

**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

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	4
Statement of Revenues, Expenditures and Change in Fund Balance	5
Notes to Financial Statements	6
Required Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual	9
Notes to Required Supplementary Information	10
Supplementary Information	
Schedule of Disbursements	11
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12



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	<u>8,979</u>
Total Revenues	<u><u>157,032,080</u></u>

EXPENDITURES

Current:

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

Excess of Revenues Over Expenditures	152,619,003
--------------------------------------	-------------

OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 6)	<u>(152,834,891)</u>
--	----------------------

Net Change in Fund Balance	(215,888)
----------------------------	-----------

Fund Balance, Beginning of Year	<u>28,046,147</u>
Fund Balance, End of Year	<u><u>\$ 27,830,259</u></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**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
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
Total Revenues	165,278,314	156,563,809	157,032,080	468,271
Expenditures				
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
Total Expenditures	4,152,753	4,152,753	4,413,077	(260,324)
Excess of Revenues over Expenditures	161,125,561	152,411,056	152,619,003	207,947
Other Financing Uses				
Transfers to Other OCTA Funds (Note 6)	(161,125,561)	(161,125,561)	(152,834,891)	8,290,670
Total Other Financing Uses	(161,125,561)	(161,125,561)	(152,834,891)	8,290,670
Net Change in Fund Balance	-	(8,714,505)	(215,888)	8,498,617
Fund Balance, Beginning of Year	28,046,147	28,046,147	28,046,147	-
Fund Balance, End of Year	\$ 28,046,147	\$ 19,331,642	\$ 27,830,259	\$ 8,498,617

**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