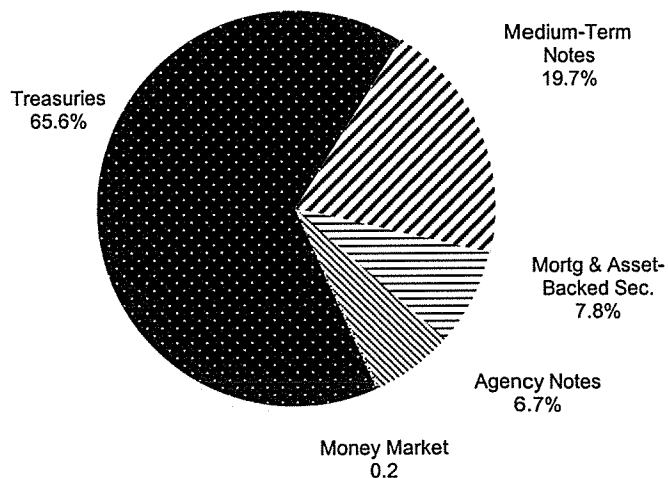
As of 11/30/16

Part 1 of 2

## JP Morgan

Book Value           \$   323,673,091

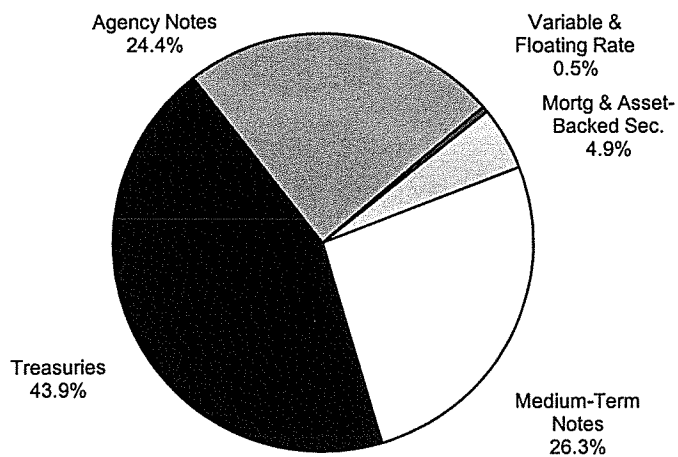
Market Value        \$   320,986,084



## State Street Global

Book Value           \$   323,824,832

Market Value        \$   322,508,086



*Market Value Reported By Custodial Bank*

# Short-Term Portfolio - \$1.29 Billion

## As of 11/30/16

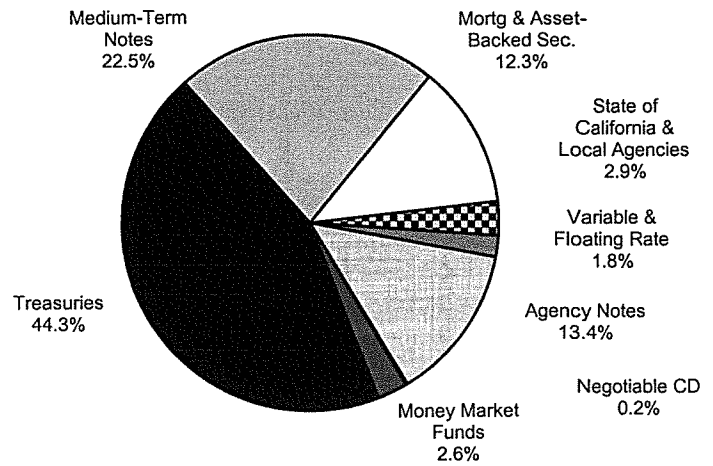
### Part 2 of 2

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#### Payden & Rygel

Book Value                   \$   324,035,393

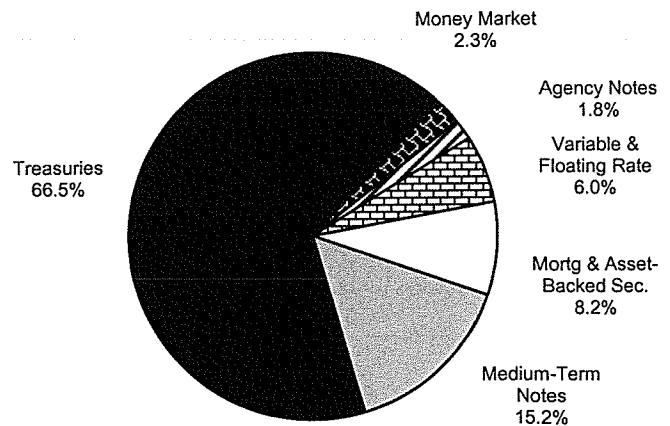
Market Value               \$   322,797,001



#### Western Asset Management

Book Value                   \$   323,424,313

Market Value               \$   322,578,370

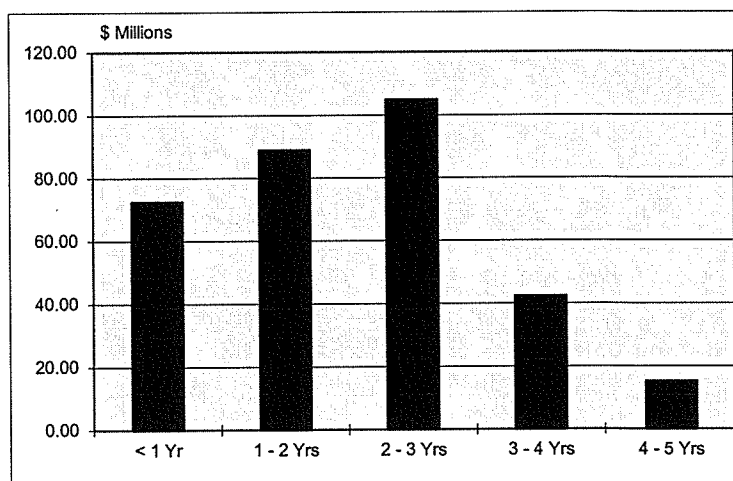


# Short-Term Portfolio Maturity Schedule

## As of 11/30/16

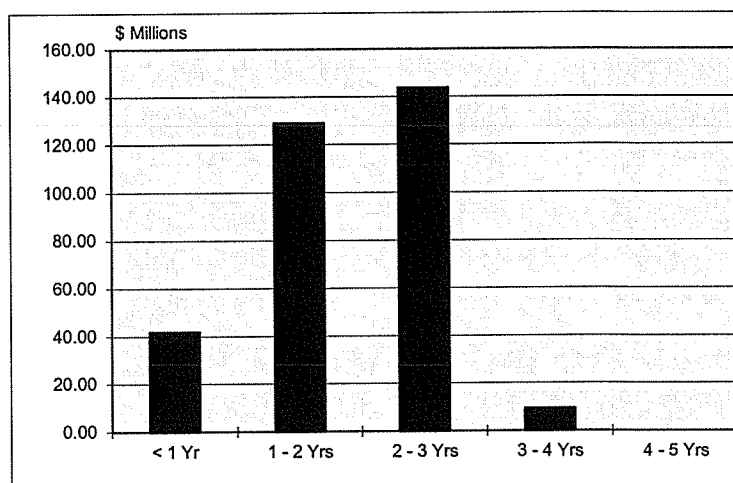
### JP Morgan (\$323.7 M)

Monthly Return	-0.47%
TSY Benchmark	-0.40%
Gov/Corp Benchmark	-0.41%
Fiscal YTD Return	-0.54%
TSY Benchmark	-0.57%
Gov/Corp Benchmark	-0.50%
12 Month Return	0.87%
TSY Benchmark	0.76%
Gov/Corp Benchmark	0.91%



### State Street Global (\$323.8 M)

Monthly Return	-0.41%
Benchmark Comparison	-0.40%
Gov/Corp Benchmark	-0.41%
Fiscal YTD Return	-0.48%
TSY Benchmark	-0.57%
Gov/Corp Benchmark	-0.50%
12 Month Return	0.94%
TSY Benchmark	0.76%
Gov/Corp Benchmark	0.91%

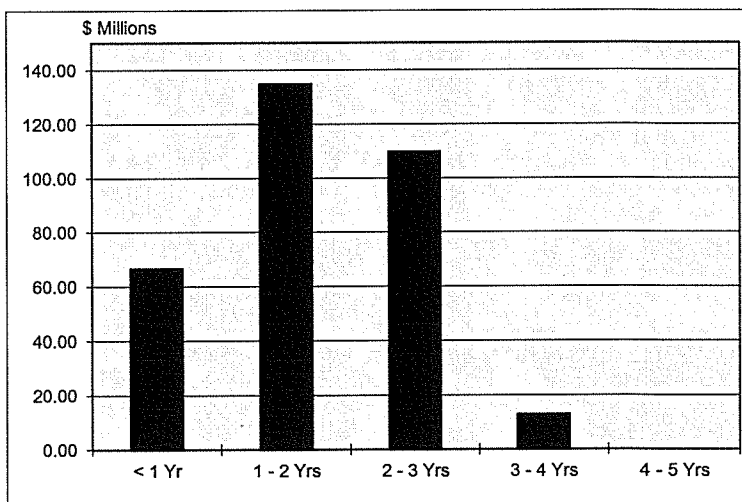


Yield Curve Change From 10/31/16 to 11/30/16			
	10/31/16	11/30/16	Change
1 Year	0.644%	0.780%	0.1360%
2 Year	0.843%	1.117%	0.2740%
3 Year	0.991%	1.395%	0.4040%
5 Year	1.308%	1.844%	0.5360%
30 Year	2.580%	3.035%	0.4550%

# Short-Term Portfolio Maturity Schedule As of 11/30/16

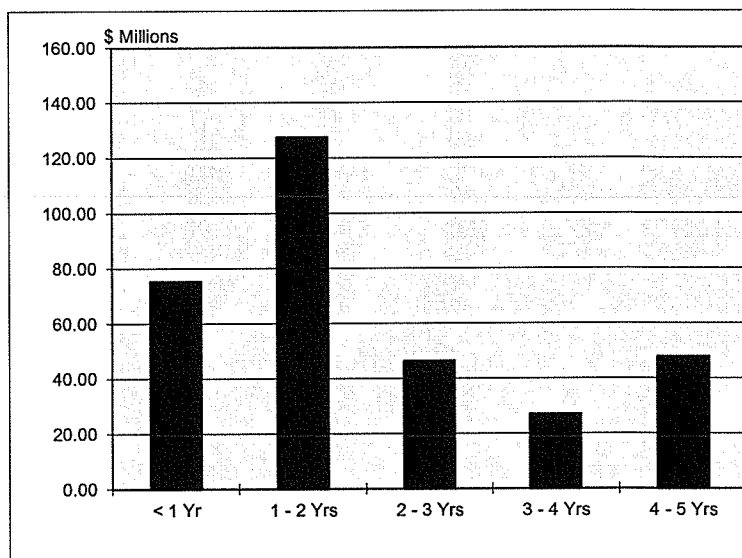
## **Payden & Rygel (\$324.0 M)**

Monthly Return	-0.26%
TSY Benchmark	-0.40%
Gov/Corp Benchmark	-0.41%
Fiscal YTD Return	-0.24%
TSY Benchmark	-0.57%
Gov/Corp Benchmark	-0.50%
12 Month Return	0.92%
TSY Benchmark	0.76%
Gov/Corp Benchmark	0.91%



## **Western Asset Management (\$323.4 M)**

Monthly Return	-0.55%
TSY Benchmark	-0.40%
Gov/Corp Benchmark	-0.41%
Fiscal YTD Return	-0.64%
TSY Benchmark	-0.57%
Gov/Corp Benchmark	-0.50%
12 Month Return	0.86%
TSY Benchmark	0.76%
Gov/Corp Benchmark	0.91%



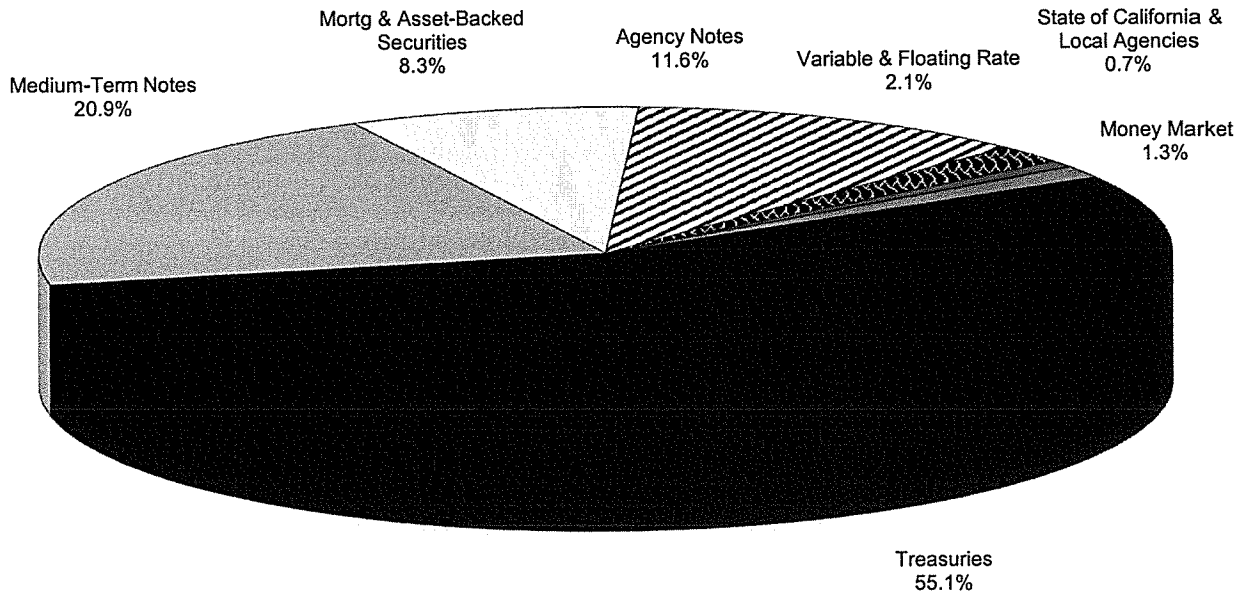
Yield Curve Change From 10/31/16 to 11/30/16			
	10/31/16	11/30/16	Change
1 Year	0.644%	0.780%	0.1360%
2 Year	0.843%	1.117%	0.2740%
3 Year	0.991%	1.395%	0.4040%
5 Year	1.308%	1.844%	0.5360%
30 Year	2.580%	3.035%	0.4550%

# Short-Term Portfolio

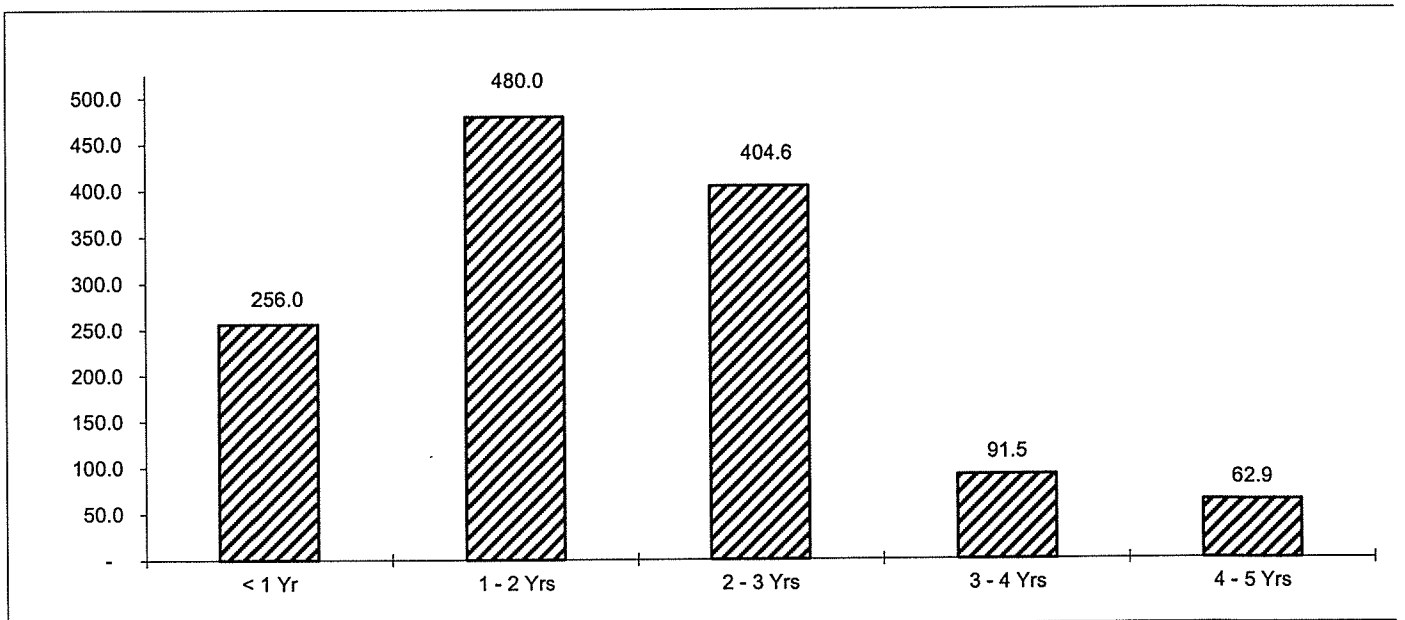
## As of 11/30/16

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### Total Portfolio Composition



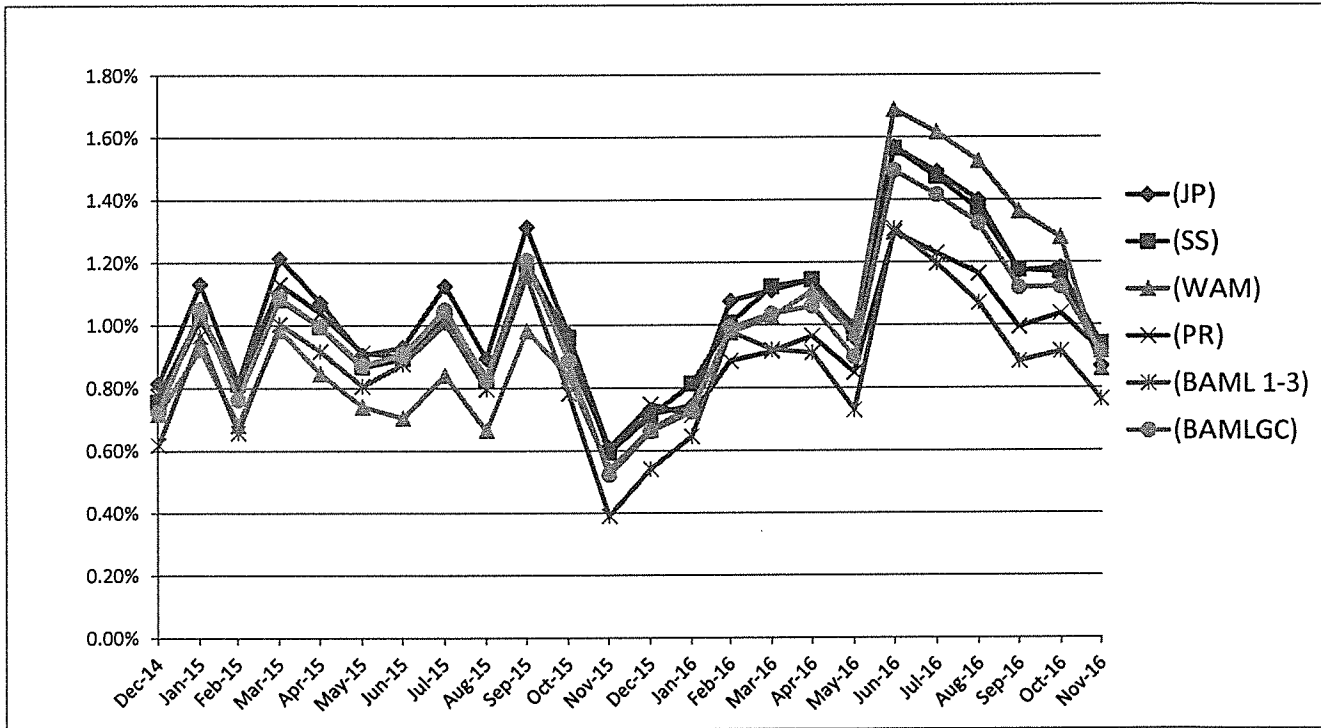
### Total Portfolio Maturity Schedule



# Short-Term Portfolio Performance

## As of 11/30/16

Trailing 1-Year Total Return  
Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks

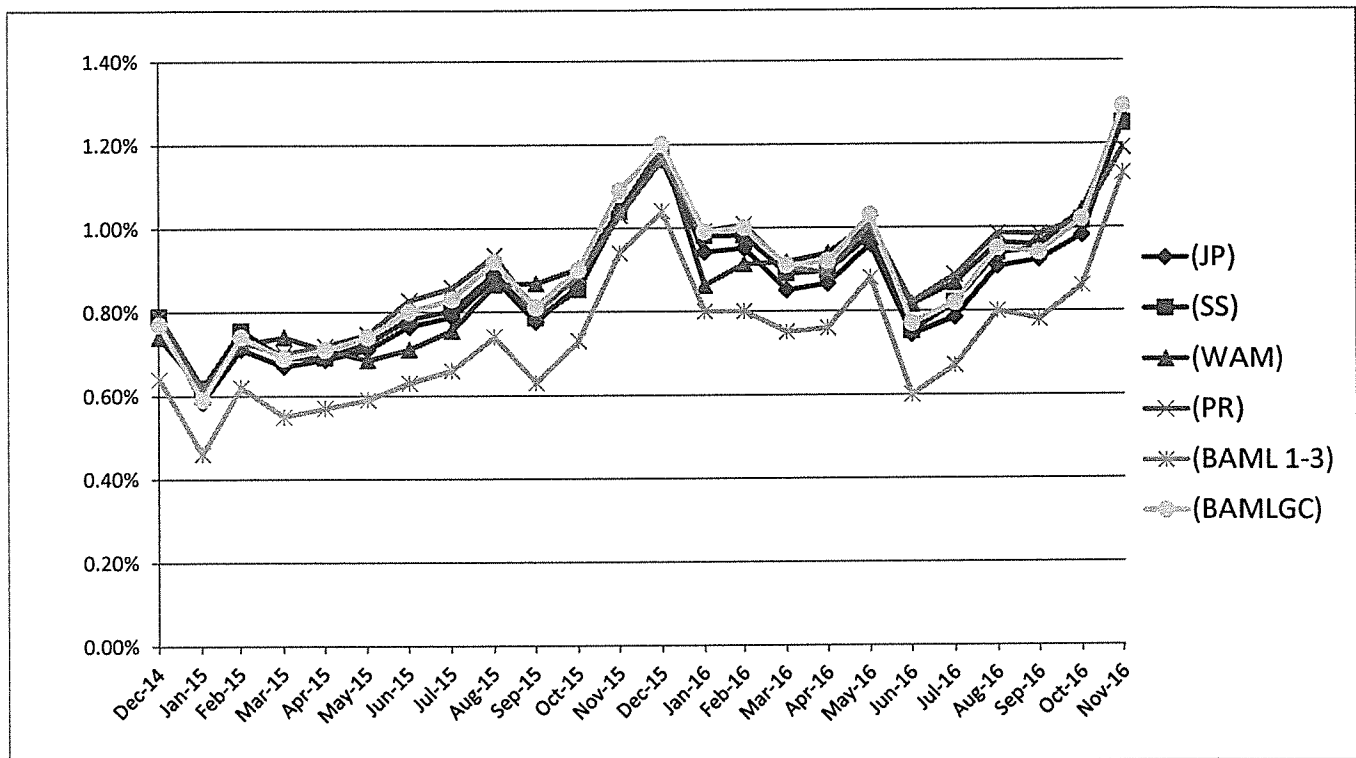


	JP Morgan (JP)	State Street (SS)	Western Asset Mgmt (WAM)	Payden & Rygel (PR)	BAML 1-3 Yr Trsy (BAML 1-3)	BAML 1-3 Yr Gov/Corp (BAMLGC)
Dec-14	0.81%	0.76%	0.72%	0.78%	0.62%	0.72%
Jan-15	1.13%	1.02%	0.92%	1.03%	0.97%	1.05%
Feb-15	0.82%	0.81%	0.68%	0.81%	0.66%	0.76%
Mar-15	1.21%	1.08%	0.98%	1.13%	1.00%	1.09%
Apr-15	1.07%	1.00%	0.85%	1.04%	0.92%	1.00%
May-15	0.91%	0.87%	0.74%	0.91%	0.81%	0.87%
Jun-15	0.93%	0.89%	0.70%	0.90%	0.88%	0.91%
Jul-15	1.13%	1.03%	0.84%	1.04%	1.01%	1.05%
Aug-15	0.89%	0.83%	0.66%	0.83%	0.80%	0.83%
Sep-15	1.31%	1.20%	0.98%	1.19%	1.16%	1.21%
Oct-15	0.97%	0.96%	0.84%	0.91%	0.78%	0.89%
Nov-15	0.61%	0.59%	0.54%	0.61%	0.39%	0.52%
Dec-15	0.72%	0.71%	0.67%	0.75%	0.54%	0.66%
Jan-16	0.74%	0.81%	0.74%	0.71%	0.65%	0.72%
Feb-16	1.08%	1.01%	0.98%	0.89%	0.98%	0.99%
Mar-16	1.11%	1.12%	1.03%	0.92%	0.92%	1.04%
Apr-16	1.15%	1.14%	1.11%	0.96%	0.91%	1.06%
May-16	0.96%	0.99%	0.97%	0.85%	0.73%	0.90%
Jun-16	1.57%	1.56%	1.69%	1.30%	1.31%	1.49%
Jul-16	1.49%	1.47%	1.62%	1.23%	1.20%	1.42%
Aug-16	1.40%	1.37%	1.52%	1.16%	1.07%	1.32%
Sep-16	1.17%	1.18%	1.36%	0.99%	0.88%	1.12%
Oct-16	1.18%	1.17%	1.28%	1.04%	0.92%	1.12%
Nov-16	0.87%	0.94%	0.86%	0.92%	0.76%	0.91%

# Comparative Yield Performance

## As of 11/30/16

### Historical Yields Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks



	JP Morgan (JP)	State Street (SS)	Western Asset Mgmt (WAM)	Payden Rygel (PR)	BAML 1-3 Yr Trsy (BAML 1-3)	BAML 1-3 Yr Gov/Corp (BAMLGC)
Dec-14	0.78%	0.79%	0.74%	0.79%	0.64%	0.77%
Jan-15	0.59%	0.62%	0.62%	0.61%	0.46%	0.59%
Feb-15	0.71%	0.76%	0.72%	0.73%	0.62%	0.74%
Mar-15	0.67%	0.69%	0.74%	0.70%	0.55%	0.69%
Apr-15	0.69%	0.69%	0.71%	0.72%	0.57%	0.71%
May-15	0.71%	0.73%	0.69%	0.75%	0.59%	0.74%
Jun-15	0.77%	0.78%	0.71%	0.83%	0.63%	0.80%
Jul-15	0.79%	0.80%	0.76%	0.86%	0.66%	0.83%
Aug-15	0.88%	0.89%	0.87%	0.94%	0.74%	0.92%
Sep-15	0.78%	0.79%	0.87%	0.80%	0.63%	0.81%
Oct-15	0.86%	0.85%	0.90%	0.89%	0.73%	0.90%
Nov-15	1.04%	1.04%	1.04%	1.03%	0.94%	1.09%
Dec-15	1.16%	1.17%	1.19%	1.16%	1.04%	1.20%
Jan-16	0.94%	0.98%	0.86%	0.99%	0.80%	0.99%
Feb-16	0.95%	0.98%	0.91%	1.01%	0.80%	1.00%
Mar-16	0.85%	0.89%	0.92%	0.91%	0.75%	0.91%
Apr-16	0.87%	0.90%	0.94%	0.89%	0.76%	0.92%
May-16	0.96%	0.98%	1.01%	1.01%	0.88%	1.03%
Jun-16	0.74%	0.75%	0.82%	0.82%	0.60%	0.77%
Jul-16	0.79%	0.82%	0.87%	0.89%	0.67%	0.82%
Aug-16	0.91%	0.94%	0.96%	0.99%	0.80%	0.95%
Sep-16	0.92%	0.95%	0.96%	0.98%	0.78%	0.94%
Oct-16	0.98%	1.02%	1.04%	1.02%	0.86%	1.02%
Nov-16	1.26%	1.25%	1.25%	1.19%	1.13%	1.29%

# Liquid Funds Portfolio - \$134.8 M

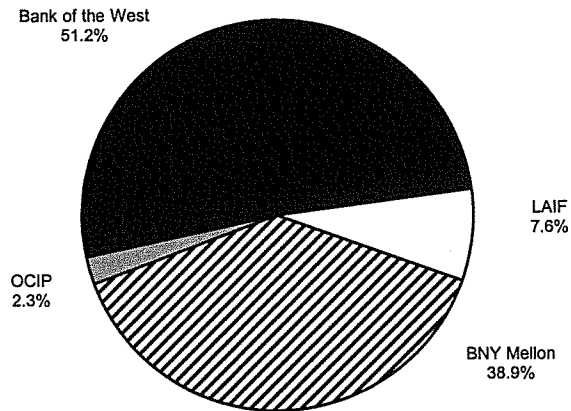
## As of 11/30/16

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### Other Liquid Funds

Book Value       \$       134,796,777

Market Value     \$       134,796,777



Yield Curve Change From 10/31/16 to 11/30/16			
	10/31/16	11/30/16	Change
1 Month	0.165%	3.650%	3.4850%
3 Month	0.302%	0.482%	0.1800%
6 Month	0.495%	0.610%	0.1150%

*Market Value Reported By Custodial Bank*

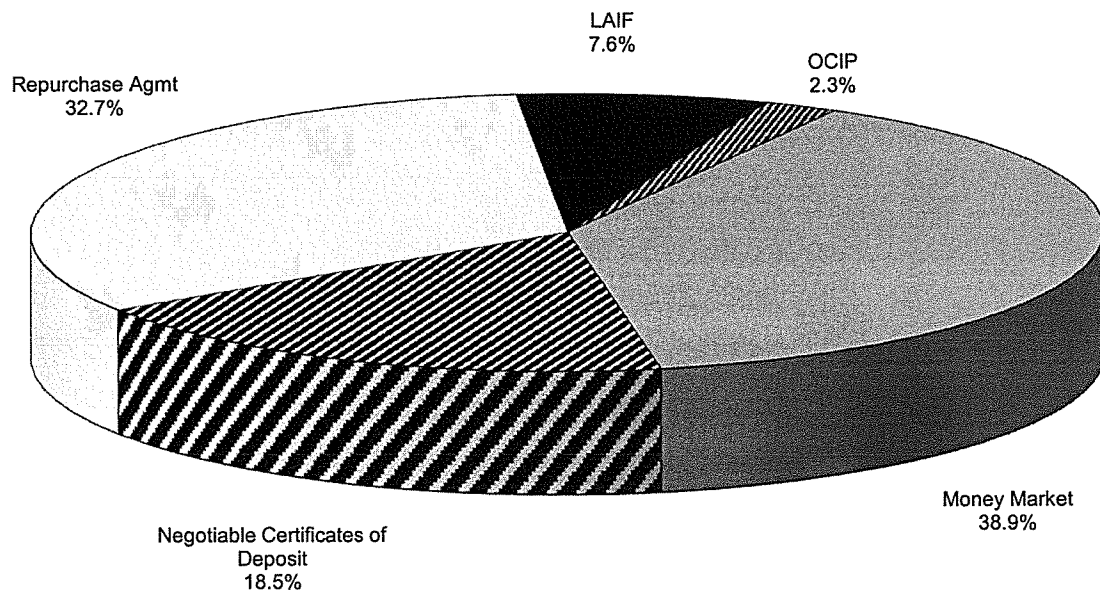


# Liquid Portfolio

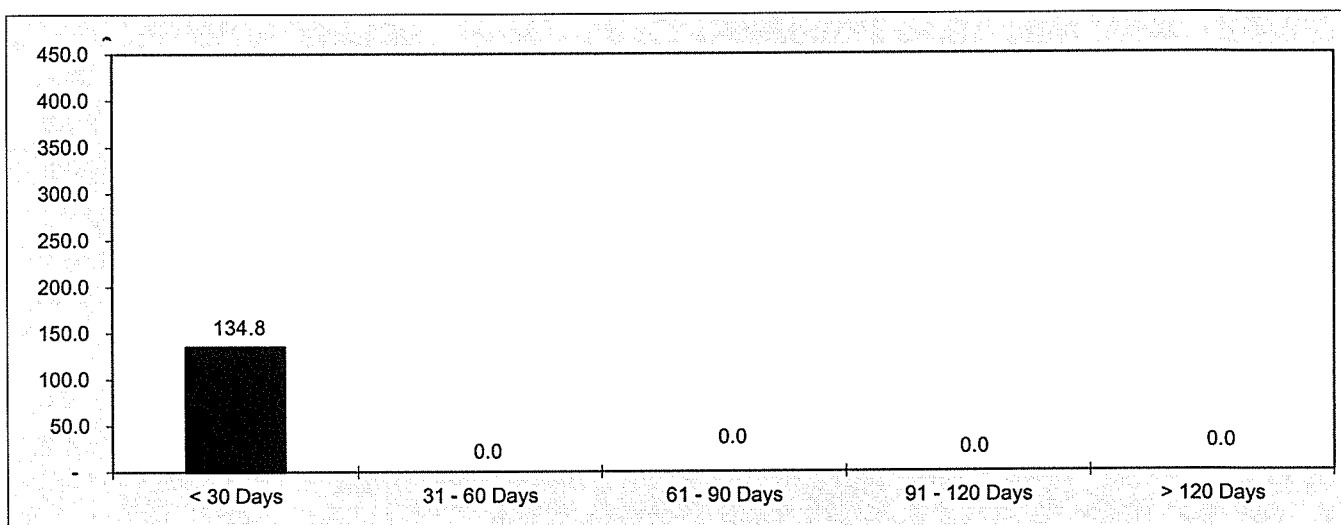
## As of 11/30/16

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### Total Portfolio Composition



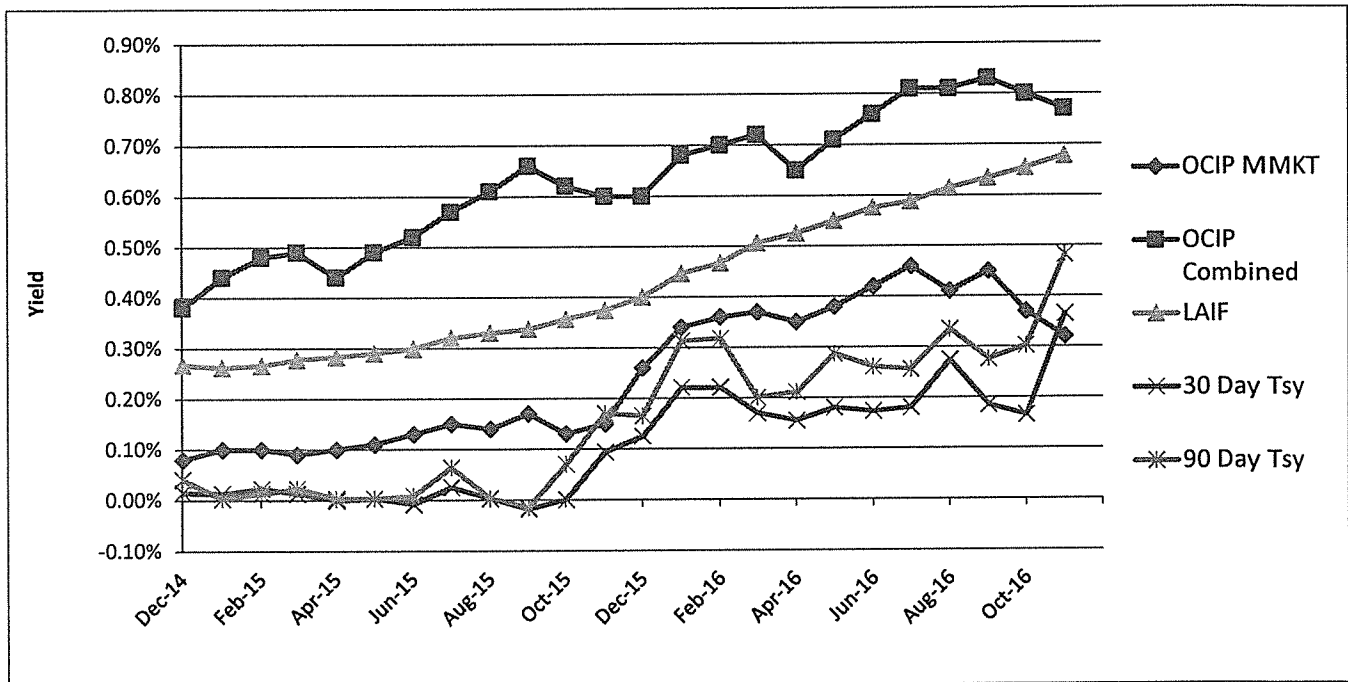
### Maturity Schedule For Liquid Portfolio



# Liquid Portfolio Performance

## As of 11/30/16

### Trailing 2-Year Yield OCIP, LAIF, 30 & 90 Day Treasury Bills



	OCIP MMKT	OCIP Combined	LAIF	30 Day Tsy	90 Day Tsy
Dec-14	0.08%	0.38%	0.27%	0.02%	0.04%
Jan-15	0.10%	0.44%	0.26%	0.01%	0.00%
Feb-15	0.10%	0.48%	0.27%	0.02%	0.01%
Mar-15	0.09%	0.49%	0.28%	0.01%	0.02%
Apr-15	0.10%	0.44%	0.28%	0.00%	0.00%
May-15	0.11%	0.49%	0.29%	0.00%	0.00%
Jun-15	0.13%	0.52%	0.30%	-0.01%	0.01%
Jul-15	0.15%	0.57%	0.32%	0.03%	0.06%
Aug-15	0.14%	0.61%	0.33%	0.00%	0.00%
Sep-15	0.17%	0.66%	0.34%	-0.02%	-0.02%
Oct-15	0.13%	0.62%	0.36%	0.00%	0.07%
Nov-15	0.15%	0.60%	0.37%	0.09%	0.17%
Dec-15	0.26%	0.60%	0.40%	0.13%	0.17%
Jan-16	0.34%	0.68%	0.45%	0.22%	0.31%
Feb-16	0.36%	0.70%	0.47%	0.22%	0.32%
Mar-16	0.37%	0.72%	0.51%	0.17%	0.20%
Apr-16	0.35%	0.65%	0.53%	0.16%	0.21%
May-16	0.38%	0.71%	0.55%	0.18%	0.29%
Jun-16	0.42%	0.76%	0.58%	0.17%	0.26%
Jul-16	0.46%	0.81%	0.59%	0.18%	0.26%
Aug-16	0.41%	0.81%	0.61%	0.27%	0.34%
Sep-16	0.45%	0.83%	0.63%	0.19%	0.28%
Oct-16	0.37%	0.80%	0.65%	0.17%	0.30%
Nov-16	0.32%	0.77%	0.68%	0.37%	0.48%

# Investment Policy Compliance

## As of 11/30/16

---

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Portfolio</u>	<u>Investment Policy Maximum Percentages</u>
U.S. Treasuries	713,032,010	49.1%	100%
Federal Agencies & U.S. Government Sponsored *	149,768,403	10.3%	100%
State of California & Local Agencies	9,436,645	0.6%	25%
Money Market Funds & Mutual Funds	69,470,391	4.8%	20%
Bankers Acceptances	0	0.0%	30%
Negotiable Certificates of Deposit	25,560,000	1.8%	30%
Commercial Paper	23,844,293	1.6%	25%
Medium Term Maturity Corporate Securities	270,923,505	18.6%	30%
Mortgage and Asset-backed Securities	107,512,194	7.4%	10%
Repurchase Agreements	44,061,154	3.0%	75%
Investment Agreements Pursuant To Indenture	0	0.0%	100%
Local Agency Investment Fund (LAIF)	10,216,772	0.7%	\$ 40 Million
Orange County Investment Pool (OCIP)	3,069,364	0.2%	\$ 40 Million
CAMP	0	0.0%	10%
Variable & Floating Rate Securities	26,704,545	1.8%	30%
Debt Service Reserve Funds - Investment Agreements	0	0.0%	Not Applicable
Bank Deposits	62,395	0.0%	5%
Derivatives (hedging transactions only)	0	0.0%	5%
<b>TOTAL</b>	<b>1,453,661,669</b>	<b>100.0%</b>	

\* See attached page for a detailed listing of this category

# Investment Policy Compliance

## As of 11/30/16

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### Detail Composition

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Total Portfolio</u>	<u>Investment Policy Guidelines</u>
<u>Federal Agencies &amp; U.S. Government Sponsored</u>			
Federal Home Loan Bank (FHLB)	24,749,069	1.7%	35%
Federal Home Loan Mortgage Corporation (FHLMC)	65,149,487	4.5%	35%
Federal National Mortgage Association (FNMA)	89,382,598	6.1%	35%
Federal Housing and Urban Development	<u>1,000,000</u>	0.1%	35%
	180,281,153 *	12.4%	

\* The Total Dollar Amount Invested Equals The Dollar Amount Invested For Federal Agency Securities, Variable & Floating Rate (Agency) Securities, And A Portion Of Mortgage (Agency) & Asset-back Securities.

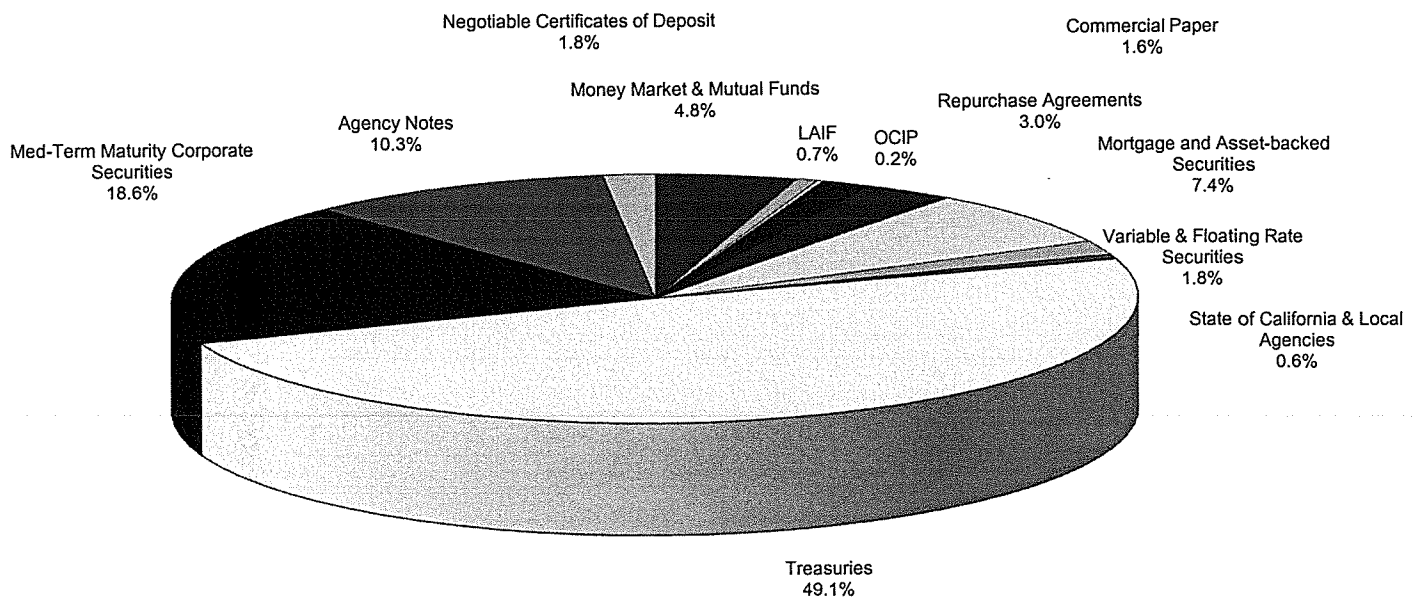
### Money Market Funds (MMF) & Mutual Funds

First American Obligations Treasury Fund	583	0.0%
Goldman Sach Fin. Square Govt. MMF	0	0.0%
Blackrock Institutional T-Fund	17,020,327	1.2%
Fidelity Treasury Obligations MMF	35,864,141	2.5%
Federated Treasury Obligations Fund	<u>16,585,339</u>	<u>1.1%</u>
	69,470,391	4.8%

# Investment Allocation

## As of 11/30/16

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## Negative Credit Watch

### As of 11/30/16

<u>Manager / Security</u>	<u>Par Amount</u>	<u>Maturity</u>	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch Ratings</u>
<b>JPM</b>					
<i>McDonalds</i>	250,000	Various	BBB+	Baa1	BBB+
Removed from negative credit watch, but no longer within Investment Policy guidelines.					
<i>Bayer US Financial</i>	200,000	10/8/2019	A-	A3	NA
During May, Standard & Poor's and Moody's placed the long-term ratings of Bayer Financial under review for possible downgrade.					
<i>Microsoft</i>	550,000	Various	AAA	Aaa	AA+
During June, Fitch and Moody's placed the long-term ratings of Microsoft under review for possible downgrade.					
<b>Payden &amp; Rygel</b>					
<i>Microsoft</i>	1,440,000	11/3/2018	AAA	Aaa	AA+
During June, Fitch and Moody's placed the long-term ratings of Microsoft under review for possible downgrade.					
<i>Qualcom</i>	915,000	5/18/2018	A+	A1	NR
During October, Standard and Poor's and Moody's placed the long-term ratings of Qualcom under review for possible downgrade.					
<b>State Street</b>					
<i>Microsoft</i>	3,815,000	11/3/2018	AAA	Aaa	AA+
During June, Fitch and Moody's placed the long-term ratings of Microsoft under review for possible downgrade.					
<b>Western Asset</b>					
<i>Qualcom</i>	1,250,000	Various	A+	A1	NR
During October, Standard and Poor's and Moody's placed the long-term ratings of Qualcom under review for possible downgrade.					

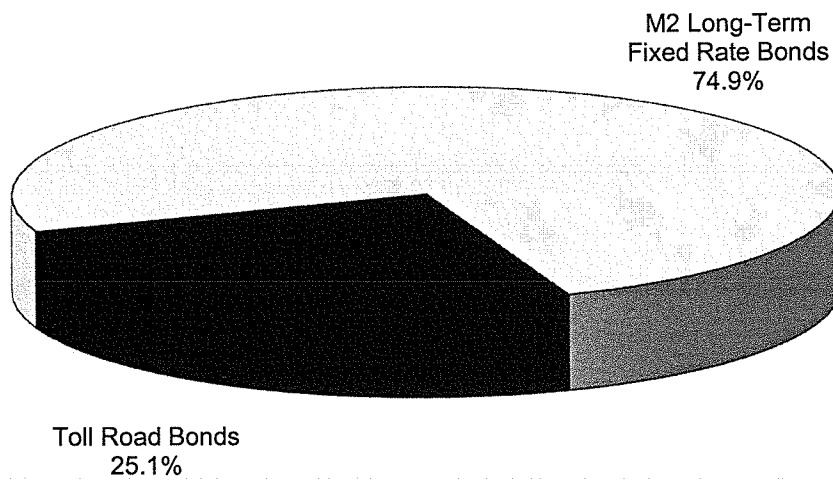
# DEBT PROGRAM

# Total Outstanding Debt

## As of 11/30/16

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### Outstanding Debt



**TOTAL OUTSTANDING DEBT:     \$434,615,000**



# Outstanding Debt

## As of 11/30/16

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### Orange County Local Transportation Authority (OCLTA-M2)

#### 2010 Series A Taxable Build America Bonds - Sales Tax Revenue Bonds

Issued:	\$	293,540,000
Outstanding:	\$	293,540,000
Debt Service FY 2017:		13,409,389
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings	Aa2/AA+/AA+	
Final Maturity		2041

#### 2010 Series B Tax-Exempt Sales Tax Revenue Bonds

Issued:	\$	59,030,000
Outstanding:	\$	31,945,000
Debt Service FY 2017:		8,912,100
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings	Aa2/AA+/AA+	
Final Maturity		2020

### 91 Express Lanes

#### 2013 OCTA 91 Express Lanes Refunding Bonds

Issued:	\$	124,415,000
Outstanding:		109,130,000
Debt Service FY 2017:		10,798,525
Pledged Revenue Source:	Toll Road Revenues	
Underlying Ratings	A1/AA-/A	
Final Maturity		2030



**January 11, 2017**

**To:** Finance and Administration Committee  
**From:** Darrell Johnson, Chief Executive Officer  
**Subject:** Fiscal Year 2016-17 First Quarter Budget Status Report

**Overview**

The Orange County Transportation Authority's staff has implemented the fiscal year 2016-17 budget. This report summarizes the material variances between the budget and actual revenues and expenses through the first quarter of fiscal year 2016-17.

**Recommendation**

Receive and file as an information item.

**Background**

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2016-17 Budget on June 13, 2016. The approved budget itemized the anticipated revenues and expenses necessary to deliver OCTA's transportation programs and projects. The OCTA budget is a compilation of individual budgets for each of OCTA's funds, including the General Fund; five enterprise funds; five special revenue funds; two capital project funds; one debt service fund; four trust funds; and two internal service funds.

The balanced budget as originally approved by the Board in June was \$1.16 billion. Sources of funds were comprised of \$972.2 million in current year revenues and \$189.3 million in use of prior year designations. Uses of funds were comprised of \$1.09 billion of current year expenditures and \$68.8 million of designations.

***Discussion***

Staff monitors and analyzes revenues and expenditures versus the working budget. The Quarterly Budget Status Report (Attachment A) provides a summary level overview of amendments, staffing levels, and provides explanations for any material budget-to-actual variances within each pertinent OCTA program or fund. The OCTA programs and funds included are the Measure M2 (M2) Program, Transit Program, 91 Express Lanes Program, Commuter and Urban Rail Endowment Fund, and General Fund.

Attachment A is comprised of two sections. The first section covers total OCTA information, amendments, staffing, revenues, operating, and capital expenditures. The second section focuses on variance explanations by program or fund.

In the first quarter, actual M2 sales tax revenues underran the budget by \$2.5 million and Transit Program sales tax revenue underran by \$0.7 million. Sales tax revenue advances for the M2 and Transit programs grew by 2.21 percent and 2.18 percent year-over-year through the first quarter. The growth rates for the first quarter are below the budgeted growth rates of 4.4 percent for M2 and 2.8 percent for Transit.

Fare revenue for Transit Operations underran by approximately \$0.8 million, primarily due to a year-over-year decrease in fixed-route boardings of 9 percent. Underruns in operating revenue for the Transit Program are offset by underruns of \$2.1 million in operating expenditures. These underruns are discussed further in Attachment A.

The majority of variance explanations were due to timing issues for both revenues and expenses. In areas where expenditures underran the budget, the primary cause was timing issues related to capital projects. Often these same projects have external funding that cannot be sought for reimbursement until expenditures are incurred, thus creating underruns in revenues as well.

***Summary***

In the first quarter, actual M2 sales tax revenues underran the budget by \$2.5 million and Transit Program sales tax revenue underran by \$0.7 million. Sales tax revenue advances for the M2 and Transit programs grew by 2.21 percent and 2.18 percent year-over-year through the first quarter. The growth rates for the first quarter are below the budgeted growth rates of 4.4 percent for M2 and 2.8 percent for Transit. Fare revenue underran by approximately \$0.8 million, primarily due to a year-over-year decrease in fixed-route boardings of 9 percent. Underruns in operating revenue for the

Transit Program are offset by underruns of \$2.1 million in operating expenditures.

***Attachment***

- A. Quarterly Budget Status Report First Quarter of Fiscal Year 2016-17

**Prepared by:**



Scott Arbuckle  
Section Manager,  
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(714) 560-5350

**Approved by:**

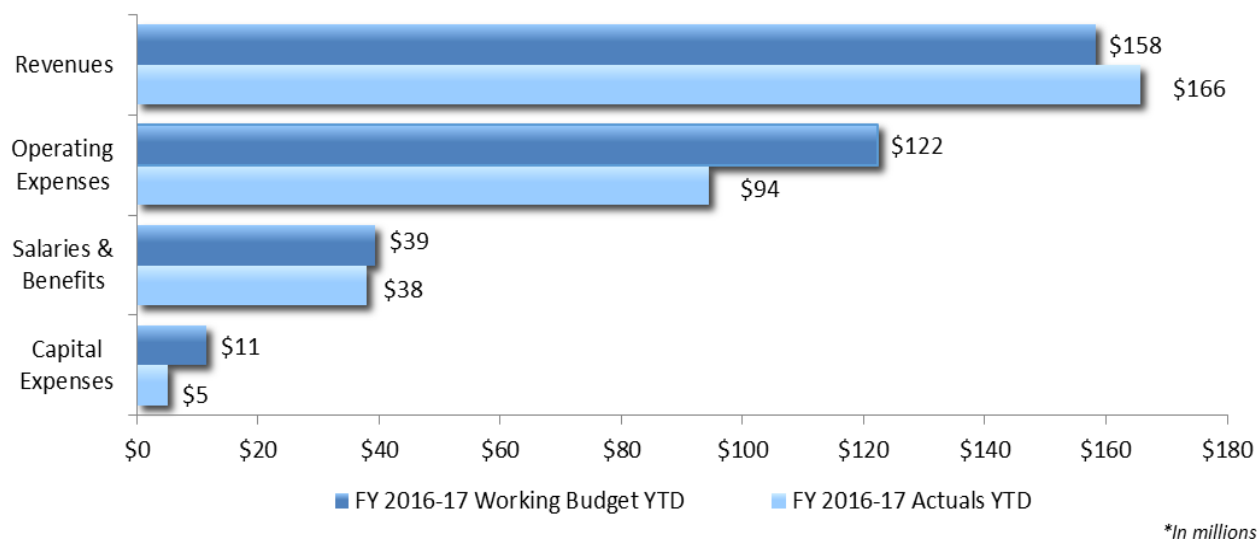


Andrew Oftelie  
Executive Director,  
Finance and Administration  
(714) 560-5649



# Quarterly Budget Status Report

First Quarter of Fiscal Year 2016-17



## OVERVIEW

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2016-17 budget on June 13, 2016. The approved budget itemized the anticipated revenues and expenses necessary to deliver OCTA's transportation programs and meet service commitments.

In the first quarter, actual Measure M2 (M2) sales tax revenues underran the budget by \$2.5 million and Transit Program sales tax revenue underran by \$0.7 million. Sales tax revenue for the M2 and Transit programs grew by 2.21 percent and 2.18 percent year-over-year through the first quarter. The growth rates for the first quarter are below the budgeted growth rates of 4.4 percent for M2 and 2.8 percent for Transit. Fare revenue for Transit Operations underran by approximately \$0.8 million, primarily due to a year-over-year decrease in fixed-route boardings of 9 percent. Underruns in operating revenue for the Transit Program are offset by underruns of \$2.1 million in operating expenditures.

The majority of variance explanations are due to timing issues for both revenues and expenses. In areas where expenditures underran the budget, the primary cause is timing issues related to capital projects. Often these same projects have external funding that cannot be sought for reimbursement until expenditures are incurred, creating underruns in revenues as well.

This report summarizes the material variances between the budget plan and actual revenues and expenses for the FY.

## AMENDMENTS

Through the first quarter, no budget amendments were required.

## STAFFING

A staffing plan of 1,386.5 full-time equivalent positions was approved for FY 2016-17. At the end of the first quarter 1,323 of these positions were filled.

Staffing Description	Budget	Filled	Vacant	% Vacancy
Coach Operators	680.0	660.0	20.0	2.9%
Maintenance	171.0	163.0	8.0	4.7%
TCU	37.0	35.0	2.0	5.4%
<i>Union Subtotal</i>	888.0	858.0	30.0	3.4%
Transit Operations Support	176.5	163.5	13.0	7.4%
Other Administrative	322.0	301.5	20.5	6.4%
<i>Administrative Subtotal</i>	498.5	465.0	33.5	6.7%
<b>Total OCTA</b>	<b>1,386.5</b>	<b>1,323.0</b>	<b>63.5</b>	<b>4.6%</b>

## TOTAL SALARIES AND BENEFITS

At the end of the first quarter, actual salaries and benefits of \$37.8 million were \$1.5 million under the budget of \$39.3 million. This variance is due to a \$0.8 million underrun in General Fund salaries and benefits and a \$0.7 million underrun in Transit Program salaries and benefits. In both cases, the underruns are primarily driven by vacant administrative positions.

Total Salaries and Benefits Expenses					Measure M2 Program				
	Budget	Actual	\$ Variance	% Variance		Budget	Actual	\$ Variance	% Variance
Transit	\$ 26,602	\$ 25,928	\$ 675	2.5%	Revenues	\$ 82,525	\$ 81,047	\$ (1,479)	-1.8%
General Fund	\$ 12,706	\$ 11,916	\$ 790	6.2%	Expenses	\$ 63,717	\$ 38,389	\$ 25,329	39.8%
<b>Total</b>	<b>\$ 39,308</b>	<b>\$ 37,844</b>	<b>\$ 1,465</b>	<b>3.7%</b>					

## PROGRAM AND FUND VARIANCES

Year-to-date material variances are listed by program or fund group in thousands.

General Fund				
	Budget	Actual	\$ Variance	% Variance
Revenues	\$ 1,318	\$ 1,824	\$ 506	38.4%
Expenses	\$ 16,991	\$ 15,370	\$ 1,621	9.5%

**Revenues:** General Fund revenues overran the budget by \$0.5 million. This overrun is primarily due to State Transportation Improvement Program (STIP) revenues. STIP funds received through the first quarter of FY 2016-17 are from prior year allocations related to the reimbursement of planning activities and for completion of the Pacific Coast Highway (PCH) Corridor Study.

**Expenses:** General Fund expenses underran the budget by \$1.6 million. This variance is primarily attributed the underrun of \$0.8 million in salaries and benefits. The remaining underruns are largely associated with general and administrative costs. These costs account for approximately \$0.6 million of the underrun. General and administrative costs consist of time and expense based line items generally associated with recurring operational costs such as administrative salaries and benefits, office supplies, software, hardware, training, consulting services, etc. The majority of time and expense based services are utilized on an as-needed basis.

**Revenues:** Within the M2 Program, revenues are underrunning by \$1.5 million. This is primarily due to an underrun in sales tax revenues of \$2.5 million. Through the first quarter, LTA sales tax revenue advances grew by 1.14 percent year-over-year. Although sales tax growth for the first quarter is below the budgeted growth rate of 4.40 percent, the amount of sales tax receipts for the first quarter will not be finalized until mid-December when OCTA receives the "true-up" payment. The underrun in sales tax revenues is partially offset by an overrun in revenue for the Regional Capacity Program of \$1 million. This is due to prior year revenue reimbursements received in the current FY.

**Expenses:** M2 expenses are underrunning by \$25.3 million. The variance can be attributed to the Regional Capacity Program (\$8.2 million), I-405 Freeway improvements (\$5.3 million), OC Bridges (\$4.7 million), and Regional Traffic Signal Synchronization (\$3.3 million).

Approximately \$8.2 million of the variance is associated with the Regional Capacity Program. The billing cycles and the magnitude of expenses are dependent upon the cities progress/completion of their individual projects, making billing cycles difficult to forecast. This program will continue to be monitored throughout the fiscal year.

The primary drivers behind the \$5.3 million variance relating to the I-405 Improvement Project are project development and Right-of-Way (ROW) acquisition. The variance (\$4.3 million) associated with project development is primarily due to invoices running one to two months in arrears. The variance within ROW acquisition (\$0.6 million) is due to the long lead time required to extend offers to land owners, and the difficulty of predicting the acceptance rate among property owners.

The \$4.7 million underrun pertaining to OC Bridges can primarily be attributed to the Raymond Grade Separation project. Invoices related to this project are currently running two to three months in arrears. The remaining portion of the underrun is related to ROW land acquisition. Negotiations with property owners are still underway. Staff will continue to monitor these projects through completion.





The Regional Traffic Signal Synchronization program underran by \$3.3 million through the first quarter. This is due to the collaboration process with consultants, local agencies, and Caltrans. A large collaborative effort is required due to the massive scope of the projects, as such, the projects are taking longer than originally anticipated. Progress will accelerate as the projects advance in development.



Transit Program					
	Budget	Actual	\$ Variance	% Variance	
Revenues	\$ 61,948	\$ 66,184	\$ 4,236	6.8%	
Expenses	\$ 54,776	\$ 52,677	\$ 2,099	3.8%	

**Revenues:** Transit revenues have overrun by \$4.2 million. The variance is primarily related to the receipt of federal grant funds for the purchase of buses from the prior year. (\$11.1 million). However, this overrun was partially offset by an underrun in other federal revenues (\$5.3 million), fare revenues (\$0.8 million), and sales tax revenues (\$0.7 million).

An overrun of \$11.1 million within revenue was related to bus procurement. Federal funds received in the first quarter were a partial reimbursement from a prior year bus procurement. Additional funds are likely to be received as the fiscal year continues.

Other federal reimbursement revenues had underruns of \$5.3 million for the quarter. The underrun is primarily due to timing of the receipt of revenue associated with preventative maintenance. OCTA incurs preventative maintenance costs throughout the year, but will not seek reimbursement for the funds until the expenses have been paid. The timing of payment and reimbursement generally falls into subsequent quarters due to this process.

Fare revenues underran by \$0.8 million. This is primarily due to lower than anticipated utilization of fixed-route bus services. Year-over-year fixed-route boardings have decreased by 9 percent. Staff will continue to monitor this variance and provide regular updates.

TDA sales tax revenues are currently \$0.7 million under budget. Through the first quarter, TDA sales tax revenue advances grew by 2.18 percent year-over-year. Sales tax growth for the first quarter is below the budgeted growth rate of 2.80 percent.

**Expenses:** The \$2.1 million underrun in Transit expenditures is primarily attributed to fuels (\$0.7 million), salaries and benefits (\$0.7 million), and equipment maintenance (\$0.5 million).

The underruns in fuel and equipment maintenance can be attributed to the timing of invoicing from the vendors. Several accounts within these categories are billing two to three months in arrears. These underruns should diminish as the fiscal year continues.

Labor costs underran by approximately \$0.7 million primarily due to vacant positions. The current administrative vacancy rate is 7.4 percent and the union vacancy rate is 3.4 percent.



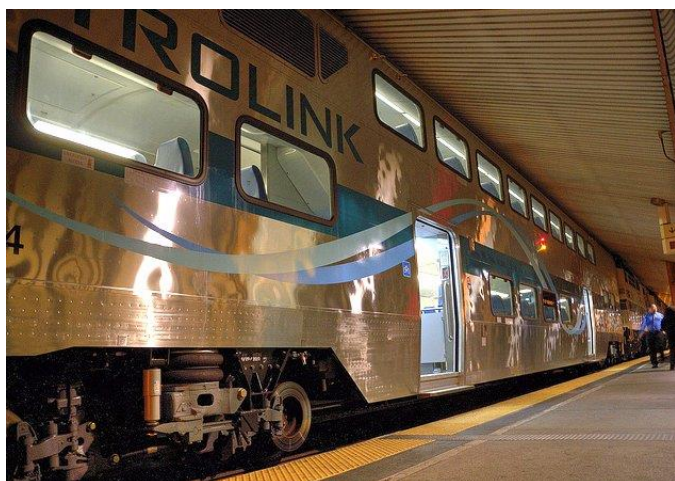
91 Express Lanes Program					
	Budget	Actual	\$ Variance	% Variance	
Revenues	\$ 10,540	\$ 13,130	\$ 2,590	24.6%	
Expenses	\$ 13,591	\$ 7,191	\$ 6,400	47.1%	

**Revenues:** The 91 Express Lanes revenues are overrunning by \$2.6 million. This is primarily related to more actual trips than originally anticipated during the first quarter. The number of trips anticipated in the first quarter were tied to the timing of the paving rehabilitation project and included the planned number of weekend closures of the express lanes. However due to scheduling requirements and unforeseen weather conditions, the project spanned into the

second quarter as did weekend closures. This shift in the timing of the project contributed \$1.4 million of toll revenues to the overrun. The remaining \$1.1 million of the overrun is related to more than anticipated non-toll revenues. These revenues are due to a higher number of toll violations been processed in the first quarter and a larger number of account minimum fees been collected than originally anticipated.

**Expenses:** The 91 Express Lanes expenses are underrunning by \$6.4 million primarily due to the pavement rehabilitation project. This project began later than expected due to scheduling requirements and weather conditions. The paving project should be completed in the second quarter.

underruns including: On-call Planning, Engineering and Modeling services, a project to upgrade lighting at the San Clemente Station, and construction management services for the Laguna Niguel-San Juan Capistrano Passing Siding project. Many of the projects are currently underway and will continue to be closely monitored by staff.



Commuter and Urban Rail Endowment Fund (CURE)					
	Budget	Actual	\$ Variance	% Variance	
Revenues	\$ 769	\$ 2,396	\$ 1,628	211.8%	
Expenses	\$ 17,258	\$ 16,817	\$ 442	2.6%	

**Revenues:** CURE revenues overran by \$1.6 million. The overrun is primarily due to revenues associated with the Positive Train Control project, which are reimbursed by the Federal Transit Administration (FTA) once invoices that are submitted by the Southern California Regional Rail Authority (SCRRA) are recognized to have been paid by OCTA. This project is funded by over 50 different funding sources system-wide. SCRRA notified OCTA that they will be drawing down funding from the various sources based upon the expiration date of the respective agencies funding source. Due to this drawdown method, SCRRA provided OCTA with the invoices related to the project towards the end of the project's completion. Revenue received is related to expenses incurred during the previous fiscal year.

**Expenses:** CURE expenses are underrunning by \$0.4 million. The underrun is primarily due to many small



# **Bristol Street Widening Project Audit Update January 11, 2017 – Finance and Administration Committee**

## **Status Update on Outstanding Recommendations**

### **Internal Audit Report No. 15-515**

#### **“Review of Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project”**

##### **Recommendation 1:**

- *Management should obtain a credit of \$261,764 to the gas tax agreement.*
- *Management should ensure labor billing rates are corrected.*
- *Management should implement controls to ensure reasonable and accurate labor charges.*

##### **Current Status:**

- A credit of \$261,764 from the City of Santa Ana (City) was requested. The credit is shown in the Revised Second Quarter Financial Report.
- The terms for an amendment to the gas tax agreement have been agreed to by City staff. The amendment requires the City to certify with signature that actual expenses and labor billing rates charged are true and correct, with an effective date retroactive to the date of the audit findings. The amendment is in final review by Contracts Administration and Materials Management (CAMM).
- Beginning in March 2016, the City's quarterly financial reports were revised to reflect labor billing rates based on a ten percent indirect rate.
- The City added 155 labor hours in the Revised First Quarter Financial Report that were not identified in the original report. These additional hours are pending the Orange County Transportation Authority (OCTA) Internal Audit's validation to employee timesheets.
- OCTA has agreed to allow the City to use an indirect rate established through an approved cost allocation plan. The City intends to submit a cost allocation plan to California Department of Transportation for approval.

##### **Recommendation 3:**

- *Management should amend the gas tax agreement to strengthen the requirement regarding excess right-of-way property, including the addition of a requirement to sell or credit the value of excess property to the gas tax agreement.*
- *Management should either request the City credit the gas tax agreement for \$443,078 or implement controls to ensure that proceeds from the sale of excess property are applied to eligible project costs.*

##### **Current Status:**

- Terms for an amended gas tax agreement have been agreed to by City staff and include tracking and accounting of excess property remnants in the quarterly reconciliation report. The amendment is in final review by CAMM.
- The City has credited \$443,078 to the gas tax agreement in the Revised Second Quarter Financial Report.

**Bristol Street Widening Project Audit Update  
January 11, 2017 – Finance and Administration Committee**

**Status Update on Outstanding Recommendations**

**Internal Audit Report No. 15-515**

**“Review of Oversight Controls, Contract Compliance, and Billings Related to the  
Bristol Street Widening Project”**

**Recommendation 4:**

- *Management should request the City strengthen controls over timekeeping and periodically review supporting documentation to ensure accuracy of labor charges to the project.*
- *Management should consider disallowing subconsultant markups through an update of contract language in cooperative agreements.*

**Current Status:**

- Terms for an amended gas tax agreement have been agreed to by City staff and require certification by City staff that time and charges are correct, and that subconsultant markups are disallowed, retroactive to the date of the audit findings. The amendment is in final review by CAMM.

**Recommendation 5:**

- *Management should design and implement a cost review process that includes review of a sample of City costs charged to the gas tax agreement to ensure that such costs are project-related, supported, and reasonable.*
- *Management should instruct the City to correct its quarterly reconciliation report and implement procedure to reconcile City reports with OCTA records.*

**Current Status:**

- Supporting cost documentation from the City will be reviewed quarterly once the amendment to the gas tax agreement is executed.
- The City has made all but one correction to its quarterly reconciliation reports to reconcile with OCTA records.

**Recommendation 6:**

- *Management should amend the gas tax agreement to update the payment schedule and implement controls to enforce the payment provisions.*

**Current Status:**

- Terms for an amended gas tax agreement have been agreed to by City staff. The amendment effective date will be retroactive to the date of the audit findings. The amendment is in final review by CAMM.